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## Do You Need a Pay Strategy?

By Brad Smith

Have you ever wandered through dense, unfamiliar woods? You weave around trees, hop over streams, and climb over other obstacles until you no longer know where you are or how you got there. Confused, maybe even a bit afraid, your palms sweat, your heart pounds, and you wonder, “Which way do I go?”

At this point, you may be thinking that a compass would be a valuable tool to have. While a compass won’t provide a clear path out of the woods (you will have to use your judgement, and you may not be able to travel in a straight line), it will point you in the direction you need to go.

Being an employer sometimes feels like being lost in the woods. There are so many unknown paths to navigate and obstacles to avoid. Two of the biggest obstacles, finding and keeping talent, are becoming increasingly tough challenges to manage.

So wouldn’t it be nice to have a “talent” compass? Just a simple tool that could help employers in their struggle to attract and retain talent in a competitive job market?

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Good news, there is a tool any employer can use; it’s called a pay strategy. A well thought out pay strategy is designed to attract and retain key talent. For most employers, this means having an understanding of what other organizations are paying and defining ranges of compensation by position so that managers can make informed business decisions on pay.

If you are like many employers, you want to pay all of your employees at or above market pay levels, but you simply can’t afford it.

There are two ways you can combat this situation:

1. You can reduce headcount by laying off your less productive employees, thus allowing you to allocate some of their pay to others and hope your remaining employees are satisfied. (Caution: there are many factors to consider prior to using this option.)
2. You can develop a pay strategy (your compass) using market pay data to make business decisions when administering pay.

The second option, developing an effective pay strategy, provides a forum for management to think about how the organization will retain its best talent and recruit other great talent. In short, your pay strategy will point your organization in the direction it needs to move. Keep in mind, however, that like the path through the woods, even the best pay strategy may need to change course as needs (and markets) change. Significant market adjustments occur most often when positions are in high demand. A high demand position may be the result of fewer qualified candidates or changes to the business environment.

**How should an organization administer its pay using a market based pay approach when the budget doesn’t allow it to pay at “a competitive level?”**

It’s not easy, as there are many factors to consider. To stay on track, start with a written document that centers on your best strategy for managing pay issues and addresses the following decision points:

- Will you provide a general cost-of-living adjustment, and if so, how will that amount be determined?
- How will you differentiate pay for top performers compared to others? How are you going to determine your top performers?

- How will promotional adjustments be authorized? Will managers have free reign to provide promotions to employees, or will there be a system of checks and balances? What will be expected from an employee before he or she can be promoted?
- How will you budget for the different adjustments in order to provide the most value?
- How often will you perform a market study on your employees? How will the results be put into action?

Once you've documented your strategy, you can define your pay administration guidelines. These guidelines will help your organization manage its pay plans within its strategy. Effective administration is essential for your organization to execute its strategy to its full advantage.

Creating an effective compensation strategy with pay administration guidelines is a useful tool for any organization navigating the competitive landscape for talent. Yes, you may occasionally need to stray from the data to retain or attract certain individuals, but the important thing is that your organization's compass keeps you moving toward your strategic pay goals.

Questions? Contact the Findley consultant you normally work with, or contact Brad Smith at [brad.smith@findley.com](mailto:brad.smith@findley.com), 419.327.4414.

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