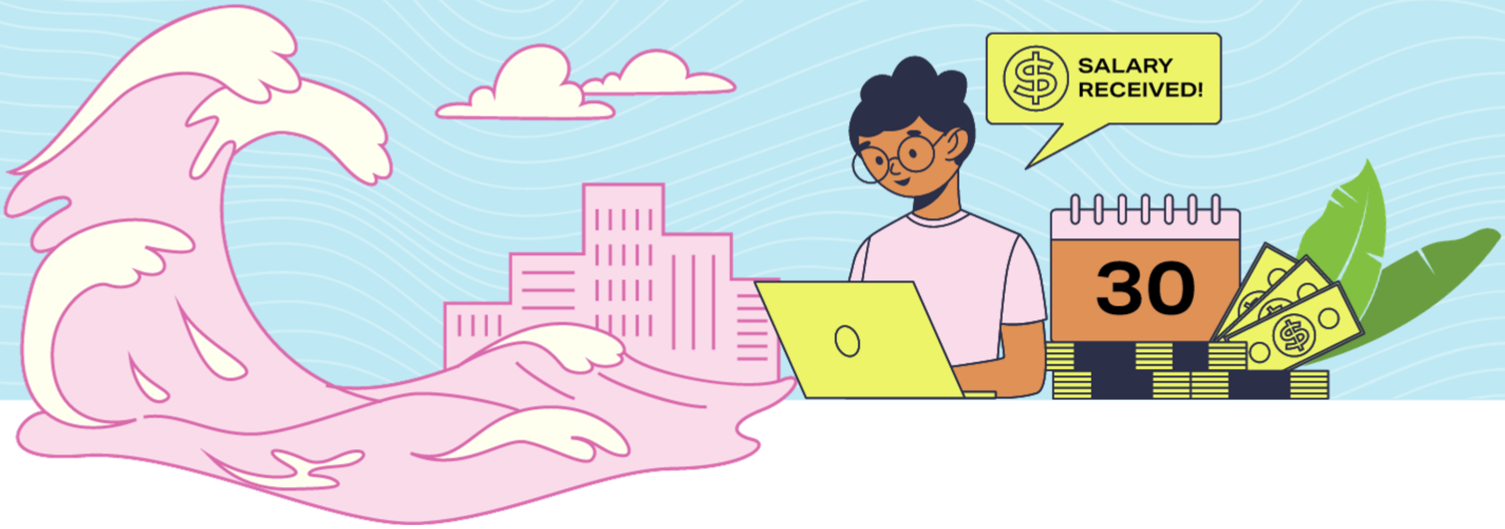
Employee Compensation in Hawaii

ProService HAWAII



With new laws impacting employee pay taking effect January 1, now is the time to review your compensation philosophy or learn how to create one in five simple steps.

As we head into 2024, Hawaii is getting ready to raise the minimum wage from $12 to $14 and to enforce a new pay transparency law that requires companies with 50 or more employees to disclose the hourly rate or salary range in all job postings and advertisements. While both laws represent a new legal requirement for employers, it's also an opportunity to reassess your compensation philosophy or create one for the first time to help you have transparent, productive conversations about pay with your employees when the need arises.

In this guide, we'll walk you through the basics of what a compensation philosophy is (and why it matters), plus we'll share five steps to help you create a fair and unique philosophy that's right for your people and your business. Let's dive in!

- **➔ Compensation Philosophy 101**
- **➔ 5 Steps: How to Create a Compensation Strategy**

Disclaimer: The information provided is strictly informational and should not be construed as legal advice. It should be tailored to your unique circumstances.

Compensation Philosophy 101

What is a Compensation Philosophy?

A compensation philosophy outlines the guiding principles and factors your company will consider when making crucial decisions about employee pay — from base pay (e.g., hourly rate or salary wages) to variable pay (e.g., commissions, performance bonuses, etc.) Much like your company's mission or values statement, creating a compensation philosophy with fair policies can unify your entire organization, ensuring everyone, from leaders to front-line employees, operates under the same expectations about how your company approaches pay. It can be a linchpin for cultivating trust and engagement within your team.

Why Does It Matter?

First and foremost, it objectively defines the rules of the game. When employees understand the principles steering pay decisions, it eliminates the haze surrounding pay decisions, making the process transparent, less arbitrary, and immune to bias. For employees, this clarity on compensation and its influencing factors fosters a sense of control over their careers – a crucial psychological element.

Yet, the impact goes beyond individual satisfaction; it extends to the bottom line. Employers equipped with a compensation philosophy and equitable pay policies stand better poised to prevent discrimination lawsuits, comply with equal pay regulations, enhance productivity and morale, reduce turnover, and attract top-tier talent. In your relentless pursuit of talent retention, a well-articulated compensation philosophy can become a potent retention tool, communicating to your employees that your organization is unwaveringly committed to fairness and consistency around employee pay and rewards.

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5 Steps:

How to Create A Compensation Strategy

Now, let's delve into the practical side. Where do you begin? How do you craft a compensation philosophy that's right for your business? The next sections will provide an overview of the five pivotal steps to kickstart your journey.

1. Review Market Data for Each Job Title

What are other companies willing to pay for similar positions? The process of answering this question is a practice known as compensation benchmarking. It is a crucial starting point for figuring out your compensation philosophy.

There are various approaches to benchmarking, but diving into salary data surveys is an excellent place to start. Platforms like Glassdoor and Indeed provide free tools for salary comparisons, giving you a bird's-eye view of the compensation landscape. Consider tapping into subscription-based resources like PayScale, Salary.com, and LinkedIn Salary for a more in-depth dive. While these may require a financial commitment, they offer extensive datasets and many job titles for a more nuanced analysis. Don't overlook the goldmine of information the Bureau of Labor and Statistics also provides. With years of comparative wage data at the national, state, and metropolitan levels, it is a reliable compass for setting competitive pay ranges.

And here's a pro tip – get scrappy. Dive into your competitors' websites, explore industry organizations, or see if hiring signage is posted in their storefronts to unravel insights into employee pay ranges and perks.

2. Determine Your Market Position - Meet, Lead or Lag?

Now that you've grasped the market landscape, the next move in shaping your compensation philosophy involves a crucial decision – Will you lead, lag, or match the market in employee pay? But here's the key: this isn't a one-size-fits-all scenario. The path forward involves defining your market approach for each unique job title. It's about recognizing the varied demands of different roles within your organization and strategically positioning them in the dynamic marketplace. Taking a matrixed approach

Leading the Pack: Choosing to lead means setting employee pay higher than your competitors. The advantages of this approach include attracting top-tier talent, the perception of being the "employer of choice," less employee turnover, and more retention. But beware, this comes at a cost – higher labor expenses. Additionally, making swift adjustments to compensation may be challenging during financially tumultuous periods. It's a high-stakes game; however, to make it work, set crystal-clear performance standards and outcomes, ensuring that employees occupying job titles with market-leading pay contribute to key business objectives meaningfully, thereby justifying the premium compensation.

Lagging But Not Lacking: Lagging is often a situation an organization finds itself in rather than a strategic choice. Paying below market rates might save costs, but it's also a risky game. On the positive side, it trims expenses, freeing up resources for additional employee benefits and other needs. The cons? Attracting top talent becomes an uphill battle, and high turnover could be on the horizon. But fear not; there are ways to make this approach work if you remember that it's not just about the numbers on the paycheck but the holistic package you present. To offset lower base pay, consider beefing up non-financial benefits. Picture this: Richer employer-paid healthcare benefits than the market, complimentary staff meals (particularly beneficial in the food & beverage industry), free annual bus passes, flexible work schedules, work-from-home options, quick advancement opportunities or comprehensive training programs that scream investment in employee growth! It's about thinking beyond the paycheck.

Matching the Market: For many employers, the go-to move is finding solace in the middle ground – matching the market. It's a strategy widely embraced, and for good reason. The pros? Your pay aligns with competitors. However, as with any strategy, there are challenges to contend with. Attracting and retaining star performers might pose a test. That is why defining your employee value proposition is still important. You'll pay the market average for a role, but what else do you offer that would make top talent want to choose you as their employer?

3. Set Base Pay Ranges & Pay Drivers

Once you've decided which positions will lead, lag, or meet the market in terms of pay, it's time to set pay ranges for each position. You'll begin by examining market data for each job title, pinpointing the midpoint of the market value. The midpoint serves as a baseline for your compensation framework.

Next, calculate the spread between minimum and maximum salaries. When thinking about your range, make sure to add a buffer on either in to allow for things like salary negotiation, but also consider how factors like employee experience, tenure, and performance determine where an employee falls within their pay ranges.

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4. Review Employee Pay & Adjust As Needed

Once you've armed yourself with market data and decided on pay ranges, the next step is to see where your existing employees fall within your predefined pay ranges. Are they appropriately compensated? Is anyone underpaid or overpaid?

This evaluation isn't just a recommended practice; it's a crucial maneuver, especially for the bigger players out there—those organizations with a headcount exceeding 50. Why? With salary transparency laws taking center stage in Hawaii from January 1, your existing employees will have a heightened awareness of your company's pay structures for advertised positions.

If you uncover employees positioned below the designated pay range, taking corrective measures is imperative. Consider implementing an immediate one-time adjustment or a mid-year pay increase. On the flip side, for those exceeding the range, a nuanced approach is recommended. Rather than adjusting their base pay during your annual rate of pay discussions, consider a lump-sum, performance-driven bonus that won't inflate their base pay but still reward them for their hard work. You may also temporarily freeze their annual pay increase until market conditions align. And if their performance merits, the prospect of a well-deserved promotion to a higher job title can be explored.

When evaluating an employee's position within the pay range, your assessment should consider factors such as experience, job performance, and tenure. These distinctions serve as legitimate grounds for differentiated pay among employees. However, it's crucial to steer clear of unacceptable and illegal reasons for pay differentiation, such as those based on protected classes. In Hawaii, protected classes include race, sex (including gender identity or expression), sexual orientation, age, religion, color, ancestry, disability, marital status, arrest and court record, reproductive health decision, or domestic or sexual violence victim status.

5. Prepare Leaders to Answer Questions

Lastly, anticipating and addressing employee concerns about pay is paramount. The key to effectively communicating with your employees is well-prepared leaders armed with the company's compensation philosophy. Your company's compensation philosophy will act as a north star, guiding leaders through positive and transparent communication with employees about their pay.

Let's take a look at some real-life scenarios and how your leaders can approach their response to employee concerns:

Scenario 1: Meet Jordan

- ***Scenario:*** Jordan, who has worked 6 months with your company, wants to know why his co-worker Matt, who is on the same team and has the same role, is making more money than he is.
- ***Response:*** "Thank you for bringing this concern to me. While I won't delve into others' pay, we factor in level and experience when determining compensation. You are paid equitably compared to those with similar experience."

Scenario 2: Meet Leilani

- ***Scenario:*** Leilani, who is a produce clerk at your grocery store, wants to know why Adam, who is a cashier, is compensated more than her position.
- ***Response:*** "Thank you for raising this concern. We consider skills, experience, and market rates in determining salaries. Let's discuss a plan to build the necessary skills for advancement into your desired role at our company."

Scenario 3: Meet Erin

- ***Scenario:*** Erin, who has worked for your organization for the last 5 years, sees a job listing with higher pay at another company on Indeed and threatens to quit if not paid a similar amount.
- ***Response:*** "Thank you for sharing this concern. It seems there may be more than compensation at play. In our last pay discussion, you were content. Let's explore the underlying factors that prompted you to consider other positions."

Final Thoughts

As you take steps toward creating your own compensation philosophy, remember that a well-crafted compensation philosophy is a north star that can help you navigate the murky waters of employee pay – and come out on top!

When well-thought-out and communicated well, it can unify your entire organization, ensuring everyone operates under the same set of expectations, and cultivate trust and engagement within your team.

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