



5 Steps

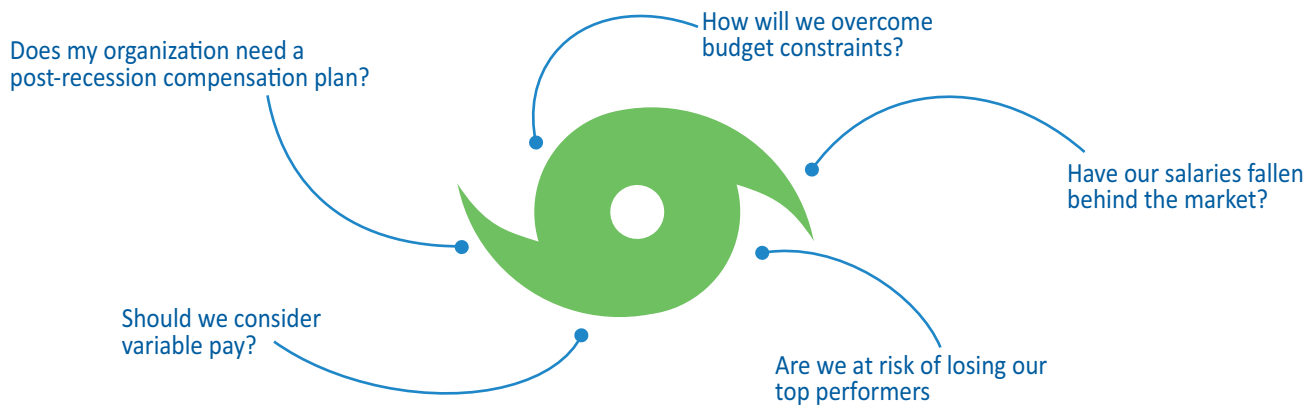
to Creating a Post-Recession Compensation Plan

The Big Idea

In a post-recession labor market, holding onto employees counts more than ever. Identifying top talent and designing compensation systems around attraction and retention is mission-critical.

In the Eye of the Storm

Organizations are facing a whirlwind of questions with no easy answers.



As the economy continues to improve, current surveys indicate that fewer organizations have hiring freezes in place and salary growth is beginning to tick up again. High-performing employees are ready for their organizations' compensation plans to get back to "normal," highlighting the issue of post-recession compensation. Transitioning from a recession compensation plan to a post-recession plan requires analysis of an organization's current workforce and the development of new talent management strategies.

Salary growth is beginning to tick up again.

The post-recession reality faced by many organizations is that budgets are not quite strong enough to jump back into pre-recession level annual merit increase budgets. Human Resources professionals have to walk a tightrope in balancing employee expectations with the realities of limited financial resources. A strong post-recession compensation plan is essential to meeting the needs of employees, as well as ensuring the financial viability of the organization.

Things Are Looking Up

Since reaching an employment trough in February 2010, the net number of people employed in the United States has increased by about 8.4 million people – a gain of 6.1 percent. In fact, since 2010, the U.S. has put more people back to work than Europe, Japan, and all advanced economies combined. In the past year (2014), the industries with the largest gains in employment are professional and business services, healthcare, and construction.

Source: International Monetary Fund, "World Economic Outlook Database" Bureau of Labor Statistics, "Current Employment Situation – April 2015"

5-Step Post-Recession Compensation Plan



1 Assess Current State

If the organization instituted a hiring and/or salary freeze, or if only very limited compensation increases were delivered to employees during the recession, salaries may have fallen behind the market. Before spending organizational resources or planning for the future, organizational leaders should know where the organization currently stands.

- Have salaries fallen below market?
- Are pay structures and systems out of date?
- What are employee concerns about perceived pay inequities in light of the recession?
- Are top performers being recognized and compensated accordingly?

2 Recognize Key Contributors

“Performance matters” must be a consistent message across human resource functions, vis-a-vis comparator organizations to ensure that top performers feel recognized and valued. Organizational leaders need to pause, take the time to think strategically and:

- Identify individuals across the organization who are high-value contributors. Let them know that they matter through merit increases and promotions, high-visibility projects, formal, and informal recognition.
- Review the performance management system to ensure that it is effectively differentiating high performers.

3 Understand the Employee Perspective

As organizational leaders take steps to get back to normal - such as awarding merit increases and bonuses, investing in benefits, and increasing training - they are often disappointed in the unenthusiastic response from employees. To get a return on post-recession talent investments, it is essential to understand how employees currently feel about the organization’s culture, compensation and benefits in light of the recession, their work, their work relationships, and their career development opportunities. Regular employee surveys, focus groups, and staff meetings can encourage open communication and provide an opportunity to gather useful insight into the employees’ viewpoint.

Without this information, organizational leaders are balancing the Employee and Employer Value Proposition wearing blindfolds. It is wise to know what employees want before investing in human resource programs.

What Employees Value	What High Performing Organizations Offer
Fulfilling work	Clear roles and performance expectations
Great professional relationships and working environment	Team building and effective communication
Compensation that is fair externally and internally	Competitive compensation and benefits packages, reflecting organizational values, strategic priorities, and financial considerations
Comprehensive and affordable benefits	Training and career development
Career growth	

4 Adjust Compensation

In his book, *Drive*, Daniel Pink says that effective organizations compensate people in amounts and in ways that allow individuals to mostly forget about compensation and instead focus on the work itself. He believes that the most important aspect of any compensation package is internal and external fairness. Internal fairness means paying people commensurate with their colleagues. External fairness means paying people in line with others doing similar work in similar organizations. We agree.

Both internal and external fairness can get out of whack during challenging economic times. Key steps to ensure that compensation is fair include:

- Market price the organization's positions (or a representative sample) to determine current competitive market rates;
- Review and update the base pay structure, if needed;
- Review where employees fall within a pay range and evaluate where employees should be relative to the pay structure and their colleagues.

5 Plan Ahead

Just as hard as it is to get compensation to market competitive levels, it is even harder to stay there. Have a plan in place that forecasts compensation growth. A lead/lag market strategy is one way to structure your base pay program to lead the market at the time of implementation and match the market in the middle of the structure's tenure, before updating.

The Bottom Line

Organizations that invest the time and resources in creating a post-recession compensation plan will reap returns through identifying priority areas for investment, better execution of current programs across all HR functions, and improved employee communications and morale.

