How to Avoid Unintended Consequences When Raising Pay

Publication info: HRNews ; Alexandria (Jun 3, 2022).

ProQuest document link

ABSTRACT (ENGLISH)

"What roles are absolutely critical to the company?" asks Thanh Nguyen, chief executive officer and co-founder of OpenComp, a compensation intelligence company in San Francisco. Create a Structure When Mellissa Waters, SHRM-SCP, joined Orlando-based Trial Pro P.A. in 2020, the personal-injury law firm with 45 employees had no compensation structure and didn't conduct regular performance reviews. The problem was that the firm's compensation structure hadn't kept pace with the local talent market and the firm hadn't thought through what types of skills it needed or how to pay for those skills.

FULL TEXT

Page Content

Small companies are facing pressure to raise wages to attract the talent they need.

However, if they do so without a clear compensation strategy, it could set off a chain reaction with unintended consequences.

Attracting and retaining workers, managing fixed costs, and maintaining employee productivity and morale are equally important goals for any organization. Without a clear strategy to guide decision-making, solo HR practitioners could inadvertently emphasize one of these goals at the expense of the others.

For example, if employers don't consider the impact of pay increases for certain types or levels of employees, or even for a specific employee, an unintended consequence can be pay compression, which occurs when employees with more tenure or at a higher level are paid the same as new hires.

This, in turn, could have a negative impact on pay equity, "not to mention the dissatisfaction that this can create among the ranks," says Lane Transou, SHRM-SCP, president of HR consulting firm Lane Transou &Associates Inc. in Houston.

Salary surveys indicate that employers are expecting to increase pay levels across the board by 3.4 percent to 3.9 percent or more in 2022. This follows a year when average pay for hourly workers rose more than 5 percent, with even higher increases in certain industries, including an 11 percent increase in hourly pay for leisure and hospitality workers, according to The Conference Board.

In this environment, a bad decision could be expensive. That's why it's so important to develop a focused strategy that can help the organization understand the implications of every compensation decision.

"If you make changes to pay with no strategy, you will have employees lined up at your door to negotiate their own salary change," Transou says.

Identify Critical Roles

A compensation strategy begins with a clear view of the organization, the work that is most critical to its success and the people who do that work.

"What roles are absolutely critical to the company?" asks Thanh Nguyen, chief executive officer and co-founder of OpenComp, a compensation intelligence company in San Francisco. "Critical means that without these people, the organization has no product."

Next, employers need to determine how they want to position their pay relative to the market for all jobs. This will depend on where talent for those jobs is coming from—such as direct competitors or organizations in other

industries.
“Look at the data to see where you are compared to where you want to be,” Nguyen says. With this insight, the organization can decide where to target pay increases.
In some cases, an employer may want to carve out highly competitive or mission-critical jobs and create a parallel pay structure just for those jobs.
“Wage inflation is not hitting all jobs equally,” says Don McDermott, president of HR and compensation consultancy D.G. McDermott Associates in Red Bank, N.J.
Carving out certain technology jobs, for example, allows an employer to set different salary ranges for those positions and to adjust the ranges more frequently than it does for other jobs—say, every six months. This helps the company to keep pay for these mission-critical positions closely tied to the market.

Create a Structure

When Mellissa Waters, SHRM-SCP, joined Orlando-based Trial Pro P.A. in 2020, the personal-injury law firm with 45 employees had no compensation structure and didn’t conduct regular performance reviews. What it did have was a lot of turnover, which reached 53 percent in 2019.
“People who have been here more than five years are considered veterans,” says Waters, director of administration and senior HR professional.
The problem was that the firm’s compensation structure hadn’t kept pace with the local talent market and the firm hadn’t thought through what types of skills it needed or how to pay for those skills. To address this, Waters conducted a compensation analysis to compare current pay levels to the local job market. This allowed the firm to see how its pay structure differed from that of other local employers overall and the employers against which it competed for talent.
Once the firm’s leaders saw how pay levels compared to the market, they could see where they needed to make adjustments. Between 2019 and 2021, pay levels rose 8 percent. Waters looked at each job and employee to determine how to allocate those increases. For example, employees with certain levels of experience, consistently high performance or specific skill sets, such as fluency in Spanish, were considered for higher increases.
These adjustments had an immediate and favorable impact on the firm’s turnover, which declined to 19 percent in 2021. However, as pressure on wages continues, Waters expects that the firm might need to increase pay by 4 percent to 6 percent in 2022 to support its recruiting efforts.

Communicate About Money

Pay is no longer a secret. People talk to each other about pay, and employers need to take part in that conversation.
“People understand that there is different pricing for different roles,” Nguyen says. Problems occur when employers don’t explain why and how they make individual pay decisions.
Once compensation decisions are finalized at Trial Pro, employees receive individualized letters showing their pay versus time worked. This allows the firm to showcase the value of paid time off and early closings on Fridays in the summer, which has proved to be an important draw for new talent. The firm follows up with a personal conversation about why the employee is receiving a raise and how the firm determined the size of that raise.
In some cases, employees may be unhappy with their pay raises. Waters recalls an employee who had not received a pay increase because of the pay level the employee was hired at. “It was at the high end for that position, so we shared the compensation analysis and explained our decision,” she says.

Get Creative

If budget constraints limit an employer’s ability to increase pay, it needs to get creative when searching for talent. In some cases, an employer may be able to provide special, one-time bonuses for core talent rather than increasing fixed costs by raising base pay.
If certain jobs don’t require individuals to work onsite, employers have opportunities to engage in geographic arbitrage. This means setting pay levels for remote workers based on where they live rather than where the employer is located. If an employer located in a high-cost area such as San Francisco hires remote workers who

live in a lower-cost area such as Kansas City, the employer can adjust pay for those workers based on what employers in Kansas City are paying, not the going rate in San Francisco.
Such creativity can go awry if organizations aren't careful, though. McDermott recalls a professional services company with high turnover that hired less experienced professionals instead of increasing pay to attract more senior people.
"The problem is that these inexperienced employees require more supervision, which takes more senior people away from their core work," he says.
Ultimately, any change to compensation must support the organization's goals. As Transou says, a careful and focused approach "can take what is an administrative issue to a strategic level for the business."
Joanne Sammer is a New -Jersey-based business and financial writer.
Image by Sezeradigar/iStock.

DETAILS

Subject:	Compensation; Employers; Pay structure; Employees; Employment; Decision making; Wages &salaries; Skills
Business indexing term:	Subject: Compensation Employers Pay structure Employees Employment Wages &salaries
Location:	United States--US; Kansas City Missouri; San Francisco California
Publication title:	HRNews; Alexandria
Publication year:	2022
Publication date:	Jun 3, 2022
Section:	HR Magazine | Summer 2022
Publisher:	Society for Human Resource Management
Place of publication:	Alexandria
Country of publication:	United States, Alexandria
Publication subject:	Business And Economics--Personnel Management
ISSN:	10473157
Source type:	Trade Journal
Language of publication:	English
Document type:	News
ProQuest document ID:	2672995830

Document URL:	https://www.proquest.com/trade-journals/how-avoid-unintended-consequences-when-raising/docview/2672995830/se-2?accountid=44910
Copyright:	Copyright Society for Human Resource Management Jun 3, 2022
Last updated:	2022-06-04
Database:	ABI/INFORM Collection

Database copyright © 2022 ProQuest LLC. All rights reserved.

Terms and Conditions Contact ProQuest