Michigan Manufacturing

Insight

November | December 2008
Vol. XXI No. 6

Michigan's New Energy Plan

Protecting Manufacturing's Future

Preview of a Bigger, Bolder MMA

Smart Compensation Strategies

Lawyers Committee Update

MMA
www.mma-net.org

Smart Compensation Strategies for Tough Times

By Edmund B. Ura

Four months ago, this article would simply have provided details concerning labor market changes from 2007 based on the results of the *2008 Compensation in Michigan Manufacturing Survey*, sponsored by MMA and conducted by Management Resource Center, Inc. In the current environment, however, the focus rightly shifts from "what were the numbers?" to "what should we be doing with the numbers?"

For the record, median market rates in Michigan manufacturing (as measured by changes in base pay by job for a core group of positions), increased 3.2 percent, compared to 3.5 percent from 2006 to 2007. Participants reported average increases for 2007 at just over 3.1 percent, meaning that most of the changes in the market came from planned increases rather than from outside market pressure. Participants expected to increase payroll budgets by about 3.1 percent in 2008. About a third of those companies planned across-the-board increases of 2.9 percent, with planned merit increases (used by most organizations, at least in part) averaging 3.5 percent. No particular factor (e.g., company size or location) appeared to drive the plans.

Recent reports project 2009 budgets increasing to 3.5-4.0 percent in Michigan as well as nationwide. Many explanations have been proposed, given that this is higher than what would be expected with high unemployment and economic uncertainty.

One explanation is a reaction to higher living costs, particularly related to transportation. Employers may feel it necessary to increase pay in order to make up for higher commuting costs. Another concern is that many employees are simply being asked to do more. Work must still be done, often by fewer people, and the remaining employees are asked to pick up the slack.

Whatever the rationale, and whatever the number, many employers will make a serious mistake this year — they won't allocate increases effectively. The current economic situation is the best excuse ever for doing what organizations should be doing all along — targeting employees' pay to their contributions to the company.

Why the General Increase Approach is the Wrong Approach, Especially Now

The best argument for giving the same increase to all (or effectively the same given the range of many "merit" programs) is that it is "fair." Actually, it isn't fair from any perspective.

The market rate for lower-paid positions generally moves faster than for higher-paid positions. If the company gives everyone the same increase, employees in lower-paid positions are eventually paid well above the market; those in higher-paid positions fall under the market, resulting in turnover or dissatisfaction or the inability to hire talent without upsetting existing compensation relationships.

In addition, those who work hard get the same as those who barely get by. The fact is that the only thing good about a company-wide general increase approach is that it is easier on management.

Restrictions resulting from collective bargaining agreements or a perceived inability to measure differences in performance should not provide an excuse for not dealing with the situations not bound by such restrictions.

Employers implementing a structured compensation approach almost always find the same situation. After determining the appropriate rate of pay for each employee and comparing that to current compensation, they will find that total payroll is just about what it should be but that most employees are out of scale and need to be righted.

The process of "right-sizing" a compensation program involves a little bit of effort and a lot of discipline. It is not a quick way of saving money because cutting pay is rarely, if ever, an effective approach and leaves no pool of resources to fix those below where they should be. Instead, it is a long-term approach to hiring rates and making adjustments to ensure that the company has an effective program. In short, invest a little now and reap a great reward in the future.

In a recent MRC assignment, for example, a client used its already planned 4.0 percent budget increase for those beyond their target pay, and gave a 10 percent increase to nearly a third of the workforce, bringing them into proper wage alignment with their contribution to the company. Net result — significant movement toward a system where compensation equals contribution.

What's a Job Worth to You?

A program won't deliver appropriate compensation if it doesn't incorporate a method for determining the ability of a job to contribute to the success of the organization. Some type of job evaluation is essential for dealing with the two major issues that labor market data can't address:

- what to do about jobs that aren't benchmarks and, thus, don't have readily available market data; and
- how to adjust for jobs that aren't quite like the jobs in the surveys.

The key to job evaluation is accurate documentation. A description ensures that employees understand job expectations, and that management has a plan for where responsibilities are placed. Many certification programs now require accurate job descriptions but, even when not required, they should be used. Job content should be carefully reviewed to ensure that the expectations of the organization match the qualifications required so the organization isn't wasting compensation dollars year-round for duties performed only rarely.

A structured evaluation plan measures job characteristics in a reasonably objective manner and produces a pay grade structure reflecting the organization's hierarchy. A process that is too objective will result in a dysfunctional organization, while an approach that is too subjective can't be effectively justified. The approach selected must also compare jobs against a standard — not against each other. Comparison systems don't respond well to changing environments.

Job evaluation keeps the focus on the job, not the person in it, and allows for a much more effective use of labor market data. Any effective system will be easy to administer and allow for new jobs and changes to jobs occurring periodically and provide an easy tool for quick assessments of the cost for organizational change.

What's a Job Worth in the Market?

Organizations need up-to-date, reliable labor market data, if for no other reason than to avoid "umm" management. Umm management occurs when an employee walks into his manager's office with the latest salary.com printout and asks why he isn't making that much. The response to the employee is usually "umm" while the manager thinks of something to say or hurriedly picks up the phone to call the equally uninformed human resources department.

Employers should use as many reputable sources of data as they can. The best surveys are those published regularly by organizations that have no inherent interest in the results. Trade associations and independent consulting firms can fit that requirement, as can some carefully used government reports. Data selected from surveys should be appropriate for the market for each job.

In the MMA/MRC survey, data is broken out by geographic region (appropriate for jobs hired locally), by industry (assuming industry experience is important), and by employer size (allowing you to assess competition with similar resources).

What is an Individual Worth to You?

An organization's pay ranges should be built around the competitive market position the organization selects. The ranges should reflect the least and most that the organization is willing to pay to someone in that job and clearly identify the part of the range where "fully functioning" employees should be paid.

Other parts of the ranges should be assigned to different levels of contribution, which is measured, not just by last year's results, but by proven performance over enough time for the organization to be secure in knowing what the employee can do. The simplest method of assessing contribution involves a job description and a pencil to write in the margin.

Rather than being lost in generic appraisals, focus on the actual expectations of the job itself and show the employee the clear way to reach those expectations.

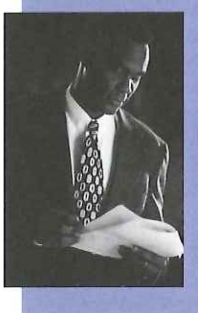
The current economy inspires anxiety, whether deservedly so or not. Organizations will respond to that anxiety, often pulling back from actions that are necessary for the long-term health of the company. This is the perfect time for you to take a step back and consider your next series of pay increases and make sure that the budget for your human assets accurately reflects the return from your investments. ■

Edmund B. Ura is president of Management Resource Center, Inc. (MRC), in Plymouth. MRC is an independent consulting firm offering business and compensation strategy and planning and research and management consulting. Ura may be reached at 734-454-2500 or ebura@mrc-consulting.com.

Benefit Survey Participants Receive Reports Half Off

It's time for the 2008 MMA Benefit Survey, conducted by Management Resource Center, Inc. (MRC). The questionnaire is available on the MMA Web site for members to download, complete and return to help track market trends and identify projected changes that manufacturers are expecting to make to their benefit packages in 2009.

By surveying Michigan manufacturers of all sizes throughout the state, the report provides a comprehensive and reliable measure of current trends. The more participation we have, the more accurate the report will be — members are encouraged to take the time to participate each year.



As an added incentive, companies that participate receive 50 percent off the cost of the published report. Contact MRC, at 734-454-2500, to add your company to the survey recipient list today!

The deadline for participation and to receive the report half price is 12/12/08.

Download the questionnaire today: www.mma-net.org.