

Compensation Strategies: Is Your Company Prepared for the Tightening Labor Market?

by Carl Kleimann, president, Odyssey One Source, Inc.

Attracting and retaining qualified and productive employees is a challenge facing all businesses. Compensation, including employee benefits, is a key tactic in this feat, and finding the right balance between market demands and business needs is a continual process.

In a soft labor market, the scales are tipped in the employer's favor, tempering the demands of employees. In small companies, compensation decisions are usually based on internal parity rather than valid market research. On the other hand, larger companies tend to be more proactive and formal in their approach to compensation by creating job classes and pay scales that are based on current research.

In addition to cash compensation, today's compensation package typically includes health/dental insurance, vacation/sick time, and 401(k) benefits. The larger the company, the more likely it is to offer ancillary benefits, such as flexible spending accounts, disability insurance, employee assistance programs, health savings accounts, credit union membership, and more. As the labor market tightens, each of these elements of compensation plays a larger role in attracting and retaining the right employees.

Finding the Right Strategy

As America's Baby Boomers retire in droves, the labor market is clearly tightening. Simply put, there are fewer qualified employees to fill a growing number of jobs. With the scales tipped in favor of employees, they are demanding more of their employers when it comes to compensation.

Ethnic diversity and age diversity are both at all-time highs and show no sign of abating. Younger generations place less value on employee benefits and more value on cash compensation than their older counterparts. Employers should strive to keep the lines of communication open with their employees in order to find out what they value and how best to meet their needs.

It is also important to clearly communicate the company's compensation and employee benefit plans to employees so that they can accurately judge their likes and dislikes. Employees are the most valuable asset to any business, and when employers listen to their concerns and act on them, employees feel more appreciated, more willing to stay with a company, and more motivated to produce quality work.

Along with internal communication, it is important for employers to investigate the compensation strategies of their competitors. This is particularly true in industries that face the most competition for employees. According to the Bureau of Labor Statistics, the most substantial job growth from 2004 through 2014 will occur among professional occupations, including computer and mathematical occupations, healthcare practitioners, and technical occupations.

Competition for these workers will be fierce and will require deliberate and well-thought-out compensation strategies. Resources such as compensation benchmarks found in trade journals and other industry-specific publications, online resources, and human resource outsourcing firms can help you achieve the desired results. An effective compensation strategy that fits the company's culture and industry standards is a major factor in building employee morale, loyalty and retention. This, in turn, can peak the interest of potential employees because they will see that people enjoy working for the company.

Trends in Pay—and Beyond

As more employees desire to have their individual needs recognized by their employers, compensation plans are becoming more personalized in order to help companies compete for top employees.

A trend that is becoming increasingly popular at almost every job level is the pay-per-performance compensation strategy.

Rather than the age-old base pay method, companies are increasingly compensating workers based on their productivity, accuracy, and effectiveness. Performance-based incentives, production bonuses, and profit-sharing plans can easily be oriented toward individuals or even small teams.

When properly designed, pay-per-performance can create a significant competitive advantage. High achievers recognize the value of such plans; therefore, companies that adopt such a strategy are more likely to increase their overall productivity.

Other current trends in the workplace, such as flextime and telecommuting, are proving that monetary rewards are not the only reason employees choose one employer. Many companies allow employees to set work schedules that suit their lifestyle.

And broadband technology has made telecommuting a very effective solution. Depending on the industry, this can be a very effective strategy because employees are able to work when and where they feel most productive. These features can also reduce stress and, thus, increase employee productivity and effectiveness.

Time invested in developing and maintaining an effective compensation strategy will pay dividends for years to come. In a tight labor market, it may very well be a means to survival, and in a soft labor market, will prove to be a competitive advantage. Attracting and retaining the best employees may be the most strategic component of any business plan. Just remember that the process never ends.

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