



Credibility is difficult to earn, but easy to lose. In baseball, each spring starts with high hopes and even higher expectations. Effective coaching and timely talent management often differentiates the best teams. Great coaches can get their players to do more than they ever thought possible. Having players believe what you say is key to success on the field and in the workplace.

Compensation is a personal issue to employees and one that requires trust that the employer is paying them what they are worth. A market-based pay system involves several components, but revolves around one central concept – competitive data from the marketplace for talent determines the range for compensation.

A recent World at Work survey listed compensation as a leading factor in retaining employees. A well-designed pay plan will provide the support to back up your organization's claim that employee compensation is treated in a fair and equitable manner.

A strong, forward-thinking pay plan can make the difference between succeeding and struggling to survive in today's competitive market environment. When trying to determine the effectiveness of your organization's current pay system, there are six questions to consider.

Is the system compatible with the organization's strategic plan?

Can the organization retain quality employees?

Is the system sensitive to local market changes?

Does the system reflect internal equity?

Is the system easy to administer?

Is the system easy to explain?

Strategically Aligned

Pay systems must support their organizations' overall business strategy. Organization A's business strategy focuses on high-level customer service to build a deep and lasting relationship with customers. Organization B's business strategy focuses on operational excellence to provide services at the most attractive rates and prices. It makes sense that these organizations should adopt pay strategies that reward different behaviors and attract different candidates when job openings occur.

Service Oriented

The increasing service levels expected by today's consumer will continue to determine an organization's success. Think of how you feel at the grocery store when the cashier in the short line wears an "In Training" button. We tend to have little patience with new staff members and "beginner's luck" is not a good foundation for outstanding customer service.

A well-designed pay plan is the way to keep the staff you need. An updated pay system is a powerful tool for employee retention. The impact of employee turnover varies according to position and industry, but the estimates of replacement costs range from one-third of a new hire's salary (U.S. Labor Department) to 1.5 times the departing employee's salary (Bureau of National Affairs).

Market Sensitive

Analogies from the sports world are always easy to find in the business environment. We have executive coaches, work teams and now "free agents."

The first official free agent was former Oakland A's pitcher Catfish Hunter, who signed with the New York Yankees in 1974. Thirty years later, it's easy to forget what a tremendous shock free agency was to professional sports. Baseball's commissioner at the time, Bowie Kuhn, stated free agency was "... a disaster for the great majority of the players, for the clubs and most of all for the fans." The league resisted free agency for years because it would require a different approach to the business.

The same can be said about the marketplace for quality credit union employees. Now that employees consider themselves free agents, knowing the market is more important than ever, and a different approach to business is required.

A shortage of technically qualified staff helps create a free agent mentality within a job market. Suppose a large national company opens a new call center in your community, and is actively recruiting staff with strong customer service skills. If the call center offers a higher starting salary than your organization pays, the credit union will be handicapped when

trying to retain current staff members or recruit new employees.

Internal Equity

The concept of internal equity is no less important than external equity or market competitiveness. The well-designed pay plan considers how positions fit together within the organization. The market value of a position may not match the value an organization places on the position due to factors unique to its operation. Internal equity also addresses how positions of similar complexity and worth are treated within the organization.

System Administration

The true beauty of the U.S. Constitution is the framework it created for making future decisions. Today, we deal with issues that the average participant at the Continental Congress could never imagine. Yet, the document they created more than 200 years ago is still relevant and useful. The U.S. Constitution has served as a model for numerous governments throughout the years and, strangely enough, serves as a good theoretical model for the design of a pay system in the consistency and adaptability it provides.

A well-designed pay system not only allows for consistent compensation practices throughout an organization, but also provides the flexibility to make decisions according to variables that include performance and experience. An effective market-based pay plan is a tool that makes life easier for the human resources professionals that administer it, as well as for front line managers, by providing a framework for compensation decisions.

Employee Communication

Even the best pay system will fail to meet its objectives if employees don't understand it. It often helps to involve line managers in the process of developing the pay system. The more the managers understand about the process, the smoother the implementation will be. Front-line managers usually field the majority of the questions reflecting staff concerns.

Your Plan's Score

If you answered "no" to more than one of the six questions on page 18, your organization's pay plan could use a review. Five out of six would be an outstanding batting average, but there is more riding on the success of your pay plan than a baseball game (even in Boston or New York).

Recent economic conditions have created a temporary bubble or cocoon. But turmoil is sure to come when employees start to reassess their options as the job market improves. Establishing a pay plan that adjusts to the local market will help your organization maintain a competitive system that is fair and defensible to your board and employees.

A well-designed, market-based pay plan is one of the most important tools available to ensure that your organization can survive and thrive in the future.

Tips for Market Pricing Analysis

The most crucial component of a successful market-based pay system is the actual market pricing of positions. Timeliness and accuracy of both comparison data and position matches are keys to receiving data you can use. The following are tips to consider when capturing and analyzing competitive market data:

Have a pre-defined pricing methodology.

Use accurate job documentation (job descriptions).

Select relevant data from the appropriate market.

Know and trust your survey sources.

Use a price data consistent with pay philosophy (e.g., market leader, middle market).

Review total cash compensation (base + bonus).