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Back to Basics—Ensuring Your Broad-Based Compensation Programs Work for your Bank

Karen C. Butcher

MANAGING DIRECTOR

The run up to the year-end compensation crunch is the perfect time to step back and take a look at how to develop broad-based compensation programs that work for your entire organization. Here are some issues and ideas you should consider this Fall.

Does your organization have a clear compensation philosophy?

Organizations frequently develop a compensation philosophy for executives and those in the c-suite, but often fail to develop a comparable philosophy for the balance of employees. Administering pay without a philosophy is like a journey without a roadmap—you might get there but the trip will be more difficult. Without specific guidelines, managers and employees are playing a guessing game regarding expectations, goals, and paths to success. Create the roadmap, define how your organization manages base salaries and total cash compensation, and communicate it widely. This will provide the foundation for a successful compensation program that is understood by managers and employees.

Is your salary structure supporting your pay practices? If no one knows about them then they are not.

Salary ranges work best if they are up-to-date, aligned with your organization's compensation philosophy, support defined career progressions, and are understood by all concerned. In too many organizations there is little or no pay transparency. Salary ranges are often a closely guarded secret. While some banks do work to increase communication around compensation, we find that less than half of the banks we surveyed provide such information to employees and managers. With increased focus and regulation around pay equity, organizations should develop an environment of pay transparency, which at the very least includes sharing ranges with managers who can then communicate them to employees. Remember, the workforce is changing—millennials are more likely to share their pay information with others inside and outside of work more than any other generation before them.

How do you address salary compression?

A number of factors contribute to salary compression:

- Efforts to increase internal minimum wage;
- Hot labor markets;
- Small salary increase budgets; and
- Location.

To manage salary compression be proactive, not reactive. Monitor the market both externally as well as internally. Conduct regular market assessments and adjust your salary structure accordingly. Make a plan to address compression using internal equity adjustments. Consider other ways to address compression such as sign-on bonuses, variable pay, performance-based merit awards, and non-monetary awards.

Kick the c-suite out of the salary structure.

Rethink keeping your executives in a traditional salary structure with all other positions. Consider a different approach and create market-based guidelines unique to each executive role. These ranges encompass all key elements of compensation and provide guidance far beyond the midpoint of a salary structure and are critical when you want to attract and retain a specific talent profile at the top.

About the Author

Karen Butcher is a managing director with Pearl Meyer. Her areas of expertise include executive and board compensation, broad-based compensation design and administration for employees at all levels, short- and long-term incentive compensation design, performance management, leadership development, and coaching.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.