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## News in Brief: Market Update

### Compensation Management

#### Special points of interest:

- How does a compensation philosophy fit with the rest of the organization?
- What is the desired compensation mix between benefits and cash?

The increasing competitiveness of the labor market and turnover of employees have resulted in nightmares in compensation planning. Apart from this, the growing demands of the employees and competitive salaries offered by multinational companies have almost resulted in a compensation war in certain industries. Therefore, the human resources managers and tax experts have to evolve proper compensation planning for high end and qualified employees. The components of compensation have to be devised in such a way that it focuses on the growing demands of employees while retaining the competitiveness and profitability of the company.

#### Development of a Compensation Philosophy

All organizations pay according to some underlying philosophy about jobs and the people who do them. *This philosophy may not be in writing, but it certainly exists.* Pay may be treated in a formal and structured manner at one company. At another, any appearance of structure is intentionally avoided so that decisions can be made arbitrarily. Either

way the approach taken reflects a fundamental belief about people, motivation and management. Before an organization actually develops a compensation plan, there are several questions that need to be answered. Taking the time to consider and answer these questions will make both the process of developing and administering a compensation plan much easier and will result in the development of a compensation plan that more closely matches the organization's goals and objectives. Managers often want to view each individual as a separate case. It is important to understand, however, that employees operate within a compensation system. A manager is wise to take the time to learn as much as possible about his company's compensation system.

What is the goal of the organization's compensation system? What is the communication policy? What is the organization's desired market position relative to pay? What is the desired mix between benefits and cash? What does the organization pay for? What is the role of performance appraisal in the organization? How will

the organization manage change to the compensation plan once it has been developed? How does the compensation philosophy and plan fit with the rest of the organization?

While the answer to "how much?" is of course important to employees, they are also concerned about the "why?" of pay. In other words, while the actual amount of pay is very important, employees also are interested in the rationale used to determine it. *Research has shown that pay satisfaction increases with understanding of the pay scheme.* Managers often leave this area to the HR department.

Job seekers who go into the negotiation process with their eyes wide open keep an important fact in mind: A few thousand dollars one way or the other can quickly become a gain or a loss depending on other benefits. Money is important but it must be put in the context of other pros and cons—some of which have a dollar value and some of which do not.

## Compensation Management (Cont.)

**Do employees know why they are paid the way they are?**

**Does a long term incentive need to be in the pay mix for key positions?**

Managers should be the company's biggest ambassadors when it comes to the value of benefits and work environment factors. Sharp companies do a good job of showing the value of these items. Smart managers will communicate their value, as well, especially when discussing pay. For example, when offering a promotion to an employee, a manager should consider all the potential benefits. What developmental opportunities are involved? Is there an increase in status? Will the move mean additional interaction with key players? All of these, as well as any increase in tangible pay and benefits, should be discussed.

### Speaking of Pay with Confidence

Discussions regarding pay do not have to be awkward—they can be clear and productive if managers adhere to the basics outlined above. Rather than a taboo, pay can be addressed in an up-front manner if managers do their homework, get prepared and go into the discussion with the confidence that comes from knowledge. Pay

discussions should deal with specifics. In preparing for the discussion, the manager must remember that pay is relative and nothing can be assumed about the employee's response. The purpose of the particular aspect of pay being addressed is important, and the manager must be able to discuss the issue in the context of the organization's pay philosophy.

### Conclusion

Compensation is a hot potato for the Human Resource Department. The motivation level of the employees to great extent lies in monetary rewards. In the current state of affairs it is indispensable to restructure the pay models. Similar to changes brought about in the other departments HR should also emphasize on restructuring the costs so as to bring the variable cost close to zilch.

Smaller projects with fast pay-backs would be more attractive than a big project with a long payback. The challenge for service providers and consultants would be to deliver the same amount of value to people with a smaller problem set.

*A satisfied employee is a productive employee and care should be taken that they are fairly paid for their worth in the organization. If managers follow these guidelines, their pay-related communication with employees will result in clarity and respect. In addition, they will avoid the misunderstanding and resentment that results from avoiding this critical issue. If being paid well, can generate results for the organization; a failure in the pay structure can create problems. The major challenges that manager's face today is retention of the manpower and the major cause of it is that they are paid better in the other organizations.*

Let us help develop your organizational compensation design and philosophy.

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