AAIM Pay Trends and Strategies Session Q & A

What are some ways that companies can be more competitive in this market when they're locked into a maximum rate? For example, we bill a customer at an hourly rate for a service provided. From that rate, we must pay the employee's rate, the overhead on that employee, and maintain a certain profit margin that our managers are held to. Our customers have not been willing to up the rate we bill them, of course, due to their own budget challenges.

What other things are you seeing that can be done? For those who are into a schedule like consulting firms, engineering firms, other firms that provide services or legal firms and the like, what we've found is that what they're having to do first is deal with the reality of how much they can pay for the job. I'm going to separate the person in the job from the job itself so I know what I can pay for this position based on the income we have based on whatever the formula. It's usually very good to have a formula around that. What percentage of that income is being tied back to compensation? That will give us a formula that can then be explained as part of your pay transparency.

However, in terms of recognition, we have the same firms that look at somebody who has provided extraordinary service in a particular project, and what they try to do is to build that into a variable part of their compensation. So, it's more of an incentive or a bonus program where they can take a percent of their earnings. For example, we'll take their net income and will always allocate half a percent or 0.2% of our earnings into an incentive pool. That will then be used to recognize extraordinary work. The organization will have to establish the criteria to recognize extraordinary performance of those individuals, but generally on the base pay. Those folks tend to be paid very similarly, if not the same. Because it's just a reality of how we tie it into our billing, we must take that into consideration. If we must raise our billing rates, our customers won't necessarily pay it.

So, we're back to how we control our fixed cost. But that variable piece is very important, and I think a lot of our clients that have this situation forget about that as an opportunity. Are there some pieces or a percentage of those earnings that we could allocate into a bonus pool with some criteria that could be used for recognizing people? I know it doesn't sound friendly, and it's really against everything that we grew up doing, but many employers look at how long someone stays in a job. Their hope is for the rest of their career, but that's not realistic today.

I know here at AAIM we practice this. If we know how much we need to pay in a range, I might be able to pay everyone in the upper segment of that range, just for a shorter period. I just can't keep them for a long time. If they're expecting to have a pay increase every year, which many younger people do. Many people want a pay increase very frequently. We have

certain jobs where we give pay increases very regularly, and then they're going to cap out and that's it. We aren't going to pay a dollar more, because if I do I have to charge you more and you don't want to pay more. When I'm thinking about this scenario, I may not want long-tenured employees who have earned more pay increases that price them out of what I can pass along to my customers. At that point, the pay increases end.

What can I provide, if anything, to keep the person from leaving, such as moving into another department, learning and contributing in a different way that earns a different rate, or just accepting that they're going to leave. Then I'm going to hire someone else to replace them and go through the same progression until they leave, over and over. You are accepting that that's the model - putting the focus on education and development to get them to the right skill quicker. We get the value from the person that we need, but it's not with the mindset of employment for life. That's a strategy that more and more employers are starting to recognize. It's okay that they're going to leave. The question we should ask is how long do we expect a person to stay?

If we stop using tenure as part of our compensation program to pay them, how do we explain that to employees who are tenured? Do you have any advice for talking points for the staff that are tenured?

Employees may see it as unfair since they've been doing the job for so long. But as we know, tenure in the job doesn't mean high performance of the job. Over the years we may have focused on tenure as where people would be paid within the range of the job based on the comp ratio, which is really their pay, as it relates to the midpoint. Now if we switch from tenure focus to more of a performance focus, it becomes a difficult thing. There are people who say, "but what about my loyalty, I've been here all these years." There are 2 things you can do in that situation. One, be very clear on what the performance criteria are, you must have that, but, more importantly, especially for longer term people who tend to be higher in the range, you might want to slow them down a little bit, even when they're performing. You must look at your system in terms of how we recognize these long-term people.

You know, we do a lot of focus groups. And I would recommend this. We do focus groups sometimes when we go into an organization and we find out that we have 20% of the population we're going to freeze because they're already at the top. They've been there a long time, so there's no increase coming to them. So how do we deal with that? We ask them what else can we do outside of money that would recognize you for your tenure and your loyalty to the organization? That's what they're looking for. I would say a simple one could be, for example, on your benefits. None of this is cheap, but there's a way you could

do it. Something like “You've got 30 years with us so we're going to cover your health premium.” Don't worry about that. It's coming. I mean, there's other things you can do. But those are ideas to look at. And that is in line with this question about any strategy suggestions for not for profits that have very fixed budgets.

Also, how do you pull people out of regular pay compensation without breaking the bank? You know I've got legacy pricing from ages ago and when you add what 3% to $25 or $30 an hour doesn't have much of a bump to it, right? For your longer-term people, possibly because of where they are, you find another idea. Something I've also heard is looking at your time off program. I know they already have a lot of time, probably their normal PTO. However, we have clients that then, when you hit certain years, 25-30, or whatever you get a Sabbatical. We want you to take this time off. We want you to take this extra week. It's not in your PTO program. It's a separate time for you to do what you want, but you must take it at one time, and that allows you to build in more recognition. But again, it goes back to that focus group. What we find is that these folks have ideas of what they're looking for to recognize them. I had a client where there was no parking at the facility. People had to park a mile or 2 away and take a shuttle bus to get to work. What we said was that anybody with 25 years or more got to valet park. We created a valet parking system. They could go up to the front door and give somebody the key and say, “Thank you.” But we froze their pay, even though we did have to benchmark the valet job. This point really involves discussing with the group what things they might value. Also be transparent that you’re limited in what you’ll pay. It doesn't mean what you might offer won't have any expenses. There will be some expense.

What is your perspective on broadband salary structures today?

Particularly very broad ranges; 200 ranges. Those work well in a career program. So, in a career progression, where you want people to move horizontally through the system, a traditional 40 or 50% range may not be broad enough to allow for the movement you're looking for. It may be okay for the bottom 10% or so for your new people. But you may want to have a broader middle section, because you're going to have a lot of people who are fully competent, and you want to be able to make that substantial enough for those who have advanced in their competency to be recognized. The only issue with broadband that we've always had is compression upwards, meaning vertical compression. How does that tie in to the next level? In some organizations they would incorporate that advanced level as being the 1st leadership level. But that's something that we are using in career development programs. However, you still are going to have to deal with some compression.