OVERCOMING WORKFORCE CHALLENGES WITH STRATEGIC COMPENSATION INITIATIVES
Workforce volatility can profoundly impact productivity for individuals, departments and entire organizations. It is imperative employers address workforce issues before they impact productivity and ultimately impede a company’s ability to meet organizational objectives. Economic factors have employers facing one of the most difficult recruitment and retention climates in recent history, and it will require careful planning and execution of strategic compensation initiatives to successfully maneuver the fiercely competitive labor market.

Factors such as rising voluntary turnover rates, skill shortages, and managing multiple generations are changing employers’ priorities. Experts predict these challenges will likely intensify as more Baby Boomers retire, in-demand skills become harder to find, and Millennials, who change jobs more frequently than any generation before them, dominate the labor market as the largest generation in today’s workforce.

Staying ahead of these challenges requires attention and work, but it is critical for companies who want to remain competitive. In this guide, we’ll discuss effective compensation strategies to achieve these objectives.

Specifically, we’ll address:

- Realities of today’s workforce and the economic factors impacting the labor market.
- Reaching goals for successful recruitment, managing turnover, and improving retention; and
- Compensation initiatives to help overcome workforce challenges.

Let’s begin by examining today’s workforce realities to gain an understanding of the difficulties ahead.
The Realities of Today’s Workforce

Workforce challenges vary by industry, location, and other differentiating factors. Yet, there are commonalities among the challenges affecting employers. In recent years, organizations have seen the following realities take shape:

Turnover

We mentioned that Millennials change jobs more frequently than previous generations. Compdata Surveys & Consulting tracked turnover rates from more than 30,000 US employers. Alarmingly, within the last seven years alone, voluntary turnover has risen steadily across all industries, increasing from 9.1% to a whopping 13.5% since 2010. That represents a 48% increase in voluntary turnover, clearly indicating the fact that employees are now in the driver’s seat in today’s highly competitive labor market. Gallup estimates Millennial turnover costs the US economy $30.5 billion a year.

While Millennial job hopping is one reason behind high turnover rates, employers must investigate other internal factors. It is helpful to track data to see who, specifically, is leaving the company. Areas of focus may be tenure with your company, generation (Boomer, Gen X, or Millennial), specific skills, departments, shifts and supervisors. Analysis of data may indicate employees with specific years of tenure are leaving. This could indicate an issue with the rate at which employees’ pay advances through the pay range. Be careful not to jump to conclusions, because it could also tell you that after a certain number of years in your employ, workers no longer see advancement opportunities.

Identifying the loss of one generation over another could imply your benefits and perks are more appealing to one age group. Few employee benefits appeal to all age groups equally, so be certain your offerings support age diversity while maintaining company culture.

Consistently losing employees with a specific skill set can be costly and detrimental to productivity and continuity within a department. Decide if the difficulty is temporary (due to regional economic factors) or more permanent (due to national skill shortages) and devise a plan that focuses on retention.
Increased turnover rates within a department can be tricky because so many factors within the department are the same. Morale issues can develop from a sense of unfairness. If the department believes they shoulder more responsibility, you’ll fight low morale and high turnover until the perception changes.

Identifying a trend from a specific shift or manager requires more information before jumping to the conclusion you have a problematic supervisor. Higher turnover within one shift may indicate the differentials paid for that shift lag the market. Exit interviews are helpful in identifying weak managers or issues with departmental leadership. This difficult recruiting climate may be a good time to conduct stay interviews to identify problems before additional turnover occurs.

**Skill Shortage**

It’s estimated that skill shortages will continue to plague the U.S. labor market for the next decade and a half, so now is the time to develop strategies for recruiting and retaining the skillsets that are most important to your organization’s success. In particular, healthcare and high tech may need to be more aggressive than other industries, as these fields are most likely to suffer ongoing skill shortages. In fact, the U.S. Bureau of Labor Statistics reports that nearly 25% of jobs created in 2016 were in the healthcare sector.

Adopting compensation strategies to accommodate for skill shortages can be tricky: raise base pay, and you may be forced to continue paying high rates even after the skill shortage passes. It might benefit you to avoid dramatically changing base pay for in-demand skills. Instead, keep pay within the normal range and utilize variable pay and incentives to attract and retain talent with the skills you’re seeking. You can always raise base pay as needed, but if you keep it within a normal range, you won’t be stuck paying outrageous rates after skill shortages have leveled out.
Another approach forward-thinking employers are taking is the “grow-your-own” method. Instead of looking externally for in-demand skills, some organizations are giving high performers access to training and mentoring opportunities to build skills internally. Benefits like mentorship programs, student loan payment options, and flex-time to accommodate training can benefit both the employee and the organization: while you develop talent from within, high-performing employees get rewarded with opportunities to advance their careers.

**Retirement**

According to Pew Research Center, 10,000 Baby Boomers reach retirement age each day. This will be true for a 19 year period starting back in 2011 and continuing until 2030. With economic factors having negative effects on Boomer retirement funds, many will work during their retirement. The Bureau of Labor Statistics predicts Boomers will be the fastest growing segment of the workforce this decade. Consider attracting quality workers from this generation through offerings such as shortened shifts, abbreviated work schedules or job sharing opportunities.

**Culture Shift**

A noteworthy trend in the workplace is the sharp decline in employees’ loyalty to their organization. LinkedIn research indicates that while Gen Xers had two jobs on average within the first ten years of getting their degrees, Millennials hold twice that many jobs – at least four – within their first ten years out of college.

PriceWaterhouseCoopers research indicates that 54% of Millennials will have two to five employers in their lifetime, while 25% will have six or more. However, these are simply projections that represent current attitudes. It’s possible these figures will actually be higher if we don’t find ways to engage, and thus retain, Millennial workers.

A great place to start in retaining Millennials is by understanding their mentality. Many workers in this age group were brought up playing sports; thus, it’s no surprise they prefer “coaching” management styles to traditional approaches. Additionally, while you might think the sports-like mentality would make Millennials competitive by nature; they actually prefer to work in collaborative, team-like environments.

Many Millennials were also raised as friends with their parents. This has created in them the mindset that they are fully capable of whatever challenges they’re given. They are goal-oriented and seek out growth opportunities – so much so, in fact, that they’re more likely to “go to grow,” leaving their current employer when the career trajectory isn’t readily apparent. Millennials are perhaps the first true consumers of the workplace. It’s therefore essential for you to identify your “employment brand” and emphasize what makes your company attractive to candidates. Develop a strategy to communicate the factors that make you the best choice for candidates.
Achieving Workforce Goals With Strategic Compensation

Employers can add many attractive programs to appeal to candidates looking to improve their employment opportunities, but adding all the "loyalty builders" in the world won’t work if an employer does not first have a fair and competitive compensation structure.

1. Develop a Strong Foundation

A strong foundation starts with a solid compensation philosophy. Simply put, a compensation philosophy is your organization’s position on how you will pay your employees compared to your competition. It explains how your compensation practices support your overall goals and allows you to take a proactive – instead of reactive – approach to hiring and retaining talent.

Create a Compensation Philosophy

If you don’t already have a compensation philosophy, you’re not alone. In an HRsoft poll, 37% of respondents said their organization does not currently have one. Yet, developing one will be tremendously helpful in ensuring fair pay practices and streamlining new hire practices.

Update Job Descriptions

Creating precise, updated job descriptions is another important component of a solid compensation program. In doing so, you can increase employee and manager communication. Clear job descriptions give employees a better idea of exactly what’s expected of them. As a result, employees will also see where they fit in the organization and the contributing role they play towards the company’s success, which is a powerful way to drive engagement.
2. Design a Fair & Equitable Compensation Program

In order to develop a compensation program that’s both fair and equitable, you’ll need to take into account internal factors as well as external market data. By conducting market analyses, you identify positions where you are not competitive or perhaps where you are overpaying. You must take this information to key stakeholders, and while it may not be good news, it is critical to identify and communicate areas of concern so they can be addressed.

Salary Ranges

Salary ranges should be used to recognize differences in employees’ experience and abilities. When pay ranges are set appropriately, you can pay your people in the ways that best suit your company goals while still staying within the parameters of market competitiveness. If ranges aren’t broad enough, you could impose limits on yourself, making it impossible to hire workers with high-demand skills. If ranges are too broad, there’s the risk of internal equity issues with significantly different pay for employees in the same position. Appropriate ranges are just wide enough to stay flexible, but not too wide to create internal equity issues.

Market Data

When analyzing market data to use for setting competitive rates, keep in mind that survey data is a guide, not a definitive answer. Survey data is extremely helpful for making pay decisions, but it won’t tell you precisely what to pay. No two organizations share the same goals, location, size, or values; so ultimately, even the best data must be handled by an HR professional who has a thorough understanding of your strategic compensation goals.
3. Administer a Fair & Equitable Compensation Program

To administer a fair and equitable program, you must actively avoid pay compression. This occurs when you have only minor differences in pay, despite variations in skills, experience, levels, and seniority. It doesn’t happen overnight, so the best way to handle it is to prevent it from happening in the first place.

When employees feel that they’re not being compensated fairly due to pay compression, it can quickly lead to a spike in voluntary turnover rates. You can prevent it by:

- reviewing current incumbent salaries versus new-hire salaries;
- updating salary ranges annually (even if you’re not making changes in pay); and
- using the same administrative guidelines every time you do a salary review or recruit a new hire.
4. Maintain Compliance with New Regulations

Another workforce challenge is staying compliant with new labor laws. From variations in minimum wage to accommodating for changes in the Fair Labor Standards Act, employers must ensure their compensation strategy conforms to the regulations that affect them.

Navigate increases to minimum wage by:

- Determining when changes will take place, and how many employees are currently paid below minimum wage
- Calculating what it will cost to update your compensation plan
- Checking to make sure you’re avoiding pay compression
- Updating your compensation structure

While this rounds out your compensation plan, there’s still one final (yet equally important) step: implementing and communicating your program.
5. Implement & Communicate Your Compensation Program

When you’ve reached a point where you have a strong compensation program designed to successfully attract, engage and retain a quality workforce, you should be able to:

✔ Keep Leadership Informed
   Implement compensation and benefits-related program design information, including guidelines and training, to get your teams on board with strategic pay decisions.

✔ Gather & Analyze Survey Data
   While it’s not the only element of creating a solid compensation structure, it is an important part of making informed pay decisions.

✔ Proactively Advise Managers
   Become a strategic partner for compensation matters and be the source managers turn to when they need help.

✔ Manage Job Descriptions
   Facilitate and coordinate with manager to update job descriptions regularly.

✔ Support Organizational Structure
   Provide organizational charts and be a partner during re-organizations.

When you’ve followed the guidelines listed here, you can also develop a pay transparency trifecta in which you help employees understand their role, avoid pay inequity, and foster a sense of trust within your organization. When these elements come together, it means your compensation programs are successfully supporting organizational goals.
Summary

Let’s take a moment to recap some of the main ideas we’ve discussed:

✔ In recent years, a number of economic factors have contributed to workforce challenges. Issues like increasing voluntary turnover rates, Baby Boomers reaching retirement age, skill shortages, and a decline in employee loyalty will likely persist over the next decade. By making strategic changes to our compensation programs, we can take a proactive approach to overcoming these challenges.

✔ While the elements of a successful compensation strategy will vary from one organization to the next, it is critical to develop an “employment brand” similar to the way you created a brand for your products or services. Actively communicate with current and potential employees about the factors that set you apart from other employers.

✔ Adding extra perks and benefits for employees will only be helpful “loyalty builders” if you have first built a solid, fair and competitive compensation structure.

While the challenges of today’s workforce may not be simple to overcome, they can be tackled with strategic compensation planning. By using forward-thinking measures instead of reactionary tactics, you’ll help your organization stay well-prepared for the obstacles that lie ahead.
The Employee Value Proposition

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