



Compensation Strategy – Episode 25

Speaker 1: 0:02

Good morning everybody, and just welcome or good afternoon, depending on when, when you're actually listening to this podcast. Wanted to go ahead and tell you, just kick off with myself really quickly. My name is Mark Mitford. I'm the managing director and founder of HR Catalyst Consulting. But I wanted to introduce to you, um, a friend of mine, I've gotten to know David over the years, but David, I'd love to be able to introduce a good friend of mine and an expert in compensation, David Garza. So David, tell me a little bit about who you are and what do you do to make a living.

Speaker 2: 0:33

Well, good morning marking and good morning everyone. Uh, thank you for the opportunity to, to be on this, uh, podcast with you. Mark. I'm David Garza. I am the founder and c e o of Compass Human Capital Advisors. We, uh, started our practice back in 2011, right at the tail end of the recession, uh, of 2008. Uh, was a transition and decided I wanted to do some consulting work. So I helped, uh, some small companies in interim HR roles. Uh, took a little bit of a, a, um, detour. I did a little corporate job for about five years and then started the practice back in Ernest in, in 2018, which coincidentally, uh, mark as a good friend, uh, was able to ask me to come on board HR Catalyst Act as one of the senior principals. So I do a couple of roles. I do my own practice, or I do help small middle market business owners who are trying to scale their organizations and help guide them with their people issues around that. But then, uh, on behalf of Mark, I, I've done some great work with helping, um, many different players in a vast majority of industries, uh, get through their basic HR leads. And so it's been, it's been a good ride, mark. I appreciate that.

Speaker 1: 1:45

Great. Well, thanks so much, David. Yeah. I've really, really gotten to know you personally and professionally over the years, and I enjoy the relationship. So, what was, just outta curiosity, so back in 2011, um, so you starting your own, your own consulting practice.

What was the driving force behind you , uh, taking that big leap of faith there out of corporate America into , um, starting your own business?

Speaker 2: 2:09

You know , I'll answer that in two ways cause I'll, I'll look at it in 2011 and then 2018 , 2011 is more necessity , um, was in transition. Uh, was looking to fill the, the , uh, void between perhaps finding a different corporate role and actually enjoyed what I was doing. So I did it for about two and a half years working with , uh, different companies. Uh, and unfortunately I was able to get back into a corporate , uh, role. But in 2018 , um, I think that's where I tapped into my passion, and that was more about helping business owners improve their business through people. But on the flip side, helping people have a better experience through their, their business , uh, or their job or career. And I wasn't doing that. Uh , uh, wasn't getting the satisfaction in my corporate job and , and my corporate role. You're , you're really impacting only that group of employees around you and your job . Um , this forwarded me the opportunity to actually get out and actually try to do more with , uh, a greater audience out there.

Speaker 1: 3:07

Yeah, that's great. That is, no , that's, that's a little bit, ironically, a little bit of my story, but I know we're not here to talk, to talk , learn about me. So we're here to focus on you and really get some expertise and you just share some wisdom, so around compensation. So, so in today's world, you know, we're, we're here specifically to talk about compensation planning, compensation itself as a broad topic. And I know there's a lot of facets, especially when we're recording this in 2023. But can you share, when you think about it as , uh, you know, as a human resource, human capital expert, what is your, you know, what , what is your , uh, your , uh, 25 cent definition of compensation planning, compensation strategy for in your words?

Speaker 2: 3:52

Sure, mark . I , I, I'll speak from the heart here. I think compensation, planning and, and strategy or , and process is all about ensuring that you are getting a return on the comp compensation dollar you're spending with your employees. And that, that means you gotta have a good plan, good strategy out there so that , um, you know, you're ensuring that you're competitive and you're getting the work done as you need to as an organization.

Speaker 1: 4:17

Right. No , that's, that is great. So , um, so why would you say, especially in, you know, in , in, in 2023 and beyond , what , why would you say, especially for, you know, the , um, when you're looking at middle market size companies, let's say five to a hundred million in revenue, why, why would you say it's so important for those companies who may not think about compensation that much and really being more strategic around compensation?

Why would you say that's so important for them in these , uh, the days we live in right now?

Speaker 2: 4:52

I would argue that for a lot of startup companies , um, margins can be very thin. Uh, every dollar being spent , uh, needs to be very , uh, deliberate in terms of ensuring you're getting your return. And so that's the same with how you spend your money with your employees. Compensation can't be something that is just done on the bo pack of an envelope or, or willy-nilly. You've gotta be very deliberate in making sure you, you , you pay people , uh, their worth, but you also pay and reward them for getting things done for you so that your spend is , is, is going to be a good , uh, spend at a dollar. That's why I think it's, it's important today.

Speaker 1: 5:33

That's great. Thanks so much. So, so what would you say, if you were going to , um, if you were going to put in , uh, you know, for our audience, how would, if you were gonna say how to , um, put in the core buckets of compensation, cuz it is such a broad definition of just compensation in general, if you were going to really just segment the, the avenues of compensation for our audience members as business owners and business leaders, what are the core components of compensation and compensation planning from your , um, from your definition?

Speaker 2: 6:12

You know, there are four that jump out to me immediately. One is, is compensation philosophy, how you're going to approach , uh, your compensation. But, you know, let's , let's be candid. The , uh, going philosophy out there is pay for performance. I'm gonna spend a dollar to try to get something outta of my employees. So that's, that's one thing, but really understanding what that means and , and understanding what rewarding employees performance means. Second thing , um, is your , um, competitiveness. And that means you , you wanna be paying well, but you don't wanna be way far out ahead of your competitors and, and you wanna be competitive. So it's important to have good, accurate data from whatever resource you can find , um, with regards to compensation data. The third component I think is important is compliance. Just know , uh, that there are federal laws, the federal Labor Standards Act that dictate certain basic things around compensation, but then each state has their own approach to, to pay in terms of what , uh, you do with regard to compensation , uh, and irregularity. That's more payroll. But you wanna make sure you're compliant when you're putting your plan together , uh, with regard to that. And then the other component is actually the structure of employee pay. Hmm . Um, how do you wanna set that up? Is it, is it , uh, a design where you have , uh, different employees grouped in different levels or grades , um, and then you pay those individuals somewhat similarly , um, or is it in a way that you just kind of take your, you

know, most important employee and, and you pay them the highest and your most , uh, clerical employee and pay the lowest and kind of stack rank in there. You gotta have some structure around how you want to, to pay your employees. So those are the four components I think of when, when, when asked that question mark.

Speaker 1: 7:58

Well that's great. Yeah, no , thanks. Thanks for that really insightful, very insightful comment. David. So , um, in your opinion, so companies, you know, middle market size companies and, and I would say probably lower middle market size companies. So again, let's say a, let's use a specific example more of a company that's 30 million in revenue with , um, 200 employees. Um, in your experience, how well do those companies actually do what you're talking about around compensation, planning, compensation strategy, how well, you know, if you were gonna give them a letter grade , let's say , um, how well do you think they do on, on average in that 10 in and really putting the , the key things around compensation together?

Speaker 2: 8:45

Well, mark , let me first say it's a , it's a mixed bag from what I see out there. You've got some that are doing it very well and others who are really nonchalant about it overall. Great . I would give, give is a b and that's because I do believe a lot of business owners have, have taken an effort to try to put more structure around their compensation. But I still believe there's opportunity to, to improve particularly around a couple of areas of structure , uh, of decision making . And, and I think , um, as I, as I reflect on some of the clients I've worked with, there's a lot of desire to do it right. There's just not a lot of know-how.

Speaker 1: 9:22

Right, right. And that's probably where I would imagine there, that's where somebody like yourself could possibly help in , in maybe helping them to really think about it from a strategic, from an hr, you know, somebody who's a , an HR executive level individual who could actually come in there and actually be able to make a really big difference for them.

Speaker 2: 9:44

Most definitely. And I think , uh, HR Catalyst has been able to do that. Most of the work that I've done with you , mark and HR Catalyst has been around compensation and helping , uh, companies achieve, achieve that, so.

Speaker 1: 9:54

Right. That's

Speaker 2: 9:55

Very

Speaker 1: 9:55

Accurate. Thanks. Um, so why do you think that, do you think it's a , uh, you know, the question's kinda like, why do you think that is? Is it simply a situation to where they don't know what they don't know or they are so focused on running the business, even if they're the c e o owner of the business? What are your thoughts on why, why you think that sometimes it's a b cause it's such an important topic, why do you think it's, you know, it's, it's, you give it that letter grade ?

Speaker 2: 10:27

That's a great question and I'll tell you the , the , um, the answer I'll come up with is that a lot of these business owners , um, didn't get into business to , uh, be an HR professional or to be an accounting professional, to be a bartending professional. They had a passion around an idea, a product or a service. And fortunate for them it took off and now they find themselves the head of a company and they just don't have the know-how expertise, cuz it wasn't what they were initially out to do. And so I think at that point, any of these different systems like compensation , uh, there's other things like performance management, talent management, just don't get a nod. Um , because sometimes they just don't know about it. Mm-hmm. <affirmative> , uh, or don't, or they're afraid of it. Uh, and , and I don't mean afraid from a standpoint, it's just I'm afraid I'll get in there and mess things up. Uh, and it's also just something I , I don't enjoy doing. So I think that's why you find , uh, some companies are in a situation where they're just not well developed in these other areas like compensation

Speaker 1: 11:27

Right now . And I think that's so true. And that's why I think with the , you know, the , the role that you play it , it's such a critical role because it's, it's a , I think, you know, like you said, everybody, every, every business started from one or two or three employees. Um, even though, you know, the, the, the iconic businesses we all know about in , you know, in the Fortune 500 world, but yeah, you know, that that's it . They weren't really thinking about, they had a good product and desire, worked hard, found a market, found customers, and then all of a sudden, you know, 10 years later they may have a 20, 30, 50 million company and they're probably like, what in the world? How do I manage all the complexity and develop processes here? So yeah, I think that's a great, really, really insightful. So what I'm , what we're gonna do now, actually , uh, David, is we're gonna just take a short break and then we'll come back to you in just a minute. But we're gonna take a short break and we're gonna hear some , a little something from our sponsor. Thanks so much, David.

Speaker 2: 12:27

Thank you.

Speaker 3: 12:31

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Speaker 1: 13:17

So David, thanks so much. We're just coming off of a short break here, so thanks for mu so much for your, you know, I think you're sharing , uh, from my perspective, you shared some really good nuggets, but we wanted to drill into them a little more and , and then the next probably 10 or 10 minutes or so. But , um, so as compensation, is it, you know , compensation planning, is it a system, is it a process? Is it , um, you know, what is it? Is it, is it kind of a system and a process? What are your thoughts there? Or is it both? Or maybe something, maybe I'm not even asking the right question. What are your, what are your thoughts there?

Speaker 2: 13:53

No , that's very , uh, insightful question there. My, my opinion is that compensation is a system that's made up of processes. Um, there are different components to a , a , uh, compensation system , uh, decision making . Uh, there is a process behind decision making when you promote somebody, when you transfer somebody , uh, when you sometimes demote somebody, you know, what's the process to get that done? Uh, from a compensation fairness standpoint and a compliance standpoint. Another process is , um, going through , uh, at a routine basis maybe every couple of years and getting good market data , um, going through the process of finding a good resource , uh, locating or identifying the jobs that you want to benchmark with getting good data. You don't have to do a hundred percent of your jobs, but you need to do those that are probably , uh, the more common ones. And then you can somewhat link the other jobs in your company to do that. And so that's just a couple of examples. There's processes that are all included within an overall compensation system.

Speaker 1: 14:56

Okay . No, that's great. I know , I really do. No, that's fascinating that you have that explanation. So you mentioned market data and gaming market data. So do you have any recommendations for the audience around where do you get market data from? Uh, you know, how do you find that ad and how do you make sure, you know, nowadays, if you Google something, I always tell people, be very careful what you look for online, because

some of it may have a huge amount of validity and some of it may be not so much. So do you have a recommendation or recommendations around where you could actually, a business owner could find market data of what a what, what the pay is, what the , what's it going Right . For a , um, an accounting manager, an HR manager, a um, director of sales.

Speaker 2: 15:43

Yes. Yes. Mark , you know, may not like what, what I'm about to say here, but I have , uh, let me tell you first I have 50 50 confidence in sites like salary.com or Glassdoor. Those are individuals that are self-reporting. Um, and over time, if you get enough of that information maybe becomes more valid. Uh, but you don't know , uh, whether people are being truthful or accurate in , in their information. I prefer going to a, a vendor who actually is in the business of collecting and surveying data and actually scrubbing it to make sure that it's accurate. Uh, one of the things I love about working here with hr , uh, catalyst and , and , and doing some work with them is that they rely on a company called Pay Scale . And they do a great job of vetting the information. Uh, they'll even share their confidence and , and how strong the information is. And that's based on how many people , uh, or how many roles they were able to, to, to market and get data on. So I would encourage, if you're going to go out to market to get data, do it through a, a provider, a pay roll , um, data provider, little expensive if you're go out and do that on your own. Uh , one of the nice things about working again , uh, with HR Catalyst is that , uh, HR Catalyst is able to to work and get that information for you at a much reduced , uh, uh, cost to, to a client. Uh , but nonetheless, that's where , that's where I have more I accuracy in terms of talk to my clients about what pay levels and what pay structure for different markets are , uh, when you look at , uh, market data.

Speaker 1: 17:18

Right. Okay . Great. No, that's, that's really helpful to, to make that , uh, make that recommendation. So is , um, now it sounds like, and I'm gonna ask the question anyway, but it sounds like, so, so competence , cuz I know that , um, in the HR consulting space , um, there's not a lot of people besides maybe compensation specialists, like a compensation company that actually would delve into compensation. But is is this something you actually help business owners with currently?

Speaker 2: 17:51

I, I currently help business owners through Compass and also my work with the HR Catalyst mm-hmm . <affirmative> and designing their compensation , uh, will do anything from , uh, providing them the data they need and they can go off and make a decision on their own to actually building a structure for them and , and helping them with how they would manage or, or go through the process of , uh, and , and implementing a compensation plan and , and dealing with the employees. Um, it's, it's also just , uh, you

know, we're there to answer questions as, as an expert for you , um, with regard to how you, you put that structure together or we can do that structure for you.

Speaker 1: 18:28

Okay . That's great. So what would you say , um, on that note, David, since you, you can help and make a difference there , um, for business owners who are listening to this or business leaders, what would you say who are , uh, you know, what are the three, if you were just gonna take it down to three things, three reasons why should they? Um, you know, we're , we're at the beginning of the year , um, in 2023. Of course, you may be seeing this at , at a different point in time in the year, but any, any, you know, at any point in time, whether it's in January or whether it's in July or November, why is it so important? What are three things you would say why it's critically important for a business to actually start doing this now around creating this compensation system? What are, what are your three big critical reasons why this is gonna be something they need to get started with? Now?

Speaker 2: 19:24

Mark , it's a great question. And, and again, like you said, it doesn't matter when you start , just, just get started. You know, number one, if I put my business owner ad on , uh, the number one reason is waste. Um, are you paying what you need to be paying your employees? And do you have a grounded market , uh, data that you can rely on so that you're making those good decisions? And then when you're making decisions, and I , and I see this all too often , uh, sometimes we push the easy button, let's just give everybody a 3% raise across the board, or , uh, let's just not do anything for anyone. Um, all all that can be very wasteful with regard to either paying people what they don't or haven't really earned, or when you're not paying, you run the risk of turnover and people leaving. So number one is waste number two, I would put into the bucket of , um, if you can follow me here, both turnover because of inequity. Mm-hmm . <affirmative> , uh, if you don't have a good plan and you've got two people doing the same job with the same background and, and the same experience and , and one's getting paid more and the other isn't , uh, there's an inequity that arises there and that creates turnover. And I think one of the more difficult things to do is to go out and find good talent , uh, today. So you wanna have a compensation plan that is ensuring that people feel like they're being adequately paid, fairly paid, and that there's objective , uh, process in terms of making decisions on , on pay . And then number three, I think this , the other big reason is peace of mind. Uh, you wanna be able to say that when decisions are being made about compensation , uh, when payroll is running, that if you were ever going to be audited or visited by , uh, a regulator, that you can say, I've got a good fair system in place. I know exactly where everyone's being paid. Uh, we're doing things appropriately. We've got good market data, and I feel good at night knowing that. So we're doing our people , uh, right. And that we're

compliant with the law. And , and so that's the other reason why I would probably tell you, you know , get your compensation system up and going.

Speaker 1: 21:24

Yeah, I know . That's so true. And you know, it's interesting because you mentioned one of those key things there with that , uh, response, David around , um, around turnover. And it's amazing that you know, quite a few of the averages and I know it's, it's, it's kind of, a lot of people don't understand the cost of turnover. So it's anywhere between this , the information that I've seen and, and if you have different data points, please share, but it's around four to \$5,000 per hire to get one person in the door. And that, of course, that's on average because it's gonna be different if you're hiring somebody for \$14 an hour versus somebody for a hundred thousand dollars an hour. But on average, when you look at it, all the costs of recruiting, the time to go through the interview process to get them into the payroll system is so every person you have that you lose because possibly if you are , um, if you're not paying competitively and somebody comes in and poaches them and raids them from you and is paying them more accurate market data, you know, that's a person you've lost at least, well the , the costage is higher, replacing them is four to \$5,000. Um, and I don't know , is that something about what you've seen David out there as kind of an industry average?

Speaker 2: 22:43

Uh , I , I, I wholeheartedly , uh, believe so and , and add on top of that, which a lot of , uh, business owners don't think about. It's the overtime cost . Who's covering that person being gone, right? Uh, the cost of loss experience. Um, this person may have been very experienced in what they're doing now. You gotta take some time to get somebody ramped up to that level as well. There's cost there. It's, it's maybe hard to articulate, but you can feel it, it slows you down and, and your productivity goes down to aunt Loss. And then also just the impact it may have on , on your , uh, goodwill reputation with your clients. You know, I liked working with this person, why aren't they here? I may not wanna be with you anymore. So those are costs that are, are tied into it. But yes, it could be up to four or \$5,000 , uh, for that one person gone. So you just wanna make sure you'd hang on to your

Speaker 1: 23:30

Folks right now . And and that's so true, and I love what you just said around , um, you know, because if , if you're, if this is a , a very technical job and technical could be a lot of things. One of my clients I just started working with as a , they do a lot of welding. They hire, they have a lot of welders. But if you have somebody who's doing, you know, high-end welding, I've worked with companies in the aerospace field that do aerospace manufacturing on parts and, you know, they use a comp , they use some C N C machine operators and machinists, you know, those, those, you can't replace them, you know ,

within a couple of days. So , um, if you find a really skilled welder, somebody who's a C N C operator who's using a computer machine to actually weld precision parts for like an F 35 or what have you, they don't, they don't, they don't , uh, you know, they're not, they're not hanging off of a tree outside your door. So just, so sometimes, you know, the cost can be the , the cost of replacement is minimal, just the core cost , but then the cost of knowledge and experience can be 50, 75, a hundred thousand dollars for that individual and all that productivity and the lost experience and getting things done. So that's huge. Um, with that, David, thanks so much for this conversation. It's been hugely ex uh , insightful for me. Um, I've learned, you know, the thing I love about doing this too, I learned a few things along the way too. So , um, any final thoughts on the topic before we move to some round kind of fun questions to wrap things up ?

Speaker 2: 24:59

Not at all , other than the fact that , uh, compensation doesn't have to be , doesn't have to be hard . Don't , don't be afraid of it, but get somebody who knows what they're doing , uh, in there to help you. And, and once it's implemented, it's , uh, hopefully something that you're gonna, it's gonna bear fruit for

Speaker 1: 25:13

You. Great. No , that's perfect. So it's okay , we're gonna move on to some , uh, I don't know if they're softballs or not. Sometimes they're a little bit harder than they , uh, they should be. But with that , um, so what are, what are three books you'd recommend , uh, that the audience should actually , uh, go ahead and, and read, and why are, why would they, why should they read these three books that are kinda like your, your favorites?

Speaker 2: 25:37

Oh my gosh. I'm gonna look up on my bookshelf here. I will tell you, number one , uh, impactful book for me was good to great , um, uh, by , um, Collins . Uh , it was a great book and a great read. Um, really taught me a lot more about, you know, how companies get their momentum going. Uh, the other one is by Patrick. It's , um, the five , uh, misfunctions of a team. Mm-hmm. <affirmative> , uh, that was very important in my time during the corporate life to understand how to get the executive teams working together with regard to , um, you know, what they do , uh, as a team , uh, together. And then , uh, team of teams , um, was an important book for me. It was from General McChrystal. Hmm . Um, it really, it was more about an experience of him and , and combat , um, and how complex the battlefield is today. And you had to work less with the traditional structure of a military and you had to work with a , a team of teams. So there were some good , uh, nuggets in that book as as well. And I , forgive me cuz I'm probably , uh, messing up some of the titles , um, with that. But those are three books that have been most impactful.

Speaker 1: 26:45

Yeah. Oh, no, that's great. That's, no, thanks for that. So , um, so two podcasts. I'm not sure if you're a person that listens to podcasts, but if so, are there any two podcasts , uh, you know, podcast , um, series that you, you enjoy listening to?

Speaker 2: 27:02

Yeah , gosh , you got me. I'm not a regular podcast listener. I do like the TED Talks. I think that's just a gimme . I enjoy some of those different topics , uh, that are, that are out there. Um, and I , I'm kind of a , uh, historical buff. I like listening to some, some , um, podcast just for the , uh, the, the history. There's a current series with a journalist named Morak , uh, and he talks a little bit about some old historical things that have gone by the wayside and , and kinda explains why they've gone by the wayside. That's , that's a little enjoyable for

Speaker 1: 27:32

Me. Yeah, no, that's great. No, thanks for that. So , um, so what advice would you give your 16 year old self today?

Speaker 2: 27:42

What advice would I give my 16 year old self today? Um, you know, I would tell him to just keep plugging away. Um, unfortunate for me, I, I have, I , I've , I've, everything that I've done , uh, has been very deliberate at times, unsure, maybe lack confidence of whether I was doing the right thing, but you just keep moving forward. Um, and there have been some times where I haven't, sometimes where I've missed some opportunities as well, but just to keep moving forward, keep taking that step forward and , and don't let fear or uncertainty dictate that.

Speaker 1: 28:18

Great. No , that's perfect. Thank you. That's, no, that's, that's great advice for your 16 year old self, I'd imagine. So great advice for 16 year olds today, period . <laugh> , um, last one. And so what is your favorite eighties band?

Speaker 2: 28:32

Oh, my favorite eighties band. Um, you know, I'm, I'm thinking of some that were in the seventies that were making music in the eighties, but for a band that was created in the eighties, I would tell you , uh, the police , uh, sting , uh, they came out around 1980 and I really enjoyed their music as they were going , uh, through. Um, but, you know, I'm always a diehard Eagles fan.

Speaker 1: 28:55

Okay , well there you go.

Speaker 2: 28:56

Yeah. Yeah. And recently came a good Journey fan too, so those were outta the seventies, but they had some good songs in the eighties as well.

Speaker 1: 29:02

Yeah. That is awesome. Well, so last thing for you, just to , before we wrap up, if , um, if there's any audience members who wanna reach out to you directly, how, how can they connect with you online through , um, email? How , what , what is the best way to connect with you?

Speaker 2: 29:18

Sure. You can , uh, connect with me personally through my , uh, email. It's david.garza@compasshca.com. Uh , and then you can check out a little bit about my background and what we do at www.compasshca.com as well. But , uh, appreciate the time, mark , thank you so much Yeah . For , uh, allowing me to be be here and you were, you were easy. I appreciate that ,

Speaker 1: 29:43

<laugh>. No , no, I think this has been a , a great conversation. I love, I'm gonna join doing this and , and , um, you know, I learned something new every time. I honestly, very sincerely, I learned something new about my craft too, but I think it's a lot of fun. And, and David, thanks again for your time and for the audience, thanks again for your time and we look forward to , uh, putting together another, another session , uh, next month. And we I stay tuned and we'll look forward to sharing more insightful information from our next stick guest. Thanks so much, David. Have a good rest of the day. Thank you,

Speaker 4: 30:16

Mark .