

Question: We recently compared our compensation structure to the market of similar organizations. We found that we are very competitive with the market. However, when we try to hire replacements from the outside, we find that our compensation offers are not competitive. Are we looking at the data correctly? What are we missing?

CompDoctor™: Yes, you are looking at the data correctly, but you are asking the wrong question.

What, you say? Let me explain. Back in the day, those of us in compensation used to talk about surveying the market to identify what the market was paying for similar jobs. In fact, we still talk like that. (As a group of professionals, we are slow learners). The object was to identify similar organizations and compare your compensation plan and what you are currently paying your employees to see if you were paying competitive salaries and wages.

There is certainly nothing wrong with that. In fact, we would suggest that you continue to do this on a regular basis. And, to no one's surprise, many organizations found that they were not paying competitively. So, finances permitting, they raised their pay structure and the pay of their employees. This has been done all over the country. So now, many organizations are finding that they are competitive with the market but cannot hire the right people into the jobs at those salaries.

A picture might make this clear. Let us say that a majority of the employees are paid a competitive wage. This is all well and good for you, and all well and good for the employee. This means that you are likely to keep the employee because they have no compelling salary reason to look elsewhere. And it is good for the employee, because they don't need to hop, skip, or jump across the country to increase their wages.

But there is a problem with both of you being focused on competitive pay. If the employee is going to leave, they are going to look for an increase in pay. If they are happy now, why would they want to leave the organization they know, uproot their family and traipse across the state or country to get the same amount of pay? So, unless this is a life style change or is being driven by some family reason, they are likely to ask for

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an incentive to endure the pain of moving. How much will they ask for? Probably about 10-15%.

We just made that number up; so don't quote us on it. Now, if you hire them in at 10-15% more than your normal hiring rate (which is typically the minimum of the range or up to the first quartile of the range) you will be offering them a pay rate that is well within the range. However, the hiring rate could easily be over the midpoint. If you do that, you will have all sorts of problems to contend with from your current employees. After all, they may not be paid as well and they have been with your organization for a lot longer. From their perspective, what gives you the justification to hire a newbie (and an unproven one at that) when you won't even pay your current trusted and loyal employees? Something is just plain wrong with this picture.

Before we venture into what to do about this situation, why is this problem occurring now? Three reasons come to mind. They are (not in any specific order):

- An increasing reluctance of qualified candidates to relocate for similar positions without a substantial increase in pay.
- A general decline of promotion eligible candidates in the labor market.
- Increased demand for a smaller pool of applicants.

You are not the only organization facing this problem. And the solution may be difficult and tricky.

So, what is the solution? Silly question—pay more. But how can you do that when you have a competitive wage structure?

It depends on the amount of pain you want to endure. If you want to endure a lot of pain, then simply pay them more within your current pay structure. But you will have to communicate very carefully and clearly with your current employees. In the private sector, this is less of a problem since salary tends to be a bit more

confidential. However, in the public sector, where everyone knows what everyone else is making, this can be a big deal. If you want to endure less pain, you could raise your pay structure. Then you can hire new employees in to conform to your hiring policies, but your current employees will soon get wind of this maneuver and figure out that they may not even be paid in the new range. They will demand a pay increase. Another solution would be to broaden the ranges. This would mean raising the maximum and lowering the minimum. We don't think this is very clever idea because it doesn't accomplish much other than to look good. You could pay the new hire at a lower rate, but have a performance evaluation within 6 months, and if they are performing at the level that you think they are worth, you can raise their pay to where you need to in order for them to accept the job. Or, finally, you could give them a hiring bonus, and pay them at the level that your pay practices will allow.

Will any of these solutions work? In some cases yes. But the real solution is two fold. First, you have to ask the right question of the market. Rather than asking "Is our pay structure competitive with the market?," you must ask, "What is the competitive market for the talent that we need in order to

manage the organization in the future?"

And the second part of the solution is that you need to make sure that you have a well thought-out plan for succession planning. This will give you the right talent from within the organization at the time that you need them. The answer to the first part of the solution is likely to be expensive. The answer to the second part of the solution also will cost money, but it will cause less pain in the future. The problem with succession planning is that some employees will feel that you are cherry picking and that they did not have the same opportunities given to your chosen few.

All in all, how much pain, and when, do you want to endure?

The Comp Doctor™ is the team of Jim Fox and Bruce Lawson of Fox Lawson & Associates LLC, a compensation and human resources consulting firm that specializes in assisting governments in fixing their compensation and classification systems. You may find them on the Web at www.foxlawson.com. If you have a question you would like to have them answer, please write to them at jfox@foxlawson.com or blawson@foxlawson.com. They will try to include it in the next issue of Comp Doctor™. —N



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