- Hey, and welcome to PCTY Talks. I'm your host, Shari Simpson. During our time together, we'll stay close to the news and info you need to succeed as an HR pro. And together, we'll explore topics around HR thought leadership, compliance, and real life HR situations we face every day. Joining me on the podcast today is Lizzy Bores. She is a Senior HR Business Partner here at Paylocity. Has a wealth of HR experience, she's been in this space about 14 years and has numerous roles in various industries focusing on compensation, talent acquisition, and learning and development. So Lizzy, thank you so much for jumping on with me.

- Thank you for having me.

- So we have a really exciting topic today to talk about pay compression. I feel like we're all kind of dancing around this topic right now with what's happening in the economy and the effects of the pandemic. So let's start with the very basics. What is pay compression?

- So pay compression, well, actually, lemme take a step back. So you would typically find when you're assessing your workforce some differentiation in pay. So, and that would be by skill, education, tenure, various different factors. Performance, of course. So with pay compression, it's where you find that there really isn't that differentiation in pay. And where you typically find it is in new hires and your tenured employees. And that differentiation is lost for various reasons. So that's the baseline what pay compression is.

- How does it happen? So if you have all these good intentions, you've got your pay grades, you've got everything kind of outlined, how do you get in that situation where you have pay compression?

- Right. Where you've got all the tools in the toolbox but how did we get here? So I think what the landscape is today is a prime example of how employers can find themselves in this position. Again, you've got all these best practices, guidelines, approaches around pay strategy, but think about what we've gone through these last couple years and what we've seen in the market. In the market, salaries have, in some cases doubled by thousands of dollars. Well, what is it? The great recession, people moving very quickly across the market and increasing their salaries. So you may find that you've been sourcing for a role for years at this particular rate, and now you're finding today that you can't find that talent at that rate anymore. So then now you are increasing, you're starting pay to attract talent where you didn't have to do that in the past. So it's inflating your starting salaries coming in where that wasn't a thing years ago.

- Yeah, it's amazing how much we're just experiencing the impact of the greats, right? The great resignation, the great retention, the great reshuffle, the great regret.

– It's caused quite the shuffle. It's caused things to surface where they did not surface, it wasn't even an area of focus maybe a few years ago. And it's definitely raising different topics just like this one in attracting, retaining, and sourcing talent for various different roles. Years ago we would, we would find it much more common in more early career roles where you would see a lot of movement. Now it's across the board, it's early career, it's mid-level, it's more senior level. We know how eager and excited the recruiters are in the market and they will be knocking on individuals doors to dangle that financial carrot in front of them to make a move.

– You mentioned a couple things; recruitment, retention, I think about employee experience, those are all things that are gonna be affected by pay compression. And you might be like, "Okay, well why?" Some of the things that we forget is employees talk about their pay with other–

– They sure do.

– Employees. So that's just one reason, but why else should we care about pay compression?

– Well, I think that's a great question to ask because it's what kind of culture are you trying to drive? It's human nature when you get good news, or on the other end, it's human nature to wanna share that with each other and people have friends at work, whether that was established at work or whether the case may be, but it's human nature to wanna share things. And I think it would not be a surprise if you gotta pay increase at work, and oh my gosh, such a positive thing and you wanna share that with your peers because you're so excited, and you do the whole like sh, sh like, don't tell anybody we talked you. I wouldn't be surprised if that dance still goes on today. But the reality of it is people do talk. We wanna drive the right behaviors when it comes to compensation and performance. So driving that positive experience, it's for employees and rewarding where it is appropriate is so important. The other piece of that too, it's not just about employee experience and of course, employees talking with each other, it's also, you may uncover in your analysis some unintentional pay practices. Again, you've got all these tools in your toolbox to ensure the fair consistency in driving the right behaviors, but you may find that in different groupings of employees that maybe a group of employees is... You find that they are paid lower or this particular group is paid higher. And that might be okay if you can explain it and speak to it, but if you can't that might actually result in a deeper dive in a data analysis to say, "All right, it's here. We can't fully speak to it. It wasn't intentional. What's our plan to bridge that gap?"

– As you've been thinking about this and coaching managers in your

various roles you've had in different organizations, how do you go about kind of uncovering these pockets of pay impressions? So I think the example is really good because you might only have it in one little small group, but if you're not looking at your data in these cross sections, so how have you tackled that? How have you kind of looked at your data to uncover those things?

— Well, it can be quite overwhelming. So whether you work for a smaller company where there's maybe a handful of roles or maybe you have hundreds of roles, where do you start? Where do you even start to try and uncover this stuff? Especially if you're an HR practitioner of one and you don't have centers of excellencies to kind of lean on on their expertise. My recommendation, where a good starting point would be is take a look at those roles that now you're like, "Ugh, oh gosh, I can't find a customer service representative for this rate. And over the last six months I've realized we are now bringing in new talent at those higher rates." That's a great starting point to uncover if those starting rates for those higher volume roles that you're seeing has caused some pay compression when you're reviewing your data. The other area where you could start as well is if you are experiencing some higher turnover in a particular role. And the common theme has been compensation in your analysis. So you are losing your tenured employees, your good performers, and their primary reason is comp. There might be more to unpack there. So I would definitely, for me, I would take a look at that data a little closer to see if there's some pay compression happening there.

— Once you've kind of figured out the pockets that you're having this in, how do you address it? Make me feel like there's obvious ways to address it, but I also feel like sometimes you might uncover that you have a huge problem that you didn't realize you had, or maybe you realized you had it and now you're like, "Okay, what are the tactics I can take?" So maybe you could walk through just a couple different options that you can think about.

— Yeah, there's a couple of different approaches that you can take when kind of developing your strategy around pay. So one, do you have a strategy today? If not, what behaviors are we trying to drive? Do we wanna be a pay for performance organization? Are there certain contractual things that need to be considered given your workspace? It's really what behaviors are you trying to drive? There's things that you can put in place when identifying those to ensure some best practices when bringing in new talent and assessing current pay with your current talent. Some of those things include, you could have, I've seen this more common with early career roles. You could have compensable factor models where you kind of put together a point system for various different skills or attribution that talent brings to the table. And you can do that with your current talent too. You can apply it, you could say, "Sherry has X, Y, Z, these have translated a success for the role, so therefore, I would anticipate

her to be higher in the range." So that's an opportunity there. The other pieces you could implement different models like competencies. What are the most important competencies for your company for those roles? What translates to success? What behaviors? And you could benchmark against that.

– I think those are all really good ideas. I think if you are down the road where you maybe have some of these things in place and you know you just need to fix the comp, like one sweep, right? So you could do a market adjustment, you could do a one-time bonus. There are things you can do that you can help communicate to your organization, "Hey, we're doing this to address the pay compression that we're seeing." You might need a stop gap and then you might need a long-term plan kind of based on what you uncovered in that discovery phase. So as I think about what's next though, how do we come up with a long-term plan? So I mean, forbid we end up in another pandemic,

– Sure, yeah.

– 'Cause I feel like this is an endemic now. I think we can all agree on that. But let's say we run into something where we're seeing this again, how can we get ahead of it instead of being reactive to it?

– I think that you could run regular audits. And I get a lot of questions too around how many audits should I do? Should I do this monthly? Should I do this every quarter? There's no right or wrong answer to this. I think it's situational depending on company size and the makeup and the volume. You may see that a high growth company that have many high volume roles, where new talent is constantly coming in the door, you may have to run your analysis every quarter. You may find that you need to do it every six months. So I think it's kind of testing the waters of what makes sense for your organization size and the activity that you're seeing. But I think it's those regular audits of data review to see if there's anything going on there. You may work for an employer where maybe your growth is not high right now. And of course, that's totally fine. But then you're not seeing a lot of new talent coming in the door and you're maybe not seeing a lot of attrition, so therefore your data is going to be stagnant for a little bit longer. So maybe it makes more sense to do an annual review.

– I love all of these suggestions. So if you're listening and you wanna dive into this topic a little bit more, Lizzy and I actually just did a webinar on this where we go into great detail of all these things. So I will make sure to include that in the show notes. But Lizzy, thanks for taking just a couple minutes for us to tackle a really a deep topic that I think everybody is addressing right now. So I appreciate your time.

– Yeah, absolutely. Thank you.