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Employees of BISSELL Homecare, Inc. at work on September 20

Don't Buy into Myths: Separating Compensation Fact from Fiction

By Edmund B. Ura

Sharp increases in compensation levels at Michigan manufacturers belie media reports suggesting a contraction in the labor market. The unique nature of manufacturers' relationships with their employees — which isn't discussed in the media — must be considered when planning for next year's compensation adjustments. MMA members have the opportunity to see for themselves that their peers in the manufacturing community have been raising their pay levels to keep pace with their growing needs and a shrinking base of talent.

Ignore the gloom and doom pundits who tell you that the recession means it's an employer's market for talent, because reality will soon tell you the truth; if you want the real talent you need, you are going to have to pay for it.

The results of the *2001 MMA Cash Compensation Survey*, sponsored by MMA and conducted by Management Resource Center, Inc., provide the guidance you, as a manufacturing employer, need to attract, motivate and retain qualified employees in the Michigan labor market. The results also debunk many of the myths that the media would have you believe. In this article, we will examine several current myths and how reality suggests a Michigan manufacturer should respond.

Key Findings and Results

The average base pay increase from 2000 to 2001, by job, in Michigan manufacturing was 4.4 percent. Twenty percent of the survey job categories showed increases in excess of 10 percent. The largest rate of increase was in the product engineering family, with an average increase of 8.3 percent. Production jobs posted the next highest gain, with increases averaging slightly more than six percent; and skilled machine operators and skilled trades personnel had several jobs with increases of more than 10 percent. Office job pay increased less than one percent and human resource jobs showed no gain.

For the first time in the last several years, the rate of increase for information systems personnel was less than the overall average. The average increase for this job family was 2.6 percent, with only one job — systems analyst — increasing more than 10 percent.

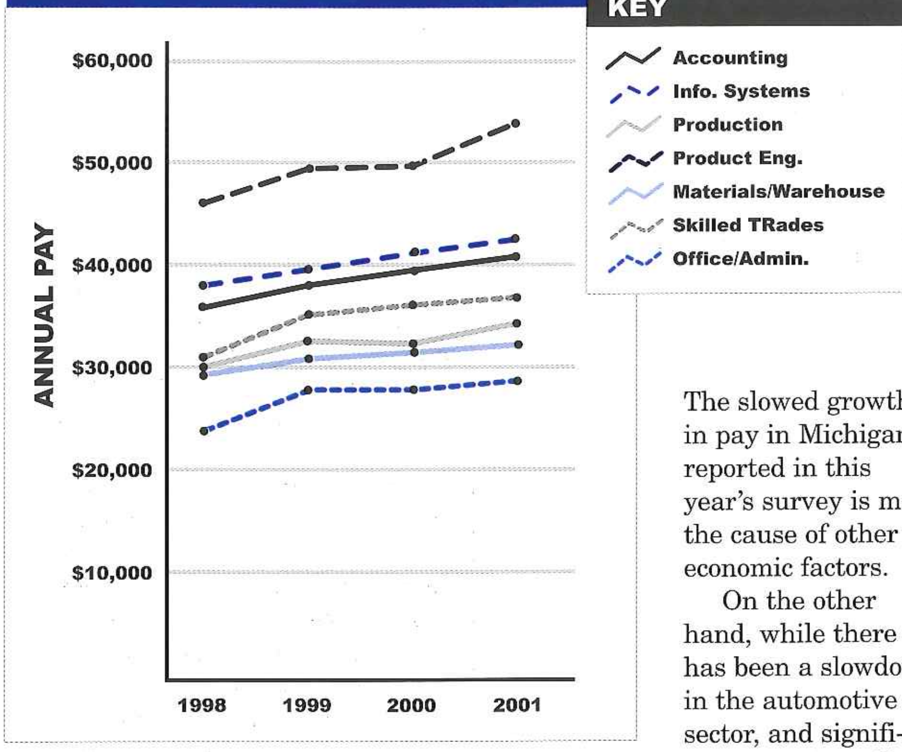
Incentive programs continue to grow in popularity, but at a lower rate than the last few years, with about 55 percent of employees eligible for some type of incentive or bonus award. Incentive payouts still make up only a small part of total cash compensation.

Myth #1: Unemployment is up, and therefore you should plan to pay less

In the last several months, we have seen major corporations lay off employees, the service sector's jobs shrink, and "dot-coms" go out of business nationwide. How does that affect a typical Michigan manufacturer seeking to attract and retain ►

Exhibit 1

Annual percentage change in pay by job family 1998-2001



talent? For the most part, not at all. While the laws of supply and demand do have an impact in a textbook, and certainly in a broad sense in the labor market, the only concern about unemployment you should have is whether the supply of people with the talents that *you need* has changed.

It is crucial to understand that there is a "supply-demand" equation for every individual skill set, and that a single national, or even local, number simply can't be translated into what you will experience in recruiting and retention.

For example, the availability of talented information systems professionals in Michigan has not been impacted a bit by the closings of hundreds of dot-coms in Silicon Valley. The fact is that those individuals are available, for the most part, only to California employers, and even more so, to California employers in the service sector.

The slowed growth in pay in Michigan reported in this year's survey is more the cause of other economic factors.

On the other hand, while there has been a slowdown in the automotive sector, and significant layoffs at all levels of employees, product engineering — a staple position in

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the auto industry — showed the largest increase in pay as talented engineers continue to be on most human resource managers' "hardest to fill" list.

Ten years of MMA-sponsored research supports the nature of the "skill-set" supply and demand reality, and its impact on compensation.

Consider Exhibit 1 at left, which illustrates the annual percentage change in pay for six job families over the last four years. Clearly there is a significant difference in pay rates by job, which cannot be explained by a single overall supply-demand equation.

A key point in understanding the general, overall unemployment situation is that the number of unemployed individuals available to the small manufacturer still has not increased. Why? It's due to the nature of jobs in small- to mid-sized manufacturing enterprises. Because resources are scarce, smaller companies do not have the luxury of maintaining highly specialized, or alternatively, very low-skilled jobs. Manufacturers cut their "expendable labor" in the 1990s while struggling to maintain their margins, thus there is little room for further reduction. From the shop floor to the executive suite, smaller manufacturers have combined job duties and required skills so that people cannot simply be "dropped into an organizational chart."

So what's the bottom line? There are still a lot of attractive jobs out there for good employees. If you don't pay what the market continues to demand, you'll find yourself without your best people.

Myth #2: Surveys report that projected pay increases will be lower next year, so you can budget less

Recent articles quoting national and metropolitan Detroit studies suggest that companies are reducing their budgets for pay adjustments.

Careful reading of these newspaper reports, however, makes it obvious that this data is even less relevant to the typical Michigan manufacturer than the unemployment data. Most of these articles quote projections from large consulting firms, which in turn are surveying large (mostly Fortune 500 and the like) companies. And even the local studies often have a significant non-manufacturing presence. These large organizations have little to nothing in common with the average manufacturer.

Among those Michigan manufacturers who do set formal merit budgets, this year's survey indicates that increases are holding steady or even going up. Actual merit budget increases for 2001 exceeded four percent for both clerical and hourly production staff; nearly a quarter of a percent higher that what companies had projected. Proposed merit budgets for 2002 will climb an additional quarter of a percent over 2001's original projections.

Almost more important than the percentage rates themselves is the fact that of those companies reporting at the time of this article (more than 100), only one has said that it will not be increasing pay this year.

Exhibit 2 above illustrates survey participant's merit budgets for the period 2000 to 2002. The findings to date contradict recent published reports, which suggest that budgets will dip below four percent. Add these projected increases to the significant increase in actual pay shown by this survey and it is impossible to deny that pay will continue to increase at a rate much greater than inflation.

A further key to understanding the differences between the MMA survey results and other published studies is that those large organizations surveyed in other reports measure their budgets on scales that are unimaginable to most employers. A half-percent change in their budgets are multi-million dollar line items, and these companies routinely save millions of dollars simply by playing the difference between retirees' and new-hires' pay. The scale of these budget decisions makes it possible to "quote" small percentage increases, even when the *actual* increases to individual employees' pay may be twice the budgeted amount.

Relying on merit budget surveys to determine increases is a dying process, as more and more employers face the hard fact that the only numbers that matter are what employees cost at the time of initial hire and what they have to pay to keep them from leaving. Too many organizations set inflexible limits on pay adjustments and wind up losing more money than if they had simply followed a rational planning process.

Exhibit 2

Merit budgets for the period 2000-2002

	2000 Actual	2001 Planned	2001 Actual	2002 Planned
Production	3.9%	3.9%	4.0%	4.0%
Clerical	4.1%	3.7%	4.0%	4.2%
Professional/ Management	4.1%	4.0%	3.8%	4.2%

Myth #3: Pay isn't nearly as important as benefits, and employees will take better benefits and working conditions over pay

To quote today's younger generation — NOT. This myth is perpetuated by studies of "well-off," highly-compensated employees and insurance agents, and ignores virtually all research that suggests that people who can't afford to live on their income are typically not happy at work, regardless of how wonderful the annual Christmas party may be. The first item of business for an individual's personal economy is paying their bills and, unfortunately, only cash can do this. Fundamentally, for the primary income earner, pay is almost *always* the highest priority aspect of the employment negotiation process once an individual reaches the point of being hired.

■ Because the two-income family has become the norm in many areas, there are two possible sources of benefits. Therefore, a good benefit ▶

package may provide absolutely no value.

■ Unlike pay, benefits typically cannot be negotiated at the individual level (at least not until we are considering executives). As a result, the benefits only have additional value if the pay package is adequate … and the employer almost never knows how much the employee truly values the benefits package.

■ Wonderful working conditions are only apparent to individuals once they are actually employed. After attending the company picnic an individual may appreciate it, but until then, the only thing the employee knows about the employer is how much they are willing to pay.

It should also be noted that more and more companies are attempting to pass along the increased costs of benefits, particularly health insurance costs, to their employees. These "pass-throughs" effectively reduce an employee's take home pay, and employers have to understand that pay increases that only make up this difference are not considered increases at all.

How to find out more

The *2001 MMA Cash Compensation Survey Report* is available for purchase directly from Management Resource Center, Inc. (MRC). The report covers base pay and total cash compensation (base pay plus bonuses) for more than 100 jobs common to Michigan manufacturers. The survey is part of a four-part program, called the H.R. InfoSeries,™ which also covers executive compensation, employee benefits and human resource policies and practices. Return the form below, contact MRC at 734-454-2500 or visit their Web site, www.mrc-consulting.com, and click on the MMA logo to order.

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