

# COMPENSATION STRATEGY AND PLANNING

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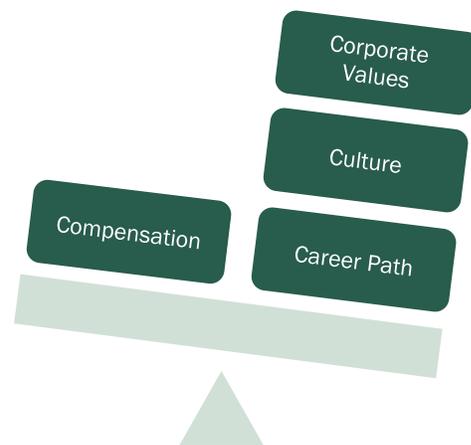
Managing compensation is part of the overall management of a strong corporate culture. What we know is you cannot win on pay alone, and you cannot win without it. We frequently hear from business owners that employees leave to work where the pay rate is perceived as higher and that there is not an appreciation or understanding of all the other things being done as part of their compensation package.

While rate of pay is the most obvious part of a strategy, there are other elements to consider:

- Providing a career path or vision of why someone should stay with the company over the long term
- Providing a culture and corporate values that support a bright future for your employees

**The key is to balance compensation, career path, culture, and corporate values.**

We know that compensation is a means of rewarding people for their work, retaining good employees, and attracting new ones. It is the most tangible expression a company has to demonstrate how it values employees. Therefore, it is important to be intentional, strategic, and to communicate the strategy of each person's compensation to them. We recommend having a compensation strategy in writing and that you share the current **total** compensation as well as future opportunities for each employee with them at performance review meetings.



## WHAT WOULD A PROCESS LOOK LIKE?

### 1. Establish Objectives

First you must establish your objectives for your compensation program, and to do so, you have some key questions to answer:

- **How do you plan to pay overall as a company versus the market?**  
For example, you may look to the 50<sup>th</sup> or 75<sup>th</sup> percentile or another benchmark to

determine pay rates. For unique positions that may have different compensation structures, how will their compensation be maintained?

- **How will the company compensate individual performance (separate from the overall base-pay strategy)?**

Here, we're referring to merit cash bonuses, percentages of sales, merit raises, and other awards. Remember that these perks do not need to be available to all employees. You can decide who should be eligible for variable benefits, such as incentives, bonuses, or executive level benefits. Identify which pools of employees will have these other opportunities or not.

- **What is your company's philosophy about insured and non-insured employee benefits? Are there perks that could be offered as additional awards?**

## 2. Budget

It is important to focus on the cost of benefits, taxes, retirement, and perks in the overall budgeting process. Begin with a total budget as a targeted percentage of total revenue. This can relate to an industry benchmark, your historical levels, or a blend.

Once you've budgeted for total compensation, then allocate between cash compensation and other benefits. Budget the total dollars needed, and then allocate of those dollars into the employee programs provided by the company. For example: 85% cash compensation and associated taxes, 10% insured benefits, and 5% retirement. This provides a framework for decision making as costs for certain benefits may fluctuate.

As we will cover in more detail later, it is equally important to communicate value of **all** of the benefits that you are providing to your employees.

## 3. Benchmark

As you begin to budget for departments and specific positions, compare your strategy not only to your direct competition, but also to other industries that are hiring from the same pool of prospective employees. It's helpful to have updated benchmarks that can be by industry, company size, and region. The target percentile (for example, 50<sup>th</sup> or 75<sup>th</sup> percentile) determines the competitiveness of the pay rate. Use those percentiles for cash compensation and benefits. Then consider what you are going to spend on all other benefits. Exclusive of FICA and FUTA/SUTA taxes, the number we normally see is around 20%. In other words for every salary you have, add 20% for additional non-cash benefits. And again, plan to communicate that cost to employees in dollars so they know what they are truly being paid.

And don't limit yourself to simply benchmarking, especially in terms of your employee programs. Be open to evaluating the value of your employee programs in terms of both participation and results.

## 4. Involve Associates

Involve your employees in the process by taking the following actions:

- Include core leaders at various levels in the discussion. Present your ideas, and allow for feedback. You do not need to follow every recommendation, but you will get perspectives that may be very different than yours as an owner or supervisor. You also get the chance to run your ideas by a group of people that already cares about the company and will want your strategy and message to be successful when it is rolled out to the rest of the group.

- Engage each employee. Be sure that each employee sees a future for themselves. You may have the best of intentions for them, but they have to see it, envision it themselves, and believe it. This second part may seem difficult when you don't have layers of management they can move into. But they can still grow within their own job.

For example, you might have a position Level 1, 2, and 3. It's the same job, but each level has a different set of pay and expectations. Doing so gives them a future within the position and another reason to stay with your company to live it out. Maybe they move from an entry to a senior level within their role.

In our company, our client service associates have different levels within their own position. They start out as a *Client Service Coordinator*, which has a set of expectations for knowledge, performance, and results. Then as they master the basic level skills, they can move to the next level—*Client Service Specialist*—with more compensation and opportunity for responsibility. If they keep growing, teaching others, and having a good impact on the firm, they can move to what we call a *Senior Service Specialist*. The seniority of the position is recognized by all of the client service associates in our company.

## 5. Communicate the Strategy with Employees Regularly

We recommend that you use your performance reviews as an opportunity to review the strategy for each employee. Be clear on the expectations they must meet in order to receive current compensation and any future growth. Discuss your ongoing intentions. In the absence of communication, employees will not always assume that you have a plan for them, and they may assume the worst. We saw this play out recently in a study that was conducted during the implementation of the Affordable Care Act: 50% of employees surveyed assumed employers would be dropping health insurance coverage, yet 77% of employers said they planned to keep offering it.

One of the keys here will be to communicate to an employee the value of their total compensation, including your contributions to benefits, retirement and other non-cash perks. Illustrations 1–3 (below) are taken from a total benefits statement that is automatically generated by our payroll system. Imagine how powerful this report can be when you sit down each year and explain to this employee making \$75,000, that he's actually being paid \$90,322 all in.

<i>Your Cash Compensation</i>			
Salary			\$75,000.00
			=====
<b>Total Cash Compensation:</b>			<b>\$75,000.00</b>
<i>Benefit</i>	<i>Your Annualized Contribution</i>	<i>Employer's Annualized Contribution</i>	
Medical	\$600.00		\$6,000.00
Dental	\$300.00		\$0.00
Vision	\$120.00		\$0.00
Life	\$0.00		\$50.04
Long-Term Disability	\$0.00		\$150.00
401K	\$3,750.00		\$3,750.00
Social Security	\$4,354.26		\$4,354.26
Medicare	\$1,018.34		\$1,018.34
		=====	=====
<b>Total Benefit Compensation:</b>	<b>\$10,142.60</b>		<b>\$15,322.64</b>
			=====
<b>Total Compensation:</b>			<b>\$90,322.64</b>

Illustration 1: Total Compensation Statement (Details View), which is automatically generated by our HR Information System (HRIS)

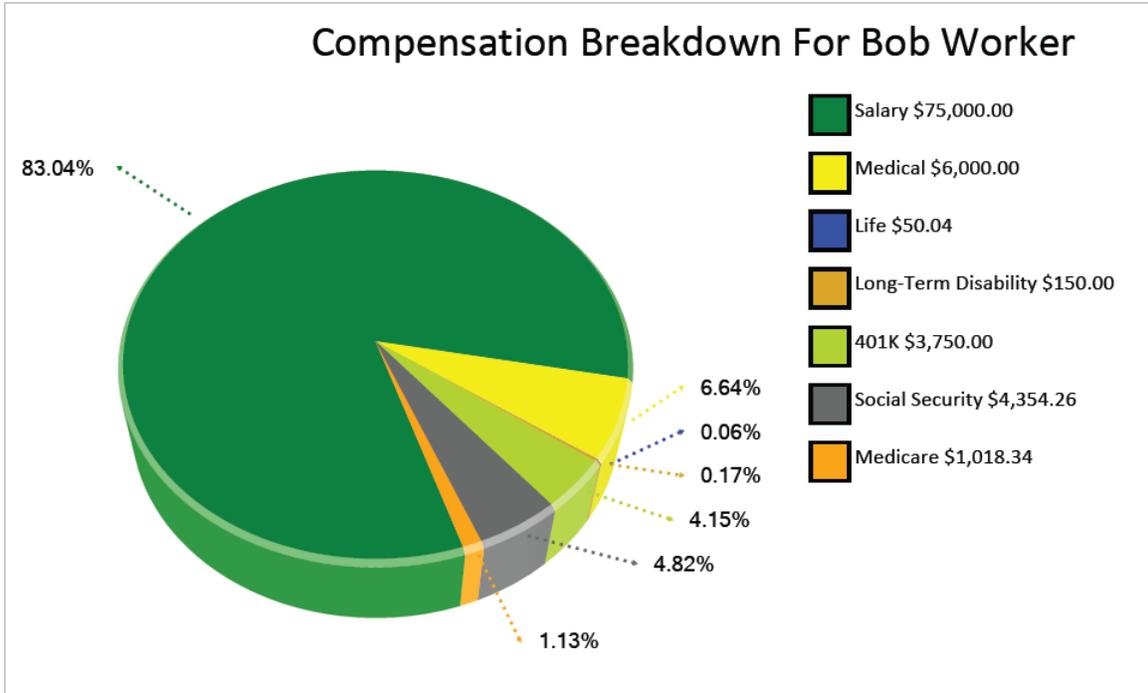


Illustration 2: Total Compensation Statement (Pie-chart View), which is automatically generated by our HR Information System (HRIS)

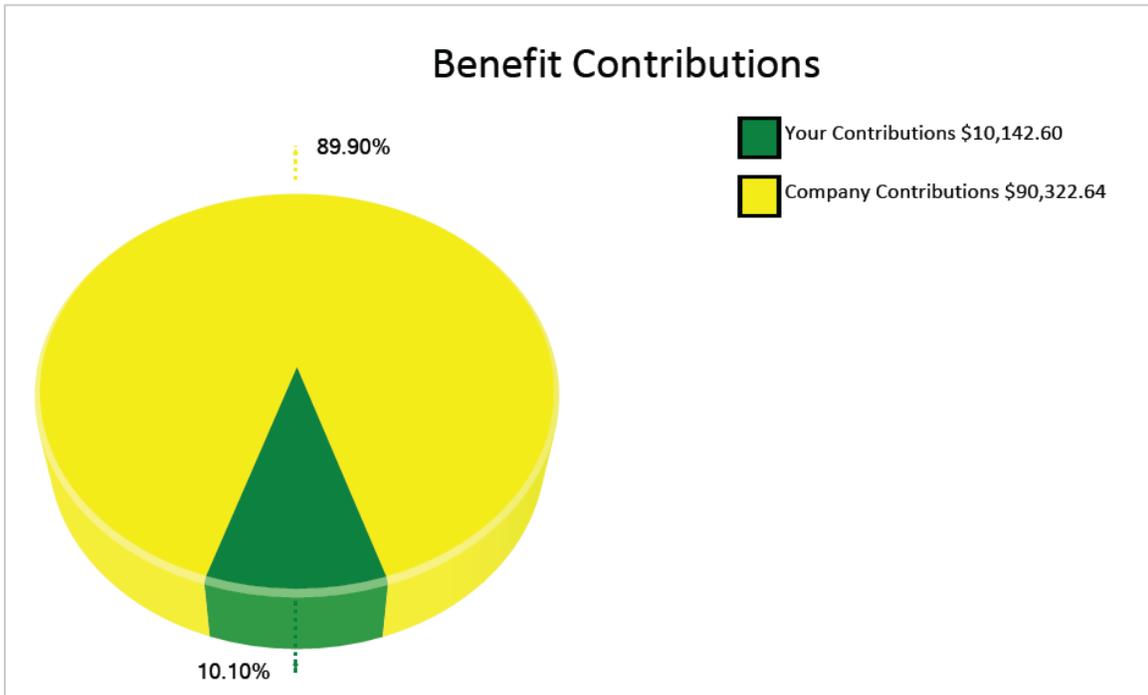


Illustration 2: Total Compensation Statement (Benefits Pie-chart), which is automatically generated by our HR Information System (HRIS)

## 6. Review the Strategy and Process Regularly

Last, plan to periodically review your compensation strategy. Does it still make sense? Things change: new competitors come into the market, health laws change and create different options, and employee demographics change. If your workforce shifts from older employees to a younger group over time, you'll find differences between the generations in terms of job and pay expectations. These changes will result in the need to evaluate your strategy to ensure you are still offering a competitive compensation and benefits package.

We recommend that you look at your compensation strategy at least annually, and this can be done as just a normal part of the budgeting and annual planning process.

Organizations are only as successful as the people who work with them. The strategy that is used for onboarding associates, setting mutual expectations, managing performance and culture, and recognizing and rewarding people's work, in part, determines the type of people that will come. Taking care both to balance compensation, career path, culture, and corporate values and to communicate and share the vision can have a positive effect on employee outcomes within your company.



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