

Managing Compensation and Benefits in turbulent times.

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'Mapping' the new compensation and benefits landscape

What sort of strategies should organisations use to plot their way through the compensation and benefits challenges they now face, be they within the public or private sector? Consultant Pat Gurren takes a management perspective in addressing how firms should cope with this challenge.

Much has been written on the factors that have contributed to the challenges of managing employee compensation and benefits in these turbulent times.

The Irish government finds itself with an increasingly unaffordable cost structure for public sector employees. Political decisions made with respect to benchmarking increases in the boom years seem to make even less sense now. Unwinding the cost impact of benchmarking will be painful and could well destroy the social partnership process.

In the private sector, many employers are struggling to manage their current compensation and benefits cost structure. Many private sector organisations now have to face head on the consequences of the excessive inflation in compensation and benefits costs during the boom years.

The following are the key building blocks of a strategy that organisations should consider to effectively manage these challenges:

Robust analysis C&B costs

The starting point for an organisation is to truly understand the totality of their compensation and benefits cost structure. This seems obvious but all too often organisations fall down on truly understanding the totality of their compensation and benefits costs. This analysis should not be confined to specific compensation and benefits components e.g. base pay or confined to specific employee populations. Every element of compensation and benefits cost has to be established (Base Pay, Bonus, PRSI, Pension etc) and furthermore it has to be established for all employees from the most junior to the most senior.

In order to truly understand the compensation and benefits cost structure, organisations need to fully understand the trajectory at which each component cost e.g. pension cost is increasing year on year. The analysis of the cost structure is not an end in itself. The key objectives that have to be achieved are establishing an accurate and true picture of past, current and future compensation and benefits costs together with a prioritised list of the changes that need to or should be made, which will have the greatest impact on achieving the organisations objectives.

This is a good time to put in place key compensation and benefits metrics that the organisation can use to measure its effectiveness going forward e.g. Net Profit or Sales per employee, compensation and benefits cost as a % of organisation operating cost, Total compensation and benefits cost per employee etc.

Leadership

Economic downturns provide an abundance of opportunity for Leaders to demonstrate their ability. Leaders need to be able to clearly articulate the vision for their organisation/business into the future (i.e. where their organisation is going) and clearly demonstrate the link between any compensation and benefits cost savings they are proposing to make and the impact this will have on enabling the business to succeed.

Leaders also need to take the lead in taking any pain they expect other employees to take e.g. if leaders require employees to forego salary increases, then they should be prepared to

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take a pay cut. It is also important that leaders can demonstrate a way through the current challenges for employees. Employees need to feel that the changes or pain they are expected to bear has a payback in terms of securing their jobs for the future. In a nutshell, leaders must sell the changes they require to employees.

Employee Engagement

Maintaining employee engagement in an economic downturn is arguably more important than ever. Employee engagement can be succinctly defined as ensuring employees are motivated to achieve the organisations objectives and ensuring that they truly understand how their actions contribute to achieving these objectives.

The manner in which any compensation and benefits changes are managed is critical to underlying an effective employee engagement strategy as employees must perceive that any changes that are being made to compensation and benefits are applied in an equitable manner.

If the compensation and benefits changes are not perceived to be applied in an equitable manner it will result in employees becoming disengaged from the organisation. Many organisations wrongly perceive that a downturn is not the time to implement variable pay programmes. This is not the case. E.G. A well designed variable pay programme that rewards employees for the achievement of future organisation objectives can be a very effective mechanism to compensate employees for having to forego salary increases now.

Employee involvement issues

Changes to compensation and benefits practices will have to be communicated to employees at some stage. Sometimes organisation can stall in the early stages of a crisis which creates a vacuum that fosters increased employee anxieties and suspicions. As a general rule, the earlier employee communication is done the better.

Organisations who involve employees or their representatives in the formulation of the changes to compensation and benefits tend to have a much higher chance of being successful in the introduction of the changes. The process of involvement and communication is a delicate one. Any changes that are being proposed must be demonstrated to be clearly thought through.

It must be demonstrated that the full impact on employees is clearly understood. The organisation must be truly prepared to take on suggestions from employees. The organisation must also be prepared to alter proposed changes based on feedback from employees or their representatives if this feedback is valid.

Retention & Talent Management

While the labour market has contracted significantly in recent months, there is still a requirement for organisations to retain employees within their organisations and to manage the talent at their disposal as effectively as possible. Organisations should examine opportunities to retain key talent and to retain skills they have invested in significantly. This can be achieved through carefully designed incentive plans or in targeting limited salary increase budgets at key employees.

This is a delicate balancing act though as these actions may be perceived as inequitable by employees who are not receiving them. Clear criteria and a robust process for identifying key employees for targeted treatment are key factors in managing this.

Conclusion

The compensation and benefits challenges presented by the current economic slowdown are neither unique nor unprecedented. These issues have been addressed in the past with

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varying degrees of success both within and outside Ireland. The stakes are however uniquely high for Ireland on this occasion. Generally speaking within the private sector, Irish based employers have a compensation and benefits cost structure that puts them at a distinct competitive disadvantage compared to many developed economies in the world. The public sector has a compensation and benefits cost structure that increasingly relies on government borrowing to fund it.

As a country we now have a unique opportunity to address both the competitiveness and sustainability of our compensation and benefits cost structure (both private and public sector) into the future. The key will be how well we manage this opportunity and challenges compared to other countries and employers. The early omens are mixed. Evidence is emerging of breakthroughs in some private sector organisations with e.g. organisations opting for cuts in base pay. In the public sector immense changes are also being made, though the manner in which they are being implemented leaves a lot to be desired.

Overall as a country and a people we are more than capable of working our way through the challenges we now face with respect to employee compensation and benefits. Rocket science is not required but strong leadership and meaningful employee involvement is.

About the author

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