Fix Your Compensation Challenges - Episode 22

Speaker 1: (00:04)
Hi, my name is Mark Mitford, managing director and founder of HR Catalyst Consulting, uh, the consulting firm itself. Um, just a little bit of a backdrop on the HR catalyst and how we actually started that. It started in 2013 and it was after I was in the corporate arena, uh, corporate companies all the way to Fortune 50 with Pepsi. And I did that for about 23 years or so, or 24 years. And then after that, I actually, uh, before I started HR Catalyst, part of the, the genesis and the thought process around creating, um, HR Catalyst was that the last three companies I worked for, I headed up HR and they were lower middle market size companies, anywhere between about 50 million in revenue until a couple hundred million in revenue. But they were significantly smaller than the Fortune 500 world, which I was used to.

Speaker 1: (01:00)
And interestingly enough, I was their first strategic HR person they ever brought in place, and one of them was 1500 employees in about 10 countries. So it really kind of gave that, that was kind of that light bulb moment where I decided that there is a heavy need for strategic HR consulting services in the, uh, middle market or lower middle market space. So that was the start of, um, HR Catalyst in 2013 and been having a, a good time doing this work and really providing thought leadership and strategic thinking around people and bringing that to the lower middle market size clients and, and being able to help them actually create and then implement a people strategy in their business to align with their business growth so that they can be more proactive versus reactive about their people and the people processes they have to build around a high growth company.

Speaker 1: (01:59)
So with that as a backdrop, let's jump into the topic today. Uh, appreciate you all attending the webinar, and I wanted to dive into the topic. So let me, let me go ahead and actually switch over to slides. So if you just give me two seconds here, I'm actually going to switch over and, uh, turn this over to sharing my screen with you. And so what I wanted to do here is actually share my screen and, um, bring up the slides. And so this will be part of the actual, uh, topic today, is that you all wanted to attend things around compensation, a lot of the compensation challenges that are going on this year. So I wanted to talk about this and really go into that into some detail, just so logistics. Um, if you do have questions after the webinar, it's gonna be about 40 minutes at length.

Speaker 1: (02:49)

You can actually send me questions because I know this is a recorded webinar. Um, you can actually send questions after the fact if you have questions, set up time to connect with me personally through our website or with my, uh, direct contact information. So we'll share more with that in just a minute. But the compensation challenges, so let's go over the agenda. So first of all, let's focus on the agenda we're gonna be talking about today. Uh, part of it is really gonna be around understanding the current state of hiring. And I know you've heard a lot about hiring, what's going on in hiring, but we want to talk about that quickly before we dive into the topic. Salary planning, data item number two, going into 2023. What are the surveys and what is the information saying about what is your budget need to look like for next year?

Speaker 1: (03:41)
Strategies to use your valuable salary planning budget wisely, compensation concepts for business leaders. I think this is gonna be really fascinating, especially if you are in a consulting capacity where you work with a lot of business owners or you are a business owner yourself. This is critical information to know and to be able to use accordingly within your business. Then we're gonna, then we're gonna migrate over to external compensation data. Why is that so important? Sources were to get this data, and then we're going to not really cover a q and a session in this format, but we will handle questions, we'll talk about that in just a, a about 30 or 40 minutes from now when we wrap up the session. So where are we from a hiring perspective, let's call it what it is. We're in the a post covid business environment where the focus on covid in the pandemic is less than tremendously, not only in the US but also globally.

Speaker 1: (04:41)
Companies started focusing on growth versus survival mode. Many companies that stopped hiring in 2020 in March when the pandemic hit opened back up their hiring funnel, in some cases they actually overhired. And we're actually seeing now even, uh, in the Dallas Fort Worth metroplex, were HR Catalyst is based, There are companies that are slowing down hiring, doing hiring freezes or in some cases they're actually laying off people. And there are continuous, uh, situations where people are not only laying off just two or three people, but some 20, 50, several hundred employees because they simply overhired hired. And that last bullet is really focused on that. They overhired their sales forecast because we are in a recessionary trend right now. So their sales forecast and their projected budget for 2022 revenues not happening. As we wrap up, it's November of, uh, 2022, and a lot of companies are not seeing the numbers come and they want as they wanted to, and therefore they've actually started to swing the pendulum back and either doing hiring freezes or actually have started to let people go.

Speaker 1: (05:53)
The changing market. Where are we? The, the labor market has been been changing for a number of years, at least 18 months, maybe longer than that. Employees are calling the shots and still are. So remember that that slide is correct. It says employees not employers. So how do employers need to adjust accordingly? One of the key, a couple of key things when we work with clients on recruiting strategies, which we do occasionally with some of our, uh, longer term clients, you've gotta make sure you have speed in the hiring process. There are so many companies that drag their feet and they act like from an employer perspective, oh, they will be here, so we can wait a week or two weeks or a month. But cha um, chances are good candidates

will not be on the market for long. There is still a glut of there, the supply demand curve for hiring, there is way too much demand.

Speaker 1: (06:49)
There is still hundreds of thousands of jobs open, and the supply of qualified candidates simply is not there. So you need to move and we push with our clients continuously. The hiring process needs to be a week, possibly two weeks, but no more than that from first contact to actually final interview and then making a decision whether you're gonna fire, uh, and um, and actually move forward with interviewing and hiring this person. Excuse me. So that process has to be quick. We find out from clients time and time again when they drag their feet, good candidates find other positions, and it's frustrating for everybody. And it also doesn't make the company look good. The other big thing we focus on with the company is helping them to really focus on being sales people. They have to sell the organization to the po the candidate and possible employee because they've gotta talk about their culture, their benefits, maybe flexible work environment and things like that.

Speaker 1: (07:50)
So you gotta do, you gotta remember, you have been, you've gotta be accurate, effectively marketing and effectively selling your company to candidates because they're asking, Why should I come to work for you? What are you gonna do for me besides offering me a job at hopefully competitive pay? The other thing, that next item has really had this major paradigm shift in the, in the, um, workforce. And that's around remote or hybrid roles, hybrid roles, I'm sure you're all familiar with it. Quick recap, probably two days in the office, three days out or three days in the office, two days out. But it's allowing employee employees flexibility and how they actually get their work done. And that's huge. So it's a really very, very challenging for organizations when they're only doing in office hiring to continue to find a good candidate. Pool. We hire in some remote positions where there's not a lot of candidates, but that position, if it can be remote or hybrid, we will get, we will, will get so many more candidates applying for it because that is what candidates are looking for.

Speaker 1: (09:01)
And personally, I don't see that the remote hiring or hybrid model is going to go away. I think that's one thing. There's a silver lining with Covid. I think the way we work now is really moving to much more flexibility in the workforce, flexibility to empower the employee. And that's something that companies have to get used to, to be able to be competitive in the hiring, in the hiring arena. Candidates are looking for top pay, even if their experience doesn't support that. And that's another critical thing. It's hard to understand, but a lot of it goes back to, uh, economics 1 0 1 and supply and demand, as we talked about earlier. There are so many positions open and the supply of qualified candidates is not where it needs to be. So employees, again, are, candidates are able to call the shots here. These factors are very interesting in the hiring market, especially again, as I mentioned before, if you're looking for in-office, you have got to do an unbelievably good job of selling and marketing, moving quickly through the hiring process to be able to attract the right talent.

Speaker 1: (10:08)

Moving to the next slide. So here, you know, great retention, great resignation. We've heard ad nauseum around the great resignation, really focusing on the great retention. That's what this slide is really about, is great retention. What are you doing to retain your top talent? What are you doing to identify your top talent? If you don't know who, if you don't know who they are, you have to be very intentional about identifying your top people and your bottom people. And ironically, after being in HR for over 30 years, most companies focus on who they focus on, their lower performers, and that's where the burden of time and effort and energy goes into things really need to be done and inverted to where employers need to be focused on their top talent. What are they doing to challenge these people and retain these people? We're gonna get more into that in in in a few slides here.

Speaker 1: (11:04)
Number one reason people leave though is not just about pay. You need to pay top people top dollar, but the number one reason people leave is because they lack and respect or trust their manager. They do not trust or respect their manager and their direct manager. So why would they wanna stay? And I think a lot of companies, especially in the uh, client field that we play in the lower middle market size companies, companies that are typically below a hundred million in revenue, those organizations do not do a good job of teaching basic core leadership skills to their people. Um, we can help there if that's something that you're interested in, but making sure you do some basic communication skills, communication training, coaching, training for your managers who are your first line managers is really critical. The other reason why top people leave jobs, they become bored very quickly.

Speaker 1: (12:02)
And if they're not finding excitement and challenge within their current job, guess what they're gonna do? They're gonna look at another opportunity outside of your organization. So focusing on a growth plan, career development plan for your top people is really, really critical. Shifting over to salary planning, the topic that you've really been, uh, been focusing on the topic you want to hear more about. So, uh, if I could get a drum roll please. Um, should have had sound effects for this part, but the projected, um, salary planning budget for 2023 is coming in at about four to 5%. So a lot of, you'll be shocked because of that second item right there. The annual inflation rate, as you all know, the inflation is going crazy right now for a number of factors. Inflation is anywhere between, depending on what you're reading now, uh, it's between 8.3, 8.7%, but obviously if you put gas in your car, if you go buy groceries, you know, everything, all goods and services are costing more.

Speaker 1: (13:05)
But that is why companies, because companies also buy goods and services, companies also buy lots of different things and their prices are all going up continuously. Therefore, they are being squeezed, their profitability is being squeezed in every direction. Their margins are thin. A lot of companies already run on razor thin margins, and so they're finding out that their, their profitability is continuing to be compressed severely and therefore the only thing they can do to try to keep their people is they're offering them a higher than average budget for salary planning. But it's still coming in or anywhere between four to 5% depending on the industry. High end margin businesses like professional services, uh, some businesses in healthcare, some businesses

in technology are a little bit over 5%, but most organizations, thousands upon thousands of organizations are coming in somewhere between 4% and 5%. Where did that information show up from?

Speaker 1: (14:09)
So multiple sources. So if you look at the bottom of that slide, it's coming in from shrm, Society of Human Resource Management, which is the larger professional society for HR professionals, the conference board, PayScale, Paycom, Fortune Magazine, Inc. Magazine, it's out there on every, everything is pointing towards that, uh, that number. So it really shows that last bullet there on that slide. Using your salary plan. Uh, planning budget wisely is more critical now than ever. And so we're gonna discuss that a lot of how you actually differentiate your pay, But we wanted to use this as a backdrop here on this slide. Fairly busy, but we're just gonna go from, um, item number one over to item number six. So we're just gonna go, um, we're just gonna flow from left to right here. So 4% budget, four to 5% budget increase. Again, we're basing this on organizations that have a, their fiscal year is, um, also correlated to calendar year, so getting ready to wrap up their year for 2022.

Speaker 1: (15:16)
And so most increases go into effect in February or maybe mid-March. For most organizations, when they're giving salary increases, increases with a four to 5% budget are still, you still have the ability to do increases of anywhere between zero to 8% or even 10% with a four to 5% budget. Top performers have to be rewarded well, and we'll show you going back into that zero to 8% because you're probably like, the math simply can't work, Mark, But let me show you how it can. Employees who are low performers, one of the critical things to open up the purse strings to top talent is you have to close the purse or wallet spend to lower performers. I ask the question, why do you need to give a low performing employee an increase period? And a lot of business owners will say, Well, we have to do something for them.

Speaker 1: (16:14)
Well, I really question why in the case where it's zero to 2%, occasionally you have somebody who's new in a job, got moved to a bigger job, and so they're still performing at a lower level because they haven't mastered the job. So you would possibly give them a small increase, but not anything larger than probably 2% low performers who are truly low performers, if they've been with the organization for a number of years, they may resign. Creating room for better talent. There's always a concept when I think about it conceptually, think about turnover in two buckets. If you just split the buckets out here, you have good turnover. So if you have a low performer, leave your organization, that's good turnover. If you have a top performer, leave your organization, that's obviously bad turnover. So making sure that you, by doing something like that by re by not giving low performers a pay increase, which makes no sense, then you, that person may decide to leave and that's good turnover for your organization. There's no room in this model to be nice. Uh, you know, we all know about the concept of trophy generation and the the trophy kids out there. Not everybody gets a trophy in the workplace. Just because you show up and maybe you don't even show up a lot of the time does not mean you get a trophy and does not mean you get a, you get a salary increase just for coming to work and doing some work occasionally.

Speaker 1: (17:49)
So let's move on to critical concepts that are really, really something I wanna make sure if you, if you don't come away with anything but these two concepts, I hope these two concepts are the thing you remember coming outta this webinar comp ratio. So what is comp ratio? So let's set this up so you understand the, the overall thought process behind comp ratio. So here, a simple example here is a pay grade for a group of, um, a group of employees who do similar jobs. So they do similar jobs. Here is a pay grade, the low end is 40,000, high ends 50, uh, 60,000. The midpoint obviously is half, uh, it's 50% between, uh, halfway between 40 and 60,000. That's $50,000. Employee number two makes $45,000 employee, one makes $50,000 employee three $54,000. So let's focus on, we're gonna drill into this at a little more, uh, a little bit in a deeper dive here in the next couple of slides.

Speaker 1: (18:53)
So copper ratio is simply taking the midpoint. So again, the midpoint being $50,000 is a copper ratio of one. How did we figure that up? So if you look at the bottom, um, bullets of the slide, the employee one is paid $50,000, Their comp ratio is one, because we take their pay of $50,000 divided by $50,000, and that would be a comp ratio of one 50,000 divided by 50 50,000. Simple math one, 1.0 employee two, they are paid $45,000, so they're making less than the midpoint. Their comp ratio is 0.9. How did we get that? So $45,000 divided by $50,000. So that gives us a, a decimal, a fraction of 0.9. Conversely, um, employee three, they're paid $54,000 over the 50,000 midpoint, therefore their copper ratio is 1.08 54,000 divided by 50,000. So again, we'll drill into this concept a little bit further. So when you're thinking about this and determining pay increases, again, here is a slide, which is a little bit redundant, but it just shows you that when you're looking at pain prices, a person, if their jobs, if they're performing at the same level or near the same level and they're in the same position, then the person who makes the lowest amount below the copper ratio of one, that person is employed.

Speaker 1: (20:29)
Number two, they should be receiving a larger increase employee one at $50,000. The second largest increase or second increase, um, employee three at $54,000. Again, like jobs like level of performance, they should be receiving the smallest increase. So when we look at this in real, a real life example here, so based on a budget of 4%, you, I would recommend, and again, this was just first glance, so, um, but just to give you some, just to give you something that's concrete here. The, the 4% budget, so the $50,000 employee should be receiving an increase of 4% on the nose. The $45,000 employees should be receiving an increase of 6%. The $54,000 employees should be receiving a, uh, recommended increase of 3%. So again, you see comp ratio, um, and you see that concept. And again, you can work this for any roles within your organization. And there you see it against a 4% budget. So hopefully that is making some, giving you some clarity about how this concept works.

Speaker 1: (21:46)
The next thing we wanted to focus on is pay compression. So pay compress compression here, as you see a vice salaries are becoming, uh, squeezed pay is becoming squeezed. So that's pay compression. Let's go into that in some level of detail over the next few slides with pay com, uh,

compression, there's small differences in pay that really ignore experience, skills level seniority. So when starting salaries for new employees in particular are set so close, too close to the wages for your existing staff, that can also exacerbate the pay compression issue. And that's, that does happen continuously because as we talked about probably 10 minutes ago, there are a lot of employees because of the supply and demand curve and the talent out there right now in the marketplace, there's a lot of employees who are actually to hire them, new employees who actually have to pay them at or even more than your existing staff.

Speaker 1: (22:47)
So is that second bullet shows there. So midpoint, let's change up the numbers a little bit for some fun, but the, a job grade 40 to $60,000 midpoint at 50,000 employee A is making $56,000 employee B $53,000 employee c making $59,000. And then guess what? Here comes new hire and the new employee who you hired in, uh, a month ago, that employee now is coming in at 50, at $60,000. So when you look at it, again, if you looked at that picture of that vice right there, you'll see that's what's happening right here. So that's pay impression, that's a great illustration of pay impression. Nobody is being paid $42,000, $45,000, they're all being paid higher than the midpoint. And you have just a handful of employees here. But if your organization larger, you may have eight employees that are being paid above midpoint. And it's really hard to differentiate one employee from another employee. And that can happen for lots and lots of reasons. Quite often it's because you haven't been paying employees differently or differentiating pay increases when you're doing pay increases. And therefore if everybody's making between, if, if you still have a 4% budget and you, you give everybody an increase between 3% and 5%, that's what creates pay compression because there's very little differentiation between your low end. You give 3% the high end, you give 5% off of a 4% budget, then there's little to no differentiation between one employee over another.

Speaker 1: (24:35)
What causes pay compression? So the causes of pay compression, again, we've talked about it a lot, but simply demand exceeds supply. So you end up with the demand for talent, the supply for talent, they're not adding up. Therefore, and one of the examples here, nurses, very great, unfortunately great shortage of nurses right now in the field for lots of reasons. Software engineers, people who specialize in certain very unique technology and they have very, um, cyber security experts who are working on the challenges of cyber security. They can, they can request and demand premium dollar because there are very few of them in the marketplace. The next one there is staler outdated salary data. So your internal pay ranges are becoming sta or outdated. You may not even have pay ranges internally, which is an issue. So that's your number one issue. The second issue is if you're paying, if your pay has not changed over, you know, you give, um, three, 4% increases year over year to employees, You've done that for 10 years.

Speaker 1: (25:46)
The, uh, with inflation and inflation has been out there for years. So you're not even keeping pace with the cost of living and therefore what the external market is paying and what you pay internally is becoming old and outdated. So that's one of the reasons why it's really important to do external benchmarking for data to, to make sure you understand what the going rate is for an employee with these types of skill sets. Because you may find naturally over time, especially for

business', been around for 20, 30, 40 years, your internal pay can be no, could be no longer relevant or no longer competitive. One, the leading indicators that actually shows you that's occurring is when your, your turnover increases. When you, when you find more people leaving the organization and they're leaving the organization very consistently, You know what, I can get a a $5,000 increase, I can get a $10,000 increase to go here.

Speaker 1: (26:48)
I can get a $20,000 increase to go here. If you are hearing that time and time again, there is a very high like that your internal pay is no longer competitive with the external market broadbands if you do have pay grades or pay bands that are simply too big. So the example we showed earlier with the $40,000 and $60,000 example for a pay grade, um, that's actually, there's some science to that because when you look at it, if you took $40,000 multiplied to by 1.5 or 150%, that would equal $60,000 for your hourly, for hourly levels. If you do have a lot of hourly employees, so hourly jobs, you, you wanna have a differentiation between 1.5% or 1.5 times, excuse me, 1.5 times between the low end and the top end for salaried positions. So if you have more of your employees or knowledge workers professionals, then that, that 1.5 rule could, could swing upwards a little bit, but just a little.

Speaker 1: (28:04)
So possibly 1.7% between the bottom end and then the top end between a salary band or salary grade. So those are two basic rules I've used for 20, 25 years in hr. But good things to remember if you, if you are creating salary ranges or bands, you're looking at doing that with your growth or you're looking at making sure your, your, uh, salary grades are banned are actually set correctly. Then the next bullet there is rapid inflation. So inflation obviously hits your lowest paid employees. A lot of companies with the inflation and lower paid employees, they're making, uh, $12, $13 an hour. They're living simply from paycheck to paycheck. And a lot of companies, a benevolent CEO may say, You know what, we need to give all of our lowest paid employees who make, um, $14 or less, we need to give them a 10% increase to try to keep them up to where they can actually make ends meet in putting, uh, gas in their vehicle and food on the food on the table for their family.

Speaker 1: (29:09)
But if you do that and then you have another employee who makes $16 an hour, who's been there for more longer, has better skill sets, masters the job, and you artificially move everybody up to let's say $15 an hour or $14 an hour, then you naturally create pay compression. So that's a situation where artificially doing that doesn't make sense. One of the things we actually occasionally do with would do with client organizations, perhaps especially with the price of gas the way it's been and the way it was even six months ago, which was worse, um, we actually recommended for if somebody had a long commute to work, maybe they, they commuted one way at least 50 miles or so, one way to one way to work, then we would look at doing a temporary statement. So we'd actually give them a, a gasoline stipend or something like that that's temporary instead of actually artificially raising all of their salaries or their hourly rates up.

Speaker 1: (30:12)
The, the stipend is much more, much easier to take away because once you raise people's pay or

their hourly rate or their base pay up, you can't take it away from them simply does not work. So doing that temp, that stipend as a stop gap to plug in some of the holes there can be very effective. Last item here before we, we talk about our last few slides. Final causes, the pay compression probably not as big a deal in Texas right now, even though it's been explored about raising minimum wage in Texas up from 7 75 as it is today. But a lot of organizations in the northeast, a lot of states, excuse me, in the northeast and the west coast, have taken their minimum wage up to $15 an hour. So when that occurs, it's similar to giving across the board, increases to your lower level employees in Texas, I know we've dabbled around with taking our minimum wage up to $10 an hour, maybe 12 I think I've heard, but it's still not an issue in Texas, so we're not gonna dwell on that.

Speaker 1: (31:18)
But usually that, again, is artificially set here by the government and then every company must comply. And so that artificially takes your hourly rates up significantly and that can create, uh, massive issues with pay compression. A few general guidelines too, just to wrap up on salary planning and get into why a sources for external data. Um, a few general question, uh, guidelines here for salary planning. If an employee started in September or October this year and you're looking at doing increases for next year that go into effect in February or March, as we talked about before, you should not give them another increase because chances are they already came in at a really premium pay level, therefore why are you exacerbating the issue and making it worse? So if you hired somebody recently or you hired a number of people recently, then not giving them an increase will free up part of your salary planning budget.

Speaker 1: (32:19)
I don't think I mentioned it earlier, but your salary planning budget should be based off of a percentage. So 4%, 5% that is based off of your, uh, your payroll line. So whatever your payroll line is, if it's a million dollars, $5 million, take that number for payroll for your total employee payroll, multiply it by 4% or 5% and that's gonna give you your budget going into next year. Um, anybody on a disciplinary action type of program? Any, anybody on any kind of a warning process, warning letter, formalized warning or disciplinary action should not receive an increase. Why give a person who's not performing well and increased again, does not make sense in my world? So it shouldn't make sense in yours either. And this allows more room to reward your top players. So your, your in your budget increase could actually go up slightly if you pull out 3%, 5% of your employee, uh, total population are not eligible for increases going into early part of next year.

Speaker 1: (33:22)
Um, based on what we talked about, and again, just strictly illustration, 4% budget as we've mentioned before. Um, if you do have here a 3% rating scale, I have organizations that we work with and clients 3% rating scale, 5% rating scale, some use total, they use, um, verbiage with no numbers. Um, but here again, just I don't want to get into a conversation, it's a totally separate entity around performance, uh, reviews and how that correlates to increases. Totally different topic, bigger than we can cover today, but if you were using a 3% rating system and you use your ratings as a, you wanted to correlate them to increases, you did 4% increase here needs improvement so that lower performing employees, somebody may have just moved into a new

role so they could still need improvement, but you still want to give them an increase. So here, zero to 2% would be your increase group or range for needs improvements.

Speaker 1: (34:25)
Successful performers, probably that's the lion share of your employees around 65%, they should be anywhere. That budget should be set between two and 6% and exceeds performance. Your top people, uh, four to 8% increase. This is again, why do we do the range? Go back to copper ratio as we talked about 20 minutes ago. Copper ratio helps to drive to say that not everybody who receives a certain, um, if they receive successful does not equal. They should all receive a 3% increase. That's where copper ratio is such a critical concept for you to really remember and focus on as you go into salary planning.

Speaker 1: (35:06)
Last couple of slides before we wrap up is, um, so here, understanding external market pay. So where do you find out what is the going rate in market pay? There's a lot of sources out there. So one of them, uh, government source, um, bls.gov. So the Bureau of Labor and st uh, Statistics, if I can talk today. Um, that is an excellent tool. So bls.gov, Glassdoor, a lot of hiring tool, a lot of hiring and recruiting, um, job sites, Glassdoor, indeed LinkedIn have information out there on salaries. You could put in salary information if you're, if you're going to be opening up a new, a new position to hire, you could use that as a check. If you're trying to do something more globally within your entire workforce, as we do with some of our clients, you may want to use something like the tool we use PayScale, which is we use the PayScale insight tool, which is great salary.com, um, comp expert is their tool. And then salary expert, a couple of resources where you can get information on external data.

Speaker 1: (36:15)
Um, how do we help clients review external pay? So key thing here is we use salaries. I mentioned PayScale, I mean we use payscale.com to support our clients here with this type of need. It's a cloud based system, which is great. The information is not static, but it's dynamic. It's always changing. If I ran an accounting manager based in Dallas six months ago or a year from now or a year ago and I run it today, I will guarantee you it'll be different, albeit maybe slightly, but it'll be different because it's continually pulling in data points from different sources to be able to come up with what the projected salary is, what the competitive salary aid rate is for today, actually, it comes in and it's about a month old data, but then from this information, since it is a class-based system, is being continually updated.

Speaker 1: (37:10)
And so it's dynamic. We can customize data. The one knock on using something like the bls.gov system is it's looking at millions of millions of data points, but it's only run, I think it's every quarter or sometimes even every semi-annually or annually. So the information there is very static and it cha since the information changes, it may not give you the most current and relevant information. So on pay scale, we can, we can actually customize to geo, uh, geographic location, industry company revenue specific criteria for jobs. And so in some companies we work with, they have sales people in 10 different, um, cities in the us We can actually run what a sales executive account executive makes in Dallas, in New York, in Los Angeles, in San Francisco, in

Chicago and Minneapolis. And we're going, there will be significantly different data there. So we can do that within the pay scale system.

Speaker 1: (38:11)
It provides detail reports, um, on the criteria we pop in there that are very claim, they're downloadable into Excel for our clients. And the last thing is we do is then we actually then from a consulting perspective, we review the data with our clients and then we help them to make changes and informed and intentional changes with their, with their pay for key people within their organization or sometimes in setting up actual, um, total pay structures within their organizations. Final thoughts, and I don't make, I wanna make fun of my finance friends out there if there are any, but please don't hate me for this comment, but finance manage manages, probably you're doing budgeting, uh, it's the budgeting season, it's getting into the holiday season now, but it's also the budgeting season. So, and I've heard this time and time again when s corporate for 20 something years, if that money does not exist, that budget line does not exist, it does not exist.

Speaker 1: (39:08)
So make sure when you're doing salary planning budgets within your budget cycle now, make sure you actually include a, an increase for off cycle increases or promotions and set that infor, set that aside. So finance will allow you to do increases for employees, promotions for employees during the entire calendar year for 2023 because if you don't, and again, I've heard this too many times, finance will say that we don't have the budget, therefore you can't do anything. So make sure you do this, put this, allocate this budget. One or 2% typically is good for you to be able to do this. And then that way you will not lose an opportunity to reward somebody during the calendar year of 2023 who you have to reward. And if you can't reward them for something massive, uh, receiving a certification, finishing their, uh, their bachelor's degree, whatever it is, then there's a good chance they're gonna leave. So making sure you, you are proactive around that and doing this will be a really good process. So with that, um, again, we're gonna migrate over to question.

Speaker 2: (40:23)
So with that, I am going to stop there and we're actually going to open it up to, uh, q and a. So we're going to go to, as I mentioned earlier, as we started off, we can start out with, um, Melinda or Kim, I think you've been taking a look at the chat and maybe some questions that have come, uh, come up now. So if you wouldn't mind just, um, sharing some of the questions that have come up already from the participants and then we'll jump into those and we'll get as many answers as we can.

Speaker 3: (40:53)
Okay, Mark, we have, uh, several good questions here. The first one is, so by using the comp ratio, does that help with compensation equity

Speaker 2: (41:06)
That can help with compensation equity? So I would say the shared answer is yes. Um, the slightly lengthier answer is that because you may have somebody who, you may have somebody

who came in and you brought them in, I don't know, let's say they came in five years ago and they started, they just, they just graduated from college and they started at the low end of the pay grade or the pay ban and they've only creeped up slowly and maybe during the covid or pandemic years, you actually gave them little to no increases because the company was in survival mode. So you may have a really good employee, a really good performer, and you may find that person is actually deserving of a higher increase than somebody who's been in the same job maybe for 10 years or 15 years and has continued to rise up the pay grade ranks simply by being there and receiving a two, three, 4% budget over time. So this can actually help from an equity perspective around performance, so that person's a really good performer that would help them to be paid more competitively. And the other key, um, output from that too, which it also helped to minimize any retest retention risk with that employee. So hopefully that answered that question.

Speaker 3: (42:25)
Okay, great. Um, at what size should a company have formalized pay grades or bands for their jobs?

Speaker 2: (42:35)
Yeah, that's a great question too, and I may have touched on it. Um, but pay grades, pay grades, pay bands, um, I've done it, gosh, three times this year with different, uh, clients. Um, they were companies that were growing, first of all it's a growth company and they were at about 70 on average, around 50 to 75 employees, but they were in growth mode and so they were aggressively growing. And so that was where I would say, and, and, and if you just wanna elaborate, I'll just elaborate on it really quickly, but I would start out very simply to say for companies that I do this with or we do this with, at HR Catalyst, I would say create three hourly grades or bands and three salaried grades or bands. So only start out with three, don't try to create 20 because they see some companies over rotate and they create too many bands or grades, which becomes really hard to manage. So I would say 50 to 75 employees and start up with three for hourly, three for salaried, the salary would probably not include executive positions because they're harder to fit in the normal salary plans for bands for a salary or an level employee.

Speaker 3: (43:53)
Okay, thanks. Um, what is the latest thinking on bonus plans for non-sales and non-executive positions?

Speaker 2: (44:05)
Yeah, bonus plans. Wow, that's a, that's bigger than a bread box . So, um, we, we help organizations with bonus plans and again, these are organizations, a lot of them are below 200 employees. I would say the way we structure and the way I think a lot of companies should structure just generically a bonus plan is make sure, because I always cringe when I hear of a company just doing discretionary bonuses. So they come up with, a lot of companies do a Christmas bonus, which obviously coming up soon, and the, the challenge there is a discretionary bonus that is totally random and done by the CEO or the CEO and the cfo. It becomes very arbitrary sometimes it becomes a, a, it becomes a, an exercise of faith prism and who do you

know a lot? Who do your kids play softball with, et cetera.

Speaker 2: (45:01)
So that's a, a slippery slope in HR for a lot of reasons. So we really recommend that companies for bonus structures, keep it simple, when you start out, um, really look at a threshold to payout, you've gotta hit a certain revenue target. You hit, you need to hit a certain profitability or net income target that is clearly articulated and and informed to employees. So you wanna be transparent about it. And in some cases where the company does a, uh, a, they do a variable compensation program where they want to include individual performance of that person, then our standard rank answer there, I'd, I'd say our standard answer is doing it 70, 70%, um, 70% financial metrics, 30% individual metrics. So individual performance, 30% company performance, 70%, you use the baseline metrics for business performance of top line revenue, you've got hit a number and bottom line profitability or net and company, you've gotta hit a certain money, you've gotta hit a certain metric there before there would be any type of payout.

Speaker 3: (46:15)
Okay, great. Um, another question here. Um, when do most companies do pay increases and what's the effective date on those?

Speaker 2: (46:26)
Yeah, great question. So most companies, um, a lot of companies are going through their, their salary planning budget now, um, or you should be , let's put it that way. Um, so pay increase, effective date, a lot of times the company waits until, especially depending on the size of the company, they wait until their numbers, their financials for 2022 fiscal year are actually solidified and it's, they're actually set in stone and sometimes that takes a good month or two months to close the books, if you will. And so that's why a lot of companies do a, they do their planning and their effective date in sometimes aggressively could be the end of February. Some companies wait until sometime in the March timeframe for the effective date to go into effect and it would, it would go into effect in that payroll cycle. So another way to, I don't wanna say you're cheating the system, but you're planning your salary planning, planning budget off of total payroll as of today or whenever you actually finalize your budget. But your increases normally wouldn't take place until the middle of February, maybe until the middle of March is when the actual increase would go into a person's paycheck.

Speaker 3: (47:46)
Okay. We have another good question here. Um, how can this pay scale model be applied to a company that, that does not have a pay scale, for example, restaurants and retail stores, um, not a lot of wiggle room for pay increases,

Speaker 2: (48:05)
Right. I would say one of the key things there is, I guess I would go back to even if you don't have formalized, uh, pay levels, pay bans, pay grades, what it would say is it's still very healthy in organizations to make sure you are paying competitively. I, when you're looking at your internal workforce, making sure you're paying them competitively to the external market. So even if you decide you don't think it's the right time to create these pay structures, pay grades, pay bands, I

would still say make sure you actually do some research, um, especially if you are gonna be hiring, make sure you're doing some research to make sure you are paying competitively, but also be very cognizant about what your employees internally are making or else you'll end up with that pay compression. Then uh, you'll end up, you know, creating that pay compression situation that we talked about about 15 minutes ago. So hopefully that answers that question. If not, please pop something else in the chat room.

Speaker 3: (49:13)
Okay, great. Um, we have a question here about, um, pay compression. What can a company do if they have pay compression issues now?

Speaker 2: (49:26)
Yeah, so, um, very good question again. So if they have pay compression issues now, I would say the one thing you can do now, and it's, it's not gonna be a quick fix, so I'll just, uh, let me put the disclaimer right up front. I wish it was a quick fix, but it would involve a lot of money to make a one time, um, one time solution. So I would say there, under the pay compression issue, this is where you got to differentiate your pay through your, your, um, your salary increase budget. So even though your 4% budget is there, a lot of times if you start looking at paying for performance and paying your top performers, if you give a lower performer a 0% increase, you give your top performer an 8% increase or 10% increase, then over the next few years you'll actually create more.

Speaker 2: (50:21)
You'll create a, you'll get alleviate the pay compression issue, but it's going to not be a quick fix. But if you start doing that going into early part of 2023 over the next few years, you'll find that you'll not only retain your top people in most cases, but then you'll also start actually broadening what the pay levels is. A lot of times pay compression issues are created simply because within a three or 4% increase budget, the lowest, the lowest person, the, the lower performer gets a 3% increase, the top performer gets a 5% increase, there's no differentiation there. So if you start doing that now and create differentiation through the, through your increased budget going into 2023, you'll start naturally over a few years you'll start actually broadening the compression issue and actually lessening that compression.

Speaker 3: (51:19)
Right. Um, one more question besides base pay, when should we have a bonus structure?

Speaker 2: (51:29)
Oh boy, that's a great one too. I would, there are some companies that we work at and again, you know, started HR Catalyst in 2013. There are some companies that we actually have created, um, bonus structures for their around 20 to 25 employees. Yeah. And they're actually pretty sophisticated. So, um, yeah, so I would say because I hate, you know, I don't hate, I guess I would dislike, hates a strong word, so I dislike having a discretionary bonus plan, which really becomes almost a game of favorites. And therefore I think that any company, especially if you're looking growing aggressively and you have been growing aggressively, I would say the sooner you formalize putting together a bonus plan, the better. And I've done it in the last couple of

years for organizations that are less than 25 employees just because they knew they were growing and they knew it's better. You start it now to get it, uh, get it embedded in the organization before you get to the 50 employees or 75 employees going forward.

Speaker 3: (52:39)
That I think brings us to the end of our questions here.

Speaker 2: (52:43)
Okay. Um, you know, we've got a couple more minutes so I will just go ahead and I'll, um, I'll actually just stop sharing here and I do see, um, several folks that I see their smiling faces. So any other, if anybody wanted to take, I know we're, most of us are still on, most of us are still on mute, so if anybody wanted to come off mute and ask a question, I know we're running right up around two o'clock, so I'll see if I can take maybe one or two questions quickly before we even we finish up for, uh, for this session.

Speaker 2: (53:27)
Wow. I guess I did a really good job, , I see some of you smiling, so that's good. Okay, so well thank you so much. We are, this is a, I think all of you had Toro being recorded. So this is a recorded session. We are gonna be uploading this onto our website. We are gonna be uploading this on YouTube, so please look for things there. We also have, for some of you, I know that several of you, um, are in either business leadership roles or consultants. We also do have a, um, thanks Lisa. Um, so actually we do have a podcast series that's on our website. So if you'd like to actually, uh, jump on, take a look at the podcast, you can go on the website for that hr catalyst consulting.com or you can actually go on any one of the major, uh, podcast channels. Uh, Apple, you can go on, um, Spotify, Stitcher, those, it's under HR Problem solver. So that's, that's our podcast. So HR problem solver, we've got about 20, 25 podcasts out there and we try to get those on a, on a regular basis. So please, if you do work with companies, we do short sessions that should be worthwhile on a number of other topics that are on the, that are done on the podcast. So, um, I'll ask one more call for one more call here for any questions live.

Speaker 4: (55:00)
Um, Mark as a business owner, is that, is this compensation planning part of your, like in the HR starter kit, do we just talk to you one off about how to do a comprehensive comp compensation plan?

Speaker 2: (55:17)
Yeah, thanks, thanks Kim. You know, it's better. We actually, it's, it's, it's, it's bigger than it's, it's hard for us to actually put that into a box in our HR starter kit, which is great for smaller companies. Um, so it would be much better to contact, um, you know, be able to contact me personally. Um, I see a couple of other, we've got a couple of other folks who are, uh, high Ursula, so I see you out there. So our newest, um, senior consultant, um, so we can definitely help you with that. But I think we really need to on earth information first. So it's one of those things we can't give you a one size fits all answer and we're happy to jump on a call, of course an informative consulting call free of charge, walk you through this situation and actually find out exactly what, if we can, you know, if we can help you by driving you to a something we already

have built, great. But if it's something we would have to do a consulting engagement with, we're happy to discuss that and talk through that with you in a little bit of further further detail.

Speaker 4: (56:20)
Right. Thank

Speaker 2: (56:21)
You. So, great. Well with that it's 2 0 1, so I've kept you a whole extra minute here. So thank you so much for your time. Uh, stay safe in the storms tomorrow, which should be coming or may not come, but uh, anyway, I look forward to, we're looking forward to trying to do this on about a quarterly basis, so look forward to putting the next webinar and enjoy the rest of your day and thanks so much. Take care. Bye-bye.