

The Compensation Filter Guide

A Right-Fit Primer for a Tight Talent Market

Our clients wrestle with the compensation piece of right-fit talent acquisition. Compensation is complex and its effects far-reaching. As a search leader in the Atlanta marketplace, Handler has identified several truths about the challenges our clients face which, if accepted and acted upon, can assist in ascertaining right-fit compensation. We created the Compensation Filter (on Page 2) to provide a strategic framework to arrive at right-fit.

Truth No 1: Compensation = Market Value

There is a dollar value the market is willing to pay for the business value an individual contributes. Compensation is an indicator of leadership capability, and there's a strong correlation between compensation and market value. Compensation is one of several variables that give an employer insight about what can be expected from an individual.

Truth No 2: New Skillsets are in Demand

To thrive and compete in today's rapidly changing world, organizations need new skillsets. Organizations are in a state of perpetual transformation, either in growth, acquisition, expansion, rethinking processes or reinventing products and services. These new skills may not typically be possessed by current talent, requiring companies to pay more than if they were developed internally. The more rare the skills, the higher companies drive up the compensation packages as they vie for them.

Truth No. 3: All Employees are not Equal

To attract the talent needed, organizations must pay today's prices. While all people are created equally, skill sets and leadership capabilities are not. When long-standing employees receive 2 to 4 percent annual increases over a decade, their compensation lags the open market and creates compensation disparity. Organizations that want to attract right-fit new hires must accept this reality, and strategically develop new mindsets to meet the market compensation requirements.

The Compensation Filter

The Compensation Filter focuses on **3 key questions** for leaders to address to help determine meaningful compensation rates that truly align with the organization's unique business goals and values.

If compensation equals market value, what has been the trajectory of this candidate's compensation?

- Does this represent the type of leader we require for success?
- How does this compare with the level of contribution we need relative to other candidates we've seen in this position?

If new skill sets are in demand, what new skills does this candidate bring to our department/organization?

- Do they align with what the organization needs in the leadership team?
- How rare are they in the marketplace?

If all employees are not equal, is this candidate's market rate a rightfit for the organization?

- Compared to the value she/he will add?
- Will compensation disparity be an issue? If so, how will it be addressed?

While 7 out of 10 organizations say they have a compensation philosophy, most haven't developed a compensation approach that truly supports right-fit talent acquisition. Absent of that, they're left with outdated compensation policies that are at best trivial and at worst impede or outright derail strategic recruitment of Top Talent.

Concepts such as "our compensation structure serves to appropriately attract, retain and motivate employees" or "we offer competitive compensation" fail to guide leaders making compensation decisions.

Ideally, pay rates throughout the organization, and particularly in recruitment, are based on a compensation philosophy that serves as a fair, legal and strategic framework. Periodic salary analysis ensures, particularly in a robust talent market, that internal pay rates stay competitive. Conducted faithfully, this exercise provides insight to mitigate pay disparity.

Bottom line: organizations must recognize the need to make compelling offers to Top Talent.

