

Do You Have a Compensation Plan?

Part 3

In part one of this 3 part series we discussed the notion of developing a salary policy and ensuring that your organization has a solid approach to internal equity. Part 2 focused on the concept of external equity. In Part 3 will look at the concept of employee equity.

Employee equity conceptual looks at the relationship between multiple employees and their pay levels. The idea that employees need to be paid “fairly” is more important today given the passage of the Lilly Ledbetter Fair Pay Act. It seems clear that this administration will be more active in examining an employers pay practices. Given that let’s look the most common way employees are paid:

1. Single Rate – this is the simplest form of pay. Everyone doing the same job is paid the same rate. No need to worry about equity here. That is of course unless you are the highest performer in the group being paid the same as the lowest performer.
2. Skill Based – in this concept you are paid not based on your performance but rather the skills you possess. In the manufacturing arena this works well as employee’s master more than one machine. It can work anywhere when there are multiple skills to be learned and the mastery of those skills is valued by the organization.
3. Step Rate Automatic – this is a system favored by many government agencies. The employees are paid according to longevity without regard to performance. The following example is an illustration of this system.

Entry Rate	Rate after 1 year	Rate after 2 years	Rate after 3 years	Rate after 4 years
\$15.00 ph	\$15.60 per hour	\$16.22 per hour	\$16.87 per hour	\$17.55 per hour

4. Step Rate Performance – very similar to step rate automatic except that the increases are in part a function of performance as well as time.
5. Merit – one of the most common systems in use today where employees are paid based upon their contribution to the organization regardless of longevity.

The system you chose should match the culture of your organization. Many people tell me that the only real answer is to operate a merit pay system because “you get what you pay for”. While a compelling argument the following conditions need to be in place before this concept will work:

- Managers are trained to appraise performance. You cannot pay for something you cannot measure. Unless you honestly appraise employee’s performance and train managers to do so the concept of merit pay will not yield the results you are looking for.
- The organization supports performance based pay. Again this is about the organizations culture. For example for many years General Electric was famous for its forced distribution which led to the bottom performers being terminated each year. It worked for them because the senior leadership (Jack Welch) supported it. Would that work for you?

- There is trust between supervisors and subordinates. This is key ingredient to making pay for performance work. If the employee believes in the system and that their supervisor will properly consider their performance there will be a much better employee “buy in”.

GHRO as a lot of experience helping organizations decide which system is best for them. If you would like some help give us a call (949) 797-2035 or e-mail me, Jeff Stinson at jstinson@ghrogroup.com

Written BY; Jeff Stinson

Jeff Stinson is the President of Global Human Resources Outsourcing (GHRO) a full service Human Resources outsourcing company in Irvine California. GHRO specializes in helping companies grow by better utilization of their people.

Jeff has been involved in the management and development of human capital for the past 29 years. Before founding Global Human Resources Outsourcing (GHRO) he ran a successful Human Resources consulting practice (JDS Consulting). Prior to JDS Consulting, Jeff functioned as a senior human resources executive for several companies where he led human resource teams on three continents in the manufacturing, telecommunication, software and entertainment industries.

Jeff earned a Bachelor of Arts and Master of Arts degree in Public Administration from California State University, Fullerton. In addition to his university education Jeff also holds designations as a Senior Professional in Human Resources (SPHR); Global Professional in Human Resources (GPHR); Certified Compensation Professional (CCP); Global Remuneration Professional (GRP); and Certified Benefits Professional (CBP). He has also been an instructor at the Universities of Redlands, Phoenix and Chapman for the past 25 years.

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