



BEYOND THE MIC

with AEM



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Compensation

Hosted by Leah Davis & Tamara Hastings

EPISODE

10

NOTE: Because of the nature of ever-changing human resources, payroll, and tax regulations, all information discussed herein is subject to change. Please reach out to us to discuss your organization's unique challenges so that we can provide you with up-to-date information and help you find the solutions.

There are several factors to consider when determining your organization's approach to compensation. It's important to look at the motivating factors behind any compensation changes being made and to look to your organization's philosophy around compensation for guidance when making decisions.

In this new episode of Beyond the Mic, Leah Davis and Tamara Hastings talk about what compensation encompasses, what to consider when you begin the conversation with your organization's leadership and more.

Meet the Hosts



Leah Davis, CPA

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As President of the AEM Workforce Solutions team, Leah uses her background in public accounting, business ownership, and Human Resources and payroll support to provide her team with a strong foundation of knowledge and experience. She enjoys helping clients grow and learn, no matter where they are in their HR journey.



Tamara Hastings, PHR

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Tamara brings over nine years of experience working closely with business leaders, managers, and employees in a wide variety of HR functions. She has also previously owned and operated her own small business and brings that experience and knowledge with her as she works with clients.

Episode Transcript

Tamara Hastings: Hi, Leah, thanks for joining me today and this episode of Beyond the Mic. Just as a reminder for our previous listeners and for new listeners, Leah is the President of AEM Workforce Solutions, and I am Tamara Hastings and I'm a Senior Associate here on the Workforce Solutions.

Of course, we love discussing topics in the world of HR and payroll, and today I'm excited to be talking with Leah about compensation. So we're going to talk about what the term compensation encompasses, what's underneath that umbrella, and what to consider when determining your organization's approach to compensation. Before we get started, one thing I do want to mention is that compensation is a huge topic, and it's not uncommon to tie together compensation and total rewards and discussing them. However, since it is such a big topic, today we're really going to just focus on compensation and then in another podcast, and in a future one, we'll talk about total rewards.

So Leah, because compensation and total rewards are often confused, tell us what compensation is and how it differs from total rewards.

Leah Davis: Yeah, definitely. So when HR people or employers talk about compensation, I think lots of different words get thrown around. And the reality is, there's a lot of correct ways to use them that are different in different situations, right? So, maybe what I'm getting at is when one person says compensation, it's very likely they mean something different than what the next employer means by compensation versus total rewards versus total compensation. So there's a lot of vocabulary. And if I can leave you with anything, it's that you want to confirm that you know what someone else is talking about when they use one of those words because there's different ways to use them and they're not all incorrect. There's not only one correct way of using that. For today's purposes, we're going to break them up into two buckets.

So when we talk about compensation, we're talking about wages, direct compensation in the form of wages, incentives, bonuses, as well as based salary, hourly rates, those types of things. When we talk about total rewards, which we'll be doing in a future episode, that's when you start talking about some of those additional fringe benefits. So health insurance, paid time off, retirement benefits, any of those other perks that we can offer to employees. Total rewards, even in my mind, should encompass any of those intangible benefits that we give to employees that really add to the value that they feel they get from working in your organization. So again, very different. Today we're going to focus on just that direct compensation in the form of wages, incentives, and bonuses, those types of things.

Tamara Hastings: Okay, great. That makes that much more clear as we kind of work through this. So when a client comes to you and they're wanting to make some changes to their compensation program, where would you advise them to start?

Leah Davis:

So that's a really good question. And I think, what I've experienced with employers is compensation can be sort of the first lever employers want to pull when they feel like there's something wrong. When they're having trouble recruiting, when they're having trouble retaining, when they're struggling with other things internally, compensation feels like oh, that must be it, that's an easy thing, A plus B equals C, I'm going to pull that lever and let's fix compensation.

The first thing I always ask clients is: I want to know more about what's motivating the compensation conversation, I guess. We definitely can look at compensation. Employers should be making sure that they're offering competitive wages, or at least wages that are in line with what their compensation philosophy is because they may be balancing out maybe a lower wage with a lot of other total rewards benefits like we kind of talked about before. So just making sure that that mix of benefits, wages, and other perks is on purpose. Doing those things on purpose is important. Getting a good understanding of what's driving the conversation and why are we talking about compensation today? So that's the first thing. So is it a retention issue or recruiting issue?

Then we want to talk about what's your compensation philosophy. We hear employers a lot of times, particularly in the in the public sector, they feel almost as if they're required to be at the "market" and what that market is depends on what data you're looking at, right? So it's really important to sit down with leadership, and say okay, what do you have going on in your organization? What life cycle or life stage is your organization? And are you growing? Are you coasting? Are you in the middle of a succession? Are you downsizing? Because your compensation philosophy should align with those types of things as well. Then also being intentional about if we're saying that the market average or the market range is X, and we've done our homework and we went and pulled data that we feel confident relying on. Where do we want to be compared to the market? I have some employers say, you know, we offer all these other things that aren't captured in this market data. Maybe employees get unlimited PTO, or you're closed a day, a week all summer long. Pick those and understand the reasons why your employees work for you.

And it might not be all tied to compensation, and those employers can say, you know, we're okay being in that 30 to 50% of market average. It's okay if we're a little below average because we have all these other things we do a great job promoting, and we've got this great culture and employees are happy to be here because we compensate them in other ways, basically. Other industries, it may be highly competitive. You may be dealing with a workforce that's extremely motivated by cash compensation. That's really common and in different sales roles, a lot of times, regardless of industry, that's an employee demographic that's highly motivated by compensation. So then those are situations where you need to be more specific about, yeah we need to be in the top core tile of the market.

Leah Davis:

I think what I see a lot and Tamara, let me know what you think, employers don't choose where they want to be in the market. They just sort of cross their fingers, shut their eyes, throw a dart at the wall, and hope they land somewhere close. So that's a big part of it. Have a philosophy and make these decisions intentionally. So that's a big one. And then I think the last thing to really kind of keep in mind is, if you're going to do an analysis of compensation, you can't really do that independent of talking about how it's tied to performance. So if, and again, depending on your employee demographic, depending on the industry, compensation is oftentimes an employer's best motivator for performance. It's their best ability to attract high performers. It's their best tool for retaining employees that are high performers. So making sure that we don't look at compensation independent of performance and making sure that it all is sort of in line with a singularly focused initiative within the organization.

Tamara Hastings:

That's all great. And you touched on so many different pieces of that. One thing that really stuck out to me is the idea of the compensation philosophy. I think those are all really good points for organizations to consider. One thing that I see a lot is that organizations go into this thinking there's one specific way to do this and am I doing it incorrectly, or am I doing this right? And one thing that I really like to encourage leaders within organizations to do, is to really think about what do I want my organization to look like? And that's what excites me about any piece of HR, is this is your business, it's your organization. Aside from compliance and legal issues, once you're meeting all of those, what do you want to provide to motivate your employees in a specific way, and really embrace that freedom and that flexibility to choose things that work for your workforce.

Then I also see employers getting really boxed in with this idea of, for example, we have an employee, and this is a fabulous employee, and it is someone that we really want to retain. They have been there maybe for 20 years, they're bringing in a lot of customers for us, and they are really a high value employee, but we're boxed into this idea that we give up to a 3% raise every year, and this employee is saying, I can get X amount more money if I go over to a competitor. We look at it and say, sorry, what we offer employees is up to 3%, it's kind of out of our hands. Look at that from a business perspective. You're potentially losing a great employee, who's really tied to your customer base, to a competitor. So when you look in terms of your overall business profits, what's happening when you get so boxed in that you say, this is all we can do, are you really making the best decision for your business? Or should you be really reconsidering this philosophy for your compensation? And that's a struggle that I see people just really get stuck in this idea of, this is what we've always done, or this is what we see as right, instead of thinking about what's really best for my business going forward.

Leah Davis:

And I would add too, same scenario Tamara, but let's say employee, even if they're a high performer or a mediocre performer comes and says, I need X increase or I'm leaving. I see employers where all of their compensation decisions are sort of made under threat of resignation. So there's really no intention around that either. And with a nice, planned and intentional compensation program in place, you can cut down on those sort of knee-jerk pay increases that can throw your whole organization's compensation structure out of whack because you're just trying to avoid a resignation crisis kind of thing too.

Tamara Hastings: And I love that you say that because, you know, I just actually read this article really recently and it was talking about if you go to your employer and you go to leave and they say, no we're going to go ahead and match what you're offered to this other company, or we're going to increase your pay. The recommendation was to never take that because your employer didn't really appreciate what you were providing in the first place. And unfortunately, you can look at that from either angle. The employers at least trying, and maybe they just were reacting and hadn't really thought through the person's compensation. But what it looks like to the employee is that they're not being appreciated for what they're providing.

And so being proactive about that with your employees is so important and it's hard to do because we get busy and it just slips our mind and we've got a million other things to do with customers and clients to take care of. But those employees are constantly thinking about their compensation, and what they're receiving for the efforts that they're putting into the workplace. It's so important to be proactive about that, and make sure that your employees are feeling valued in terms of their compensation. And of course, other things, but today we're talking about compensation, so that they continue coming back into the workplace and feeling good about what they're providing and not tempted to leave for that reason.

So if an organization is looking for some specific ways that they can motivate and show their employees that are valued, do you have recommendations for things they can consider and structuring their compensation philosophy to do that?

Leah Davis: Yeah, I think step one is, you know, if you're an organization that hasn't been super formal about compensation programs, models, or structure, I think step one is just to get an understanding of, even if we don't have something formal or down on paper, we are doing things. We do have a program; we just don't have any of it documented. So to get an understanding of how are we paying people, what is the baseline here? And then how might we sort of build on that and be more intentional to make sure that those compensation programs and the way they interact with our performance management program, that those are all again, motivating for employees.

I think a big one too that is just kind of a miss for employers, and it seems so obvious even to us sometimes, is when we go in and we spend some time talking with the client and then pretty soon it's at the end of the conversation, we'd say, do your employees know how they can earn more compensation? If they're feeling like they want to move forward or they would like to earn more or what that opportunity to earn more is, is there any line of sight for employees on that? And that can be a huge motivator if you haven't talked about it before. That it's just at a time of hire or during their performance reviews or discussions, we're talking about if you stay on this track, you could be eligible for an increase of up to this amount, this is kind of the range that it would be if you got the training necessary to apply for this promotion, those kinds of things. Just some transparency and providing a clear path for employees so they understand what those compensation opportunities in your organization are and just talking about it is a good step one for motivating.

Leah Davis:

I will say, and this kind of goes a little bit back to the second question, but when you talk about motivating employees with compensation, I think it's important to note that while everybody likes getting paid, and we'd all take a 20% pay increase, if it were offered to us today, compensation won't keep good employees in bad organizations. So make sure, the culture conversation is one for another day, but if you're trying to mask culture issues with compensation, it might be a short game fix, but you're going to lose that long game every time. So it kind of goes back to that why are we talking about compensation. And is that really the fix?

Tamara Hastings:

Yeah, absolutely. And of course, you know, I could talk about culture all day so we'll leave that for a future podcast. But this has been really great. I really appreciate your expertise and insight into this topic. It's a super important one for organizations to be considering. And oftentimes it just gets lost in the shuffle of everything else and this is just kind of how we've done it. But there's so much that organizations can consider and implement and really play around with, to see what works best for their employees to get them excited and motivated to be doing their work and feeling valued for that effort that they're putting in. This has been really great. I really appreciate it Leah, of course, in a future podcast, we're going to delve much more into those total rewards, which can be really exciting to talk about, and how else can we motivate our employees aside from compensation. And there are so many other ways that we can talk about doing that with. So thanks again, Leah. I really appreciate it. And I look forward to talking with you next time.

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