By Robert S. Nadel, DPA

Introduction

In the last ten years, the changes to the landscape of rewarding and paying employees have been very dramatic...measured by employee and employer alike in specific terms. On the employee side, the decade has yielded the undeniable fact that 3-4% raises in pay were the norm, and not just a passing phase. Faced with the ever-present threat of downsizing, and an economy where switching jobs was a poor alternative, the "prototype" employee was locked-in to lower pay raises and an uncertain future. On the employer side, a series of major philosophy shifts designed to reduce costs, eliminate entitlements and improve productivity were emerging as the compensation values of the 90's. Those new values include pay for performance, the use of incentives instead of automatic pay raises, an end to entitlement programs forever, and elimination of free high cost benefits and guaranteed lifetime employment. These measures are in part a response to the demand for greater profit, and reduced fixed costs.

In a sense, the employer-employee relationship is in a new balance-- with a standoff between employer requirements and employee dissatisfaction.

The Scenic Equation for 1998

Nothing lasts forever, and one change in the employee-employer equation can and will have an impact on the whole equation. The scenic change for 1998 is the current high level of employment, making it harder for employers to find new employees, and making it a bit easier for employees to seek employment elsewhere, which provides a boost to personal compensation. (However, this boost to compensation may also create a marked decrease in job security considering the loss of seniority when switching companies).

The other change in the equation is the escalating increase in the difficulty of finding and keeping technology employees at all levels based on supply and demand, and the ever increasing need for employees who can perform the cutting edge technology rapidly encroaching on all positions, and in a wide diversity of types of companies. (It is always startling to see a technology job fair sponsored by major technology companies, accounting and securities industry firms, along with retailers, health care companies, and general commercial enterprises. This suggests that the technology problem is "everywhere").

For the foreseeable future, we will see pressure on recruiting, pressure for increased wages, continued pressure on profits, cost containment and both personal and company performance at all levels. We will also see pressure on performance management. At the 4% merit level of pay, it is impossible to reward high performers at 4.5% and average performers at 3.5% and convince the high performing employee that pay is motivational and that they have been justly rewarded for their extra effort and skill.

What follows are past, current and possible future responses to the availability of limited compensation resources.

Compensation Program Changes (Alternative Compensation Methods)

Historically, most compensation programs resembled the others. In fact there was great pressure to "survey", to be sure that companies were strategically in the market. Some programs added the idea that internal fairness was a necessary component as well.

Both were possible to achieve in tandem, therefore being fair, and relevant to the market were two primary compensation strategy components.

Many new programs were developed to create unique new ways to distribute scarce compensation dollars. A few of the most popular will be discussed below. However, major consulting firm surveys show that no more than 20% of key, "Fortune sized" companies have employed these techniques. Further, assessments of these programs have been mixed at best, given that the pressure to keep costs under control is stronger than the design features of the programs.

1. Skill based pay: This innovation is designed for placing compensation dollars in the hands of employees who have certain needed skills, whether job related or not. The purpose of the program was to warehouse skills required by the company, and call upon them as required. This is a creative way of paying for a resident skills bank if the company has a project orientation and flexible job design-- that is, the need to move employees from one kind of assignment to another on a periodic basis, having the skills available when necessary. The most useful environments for skill based pay are engineering and architectural firms, software development companies, consulting and

other advisory environments, and high growth organizations where skills can be borrowed as needed, without saddling the company with a fixed cost workforce.

Innovative--yes, but wide acceptance--no. And if you are not in a flexible project environment, the program may not produce the desired end result for the company.

2. Broadbanding: Not really new, the concept of broadbanding came from the pressure to pay more to key performers within an acceptable range of pay, while constrained by ever flattening organizations, and therefore the inability to use promotions as a vehicle

to create more compensation. Broadbanding has all of the qualities demanded by those who want their organizations to be entrepreneurial in management style, and flexible when addressing compensation needs for high performing employees. Broadbanding also eliminates a lot of administrative details for HR departments that need to simplify after downsizing and restructuring programs.

Broadbanding has the positive appeals of flexibility, entrepreneurial management style, and performance orientation. Again, adopted only sparsely, the drawback to broadbanding is human nature, on the part of both the employee and the manager. There is nothing to prevent the desire for employees to reach the top of the range, and management may be unable to utilize the broad bands as intended. Perhaps the most useful of the innovations, broadbanding requires a commitment to the principles of performance management in the new form of flattened organizations.

3. Competencies: Emerging as a tool for over a decade, the use of core competencies has two elements. They are competencies key to organization success, and competencies key to individual job success. In some cases, the company's core competencies such as customer service orientation, are useful in defining the company and the individual job competencies. Many companies which have tried core competencies programs report success in recruiting (for these needed competencies),

in developing training programs, in internal talent searches, management development, and in discovering employees who can't shift easily to the new requirements (competencies) of the company.

There is no denying the value of identifying the strategic importance of company, business unit and individual job competencies. Redeploying human resources based on needed competencies is a proper strategic direction, providing that top management will begin the process at the strategic level for the company. However, even the greatest proponents of the use of core competencies in hiring, job redesign and organizational alignment will admit that there is no direct evidence of the usefulness of competencies as a pay tool.

4. Group Incentives, Gainsharing, Success Sharing: Clearly a direct effort to address increased pay for increased performance, most programs of this category are designed to share an increased level of profit (or cost reduction) with the group identified directly with the improvement. Conceptually performance improvement sharing with employees is a sound way to compensate those employees who have made contributions to company improvement either as part of a group or as individuals. The group programs have been most widely used for manufacturing and processing units, where a group's

overall improvement can be measured, and increased pay can be distributed to all on an equal basis.

Group programs differ from team or project incentives where members of the team are doing different jobs to complete a project or assignment.

There are reported successes in group and team incentives. Key to success is management's willingness to pay for a portion of the success and share it with employees. Failures in such programs are reported when management is unwilling to share the results, when communications and good management processes are not in place, and when management has failed to convince employees that there are mutual benefits to be gained from increased success.

The pattern which emerges from this discussion about new compensation programs does not show a positive trend to solve the current compensation dilemma. Only a small percentage of key companies use such techniques, and with mixed success at that. Companies are still stuck in the 3-4% compensation increase rut, and still have the pressures of increased profit and cost containment. Further, the 4% compensation budget does not allow for a distinction of performance among individual employees and does not help companies tell employees who are high performers that they are valued.

Alternatives to Compensation

A new definition of Alternate Compensation is emerging, and it addresses the value that can be added to an employee's pay, with some additional cost to the company, but without the rampant, unacceptable fixed cost entitlement programs of the past.

Much has been written about becoming the "employer of choice". In the most simplified form, the concept is to "behave better" than the competitor -- however that is defined. In the competitive world of today, where every company competes for talent, it is designed to use scarce corporate resources to accomplish three goals:

Meet the intrinsic needs of your workforce, by appealing to their view that your programs dovetail with their personal needs.

Develop strategies that are not only friendly to the workforce, but meet your strategic requirements at the same time.

Indicate to high performers that the company values them as productive, contributing employees and wants them to stay.

Among the most successful of the programs that meet the above criteria are these six:

Employee Training

Many of the recruiting and pay issues of a company are driven by skills shortages, and/or the needs for higher level performance among employees. Companies have increasingly reported cy the use of in-house training programs to increase skills, with the effect of preventing turnover and reducing recruiting requirements. Especially valuable in already short skill areas such as new technology, such training programs prevent employee turnover which happens when employees fear that the failure to keep pace with new technology will cause early career obsolescence, and improve in-house skills thereby lessening the need for recruiting for these skills.

Tuition Reimbursement

Long thought to be a step-child benefit at the tail end of a long list of employee benefits, tuition reimbursement programs are gaining in popularity and in value to the employee. The advantages to the employer are the increased skills gained in formal programs, the ability to train specialized skills externally, and the career commitment made by employees to use these skills for the company.

Research shows that tuition reimbursement is cheaper than developing a vast in-house training program, and that tuition reimbursement is being offered increasingly to employee's spouses and children as well. Once thought to be only a university reward method, industry is very slowly catching on to the cost/value benefit of paying to train employees to improve productivity and enhance loyalty.

Flexible Work Arrangements

In many ways, an employer willing to have job sharing, part time positions, flexible hours and telecommuting was seen as the company that "cared". Companies are discovering that such arrangements are good for their employees, and just as good for their own business strategies. The reason -- many companies have peak work hours that coincide better with split shift, part time and flextime work arrangements. Such arrangements have been good for employees, but companies are now discovering that they are equally useful for their own economics and workforce strategies. More than 30% of employees today are no longer in traditional 9am to 5pm jobs. Look for that figure to grow in the next millennium because of technology advances and lifestyle requirements. The use of such arrangements should be seen as a win-win for both companies and employees.

Worker Friendly / Family Friendly Work Environments

A growing category of programs designed to attract and retain employees centers around the growing diversity in the workforce and the life style requirements of women in the workforce, minorities, physically and mentally challenged employees, fathers and mothers, concerns for children, elders, and the personal security and well being of every employee. Included in these programs are:

* family leave programs
* well-baby programs, including pre-pregnancy counseling, prenatal care and post delivery care
* lactation rooms
* day care centers (primary and back up)

* elder care referral programs
* child referral programs for school related problems
* financial counseling
* wellness programs, health clubs, company sponsored physicals

These programs are gaining in popularity in order to reduce turnover and absenteeism. They minimize productivity losses from time off or preoccupation with logistics of personal problems. More and more, professional studies show skeptical corporate purchasers that there are net gains to companies from a cost and productivity perspective.

Perquisites, Amenities, and Conveniences

In the last decade, the corporate perquisites program was generally thought to be the company condo, the corporate airplane, country club memberships and the like. Many studies have shown today that the "ego" perquisites for the executive population is fading, and in its place a laundry list of personal security, convenience and productivity enhancing perquisites has developed . They include:

* convenience services on location such as shoe repair, dry cleaning, meal purchasing, film development, etc.
* laptop computers, and software for home computers
* car services for off-hour non-secure travel
* financial planning seminars

* investment education
* scholarship referral services

These and other friendly conveniences have modest cost and improve productivity, assist in recruiting and lessen turnover for logistical reasons.

Management Attitude (Style) Toward Employee Relations

Finally, management has seen the importance of workforce loyalty. This has caused the development of programs in career management, communications, long term loyalty, partnering with employees in the form of long term incentives, and a variety of "let us be the employer of choice" programs.

Summary and Conclusions

1998 and beyond will continue to be years of pressure on profits and cost containment, and scarce compensation resources. Over the past decade many companies, consultants and academics have tried programs which are "alternatives" to traditional thinking about pay. Unfortunately, most don't solve the two basic problems of the 4% non-inflationary pay increases and the growing skill shortage. They also mention, but don't adequately address the issues of distinguishing between solid and average performers using pay as the differentiator. New programs which are designed must meet two basic criteria:

1. Increases in the basic 4% must be related to the shared success between management and employee based on real productivity gains, and,

2. Companies must increasingly spend modest dollars on "alternative to" compensation in order to attract and hold key employees in a productive relationship that enhances growth for the company, sharing of gains, and a career orientation for employees.

Companies desire profits, for a variety of reasons, and with pressure from a variety of internal and external sources. One of the most obvious ways of increasing company performance is to increase individual incumbent performance. However, this increase in individual performance comes with an up-front motivation to perform and be rewarded, and an after the fact actual reward to reinforce the performance and reinforce future performance reward cycles. In a scenario of 4% budgets and low inflation, companies must step up to the critical issue of attracting and retaining high performing employees at all levels, and maintaining their performance by distinguishing their pay from average performers. This challenge with limited dollar resources for allocation may be the one of the biggest HR challenges of the new work arrangement.

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