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Helping Clients Perfect Their Compensation Philosophies and Practices

By Lin Gensing-Pophal

Decisions related to how to keep staff satisfied, motivated and productive are critical in any organization. But nowhere do these decisions have a more direct impact on employees than when it comes to their pay. Unfortunately, there are no “right” or “wrong” pay philosophies and no proven approaches that one organization can simply adapt from another. Compensation philosophy is as unique as a company’s size, geography and customer base. Assisting clients in establishing sound compensation philosophies and practices is an area of opportunity for HR consultants. But what is involved? What do you need to know? And what are potential clients looking for?

First, some good news for independent HR consultants. Organizations are not necessarily looking to the big consulting firms for help with their compensation needs. In fact, there are some definite advantages to being small, say consultants who are already practicing in this area.

Pat Lynch, Ph.D., SPHR, is principal of HR Value, a consulting firm in Long Beach, Calif. Lynch—who has more than 10 years of experience in consulting—writes questions about compensation and other topics for the PHR and SPHR certification exams offered by the Human Resource Certification Institute, designs compensation systems for clients and previously taught compensation at the university level.

Lynch says not only can small consulting firms compete with large firms, but that, in some cases, a small firm can have an advantage over a large firm because the small consultant can work with a company to implement systems that are unique and aligned with the company’s needs. Large firms take more of a “cookie cutter” approach, she says, applying standardized systems across a wide range of client needs. In comparison, “independent consultants can bring a very tailored approach and really hold the client’s hand,” she says.

Penny Morey is managing director for CBIZ Human Capital Services, a national accounting services provider that, she says, competes with the “big guys.” Morey also has experience as an independent HR consultant and, like Lynch, has found there is plenty of room—and work—for independent HR consultants in the compensation arena.

A review of her work led Morey to conclude she was most often hired “to do some fine tuning” on systems that were already in place. Often, the fine-tuning involved working with individual units or divisions of a larger company, perhaps providing training for management staff, or helping to develop or modify tools or reports, she adds. It is not that the large firms do not do good work—they do—but their approach is often on a higher level. The large firms tend to clear the decks on a job, complete the work and move on to

another client, she says. While clients may find their needs met in the short term, as the environment changes both within and outside the business they may need the system to be “tweaked” or “fine tuned.” That is where independent consultants can come into play.

A Broad Range of Opportunity

Jerry Nelson is president and founder of HRN management Group in Salt Lake City. Compensation strategy, says Nelson, is like a three-legged stool, with three critical components that must be in place.

The first is job analysis. “That’s a fancy term for understanding the job,” Nelson says. “[What is] required in the position? What are the duties and functions?” Job analysis is usually committed to writing in the form of a job description and job specifications.

The second component is market analysis, which involves finding out what other organizations pay for similar positions. A consultant will usually look at “benchmark positions”—positions so prevalent within a company there is a high level of reliability that the market data for them is valid, he says. In addition to considering job positions and their functions, market analysis also considers the size of the organization and its geography.

The third component, says Nelson, is internal equity. A process of job evaluation is used to objectively evaluate jobs to determine their relative worth to the organization.

HR consultants—especially those with diverse backgrounds—have opportunities to impact any one of these areas. Lynch points to three broad areas where HR consultants can play a role in working with companies to establish effective compensation philosophies and practices.

As educators

- Teaching clients the power of compensation to direct their employees’ behaviors toward desired outcomes.
- Letting clients know their compensation system sends a message to employees, because, if the business does not control the message, employees will make up their own message.

As strategists

- Showing clients how to align their compensation systems with the organization’s strategic goals—and with other HR functions.
- Helping clients develop compensation objectives (for example, what they want their compensation system to do).

As compensation system designers

- Designing the compensation system to support the compensation objectives.
- Conducting pay surveys and job evaluations.
- Developing pay structures that support the organization's goals.
- Designing incentive and recognition programs to complement the compensation system.

In fact, the issue of compensation can be linked to just about any HR issue, says Lynch. "I can't think of an area of HR in which I wouldn't look in some way at the compensation system—maybe HRIS—but even then you'd like to see if it's tied to compensation," she says.

Do You Have What It Takes?

With so much opportunity in the compensation field, even consultants new to this area should be able to get a foot in the door, Lynch says. "My experience has been that small and mid-sized companies in particular know nothing about compensation. I'm finding that when they have an issue, they grab the first warm body they find, because they don't know much about [compensation systems], they don't even know what to ask," she says. In fact, "the most frequent 'qualifying' questions I'm asked are: 'Can you do this?' and 'How long will it take?'" she adds.

HR consultants who can help companies understand the design and delivery of their compensation systems—especially those who can align those systems with an organization's strategic goals—will find themselves facing more demand than they can handle.

Having experience in compensation is obviously a plus, but a lack of experience is easily remedied, Lynch says. "Take some classes, get up to speed, maybe work with someone else on a couple of projects and then go out there because there's really a lot of opportunity in this area."

Lin Gensing-Pophal, SPHR, is a Wisconsin-based business journalist with HR consulting experience in employee communication, training and management issues. She is the author of *Human Resource Essentials: Your Guide to Starting and Running the HR Function* (SHRM, 2002).