TOP TEN COMPENSATION MISTAKES and how to Avoid Them

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#1: Inaccurate or No Job Descriptions

- Why do job descriptions matter?
  - Hiring/Recruiting
  - Creating Career Paths
  - Worker's Compensation Claims
  - ADA Compliance
  - FLSA Compliance (and games people play)
  - Equal Pay Act Compliance

Many Possible Job Description Formats

- Don’t fuss too much about the format, just concentrate on communicating *why* the job exists.
- Do include:
- Job title
- Job summary
- Job duties – in priority order
- Position Requirements

Position Requirements

- Education
- Experience
- Skills
- Knowledge
- Other qualifications to perform job (licenses, certifications)
- Must be tied to job duties, and be as specific as possible

Job Description = Snapshot of Job

- Not an exhaustive list of each and every possible job duty and how each is to be performed.
- Should give any reader a clear picture of why the job exists, and the main duties of the job.
- Length should be reasonable – 2 or 3 pages max
- Many possible styles…

#2: Out of date (or no) salary ranges

Downside of Out of Date/No Ranges

- People performing similar or same jobs paid very differently (when those differences are not supported by skill level, tenure, and other factors)
- Can lead to potential litigation due to pay discrimination claims
- May appear that base pay decisions are person based and not job based
- Can result in loss of good people if ranges are non-existent or out of date

Ranges provide a necessary foundation for base pay administration

- Salary ranges represent the economic minimum and maximum value of each of your jobs to your organization.
- A well designed structure represents appropriate external and internal comparisons of jobs to one another.
- When a job is in a range, it should simultaneously represent market value of the job and internal equity.
- Pay structures provide the basis for recognizing differences in individual employee contributions.

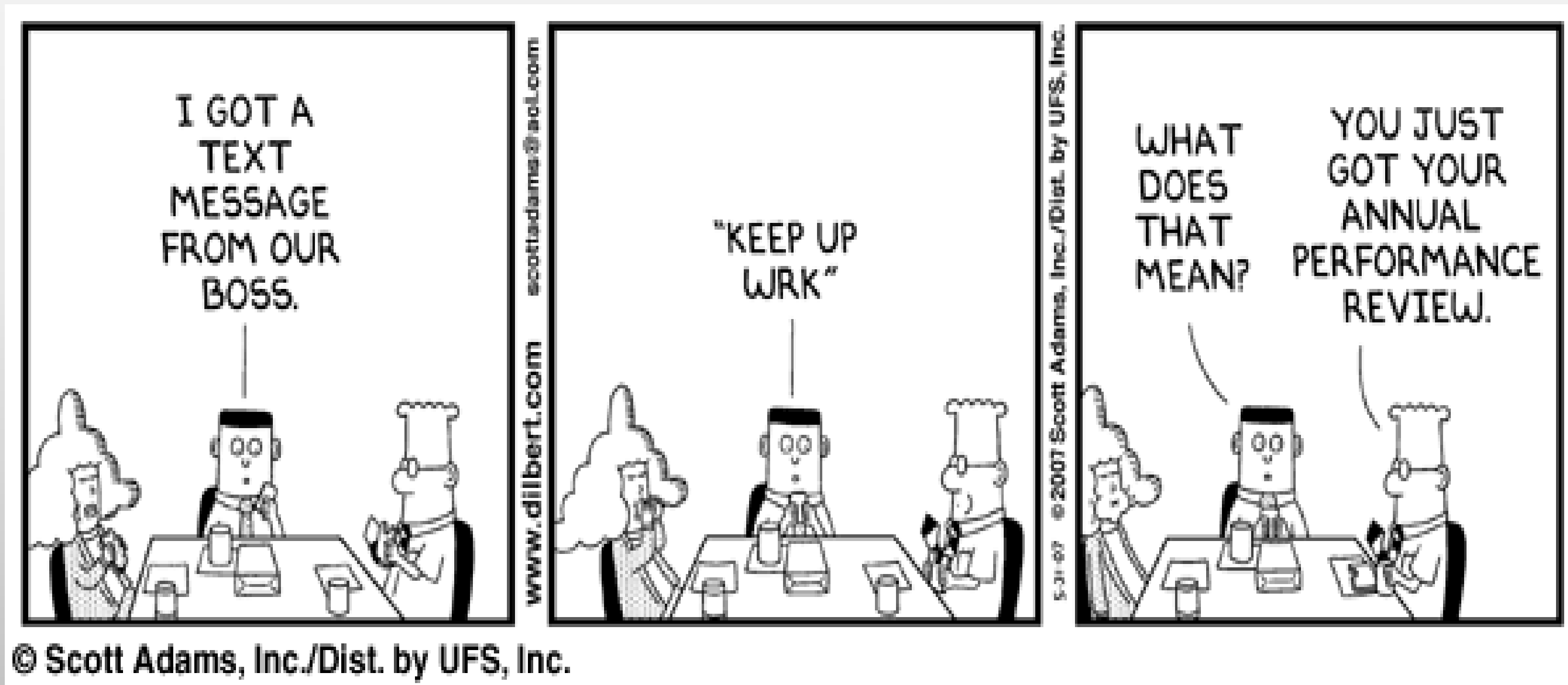
#3: Lacking Solid Performance Management System

"What am I supposed to do??"

They Don't Know Until You Tell Them

- Performance Management is about aligning everyone toward the same goals and objectives.
  - The form is not the point
  - Helping everyone understand what they can do to support your mission is the point
  - Continual communication (not micro-managing) makes the positive difference

#4: Managers not Trained in (or believing in) Performance Management



Move the Needle with Performance Management

- Managers must be trained in how to coach and counsel their people all year long.
  - If managers don’t want to provide this, they shouldn’t be managing others.
  - Having a technology solution for appraisals doesn’t mean the managers are trained in coaching and counseling their people.
  - When all your managers are on board with performance management, the whole organization moves in the right direction.

#5: Ignoring Regional Pay Differences

It Pays to Pay Attention to Geographic Differentials

Example:

- Base Salary Level: $50,000
- Cost of Labor in Irvine, CA: 112% of National Average
  - ($56,000)
- Cost of Labor in Palo Alto, CA: 123.8% of National Average
  - ($61,900)

#6: Paying too little compared to market

You Get What You Pay For

- Employers who consistently pay below market for their jobs have trouble attracting and keeping good people.
- Turnover generated by paying below market can be more expensive than paying at market.
- Best practice: pay at market AND have a great culture – high performing organizations do both

#7: Paying too Much Compared to Market

Paying Too Much Compared to Market

- Buys an entitlement mentality from employees.
- Doesn’t typically encourage superior job performance.
- Does a long-term disservice to employees since they can’t replace what they make elsewhere.
- Creates a stronger bond between low performing employees and the company than a smart company wants.
- If you want to maintain this practice, ensure you get higher performance from your highly paid people.

#8: Discretionary Bonus Plans

Pitfalls of Discretionary Bonus Plans

- People assume they are getting cheated when there is no explanation given for how bonuses are calculated.
- Can lead to feelings of inequity and unfairness.
- The employer is not buying future desired results when no explanation is given for how bonuses are calculated.

Advantages to Non-Discretionary Bonus Plans

- Well designed and communicated bonus plans only pay when organizational goals and objectives are obtained.
- They help point participants toward desired results.
- They signal to employees what they need to do next year to get another bonus, if they got one this year.

#9: Undocumented Variable Pay Plans

Reasons to Document Variable Pay Plans

- Managing expectations
- Getting the biggest bang for your buck with variable plans
- Can’t over-communicate
- Try to avoid potential litigation

#10: Putting a Pay Band-Aid on a Management Problem

Can’t Buy Your Way out of Management Problems

- Problem staff and problem managers have to be dealt with.
- If someone proves, after much training and coaching, they can’t manage others, take them out of that role.
- Paying people more to perform well (when they aren’t), or rewarding them with a corner office when they don’t get along with others, only sets the stage for further problems.

#11: VALUE Your People