

The SESCO Report

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Your “Human” Resource Since 1945

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Human Resource Management in a Record Economy

The available number of jobs exceeded the number of unemployed U.S. workers for the first time since records were kept for the statistic 18 years ago, the Bureau of Labor Statistics (BLS) reported June 5th. There were 6.7 million U.S. job openings at the end of April, more than the 6.3 million individuals who were counted as unemployed at the time. Unemployed people are classified as those who don’t have jobs but have recently searched for one. Of course, we know that many in our economy aren’t searching for jobs at all compounding this statistic.

The labor market is undergoing its longest streak of job growth on record. Unemployment ticked down to 3.8%, the lowest since April 2000, according to the latest employment report from the BLS.

So, all of this economic success makes managing business easy - right? On the contrary.

Human resource management, attracting and retaining qualified employees, in a record economy is extremely difficult. The general job seeking public as well as our employees are reading and interpreting this economic news themselves. When they internalize such news, their first thought is that employers/my company is making lots of money and as such, I should be making more money too. Of course, this perception

isn’t true for most small to medium sized businesses, even for many large businesses. Just because job openings hit record highs doesn’t equate to increased revenue and net earnings. In fact, in a growing economy, more competition is created thus placing significant pressure on prices resulting in many employers having to maintain or even reduce their pricing structures to effectively compete with competitors and upstarts.

When it comes to human resource management, significant pressure is placed on employers when the economy is growing. Employees have opportunities that they haven’t see in decades and the younger generations are more mobile and are more apt to jump jobs for a few cents on the dollar. So, what are employers to do in terms of attracting and retaining good employees when job openings outnumber the jobless for the first time in history?

The answer - “pay more?” If you research various HR groups, blogs and societies, their short answer is to simply pay and offer more benefits. This will result in automatic attraction of applicants as well as the retention thereof. **Wrong!**

This shortsighted solution is absolutely the wrong thing employers should do. Simply paying and offering more benefits is not only a very shortsighted, short-term fix, but many industries, regions and locations of businesses simply cannot afford nor are required to simply pay more and provide more benefits to attract and retain employees.

Please consider the following SESCO staff recommendations to address current human resource challenges or perceptions of challenges as created by this excellent economy.

1. Employee Satisfaction - The first recommendation is to understand the current level of employee satisfaction and morale of your employees. For regardless of how much you pay, even if you are the highest payer in town, if you do not have a high level of employee satisfaction and morale, pay becomes irrelevant and you will not be able to attract and retain quality employees.

It’s important that employers at least every 12 to 24 months survey their employees to find out what employees like about working for the organization and what employees suggest for improvement.

This survey must be carefully planned and administered. Many employers conduct “so-called” surveys internally themselves through a SurveyMonkey type of program that doesn’t truly identify the strengths and weaknesses of the organization. SESCO’s survey is validated by the University of Tennessee and has been carefully developed and maintained over 50 years.

Further, survey administration is critical for overall success to include:

- Establish survey groups, including by leaders, functions and departments and subsequently the data will be sorted by such break downs.
- Have an outside third party administer the survey on your behalf.
- No employee should sign or identify themselves on any survey form.
- Summary results need to be fed back to employees through employee feedback meetings. These

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feedback meetings are the most important part of the process in that they allow the survey consultant to review the results, confirm the results and subsequently receive additional, clarifying information where necessary.

- Leadership to develop an action plan. This action plan includes not only those items that can and should be addressed but also those items that cannot or should not be addressed and why.

Employers many times do not conduct these types of surveys because they are afraid of what they are going to hear or assume that everything is going well. Employers also shy away from conducting surveys because they feel as if they are going to have to address every item as identified by employees.

Successful companies have open doors and need and want employee feedback. This open communications culture creates a high level of employee satisfaction and morale which equates to retention. The mere fact that management asks employees what they like as well as their suggestions sends a powerful message to employees. However, we must be serious about the survey and genuine in our response whether we can or cannot fix or address employee suggestions.

A well designed and effective employee satisfaction survey is one of the most important and valuable human resource management programs an employer can engage.

2. Understanding Employee Retention

- Compensation never has or never will be a meaningful retention factor. However, compensation must be reasonably competitive and meet the basic needs of the employees and their families. But if you chase after talent and listen to the so-called HR experts and simply increase your pay, there is no guarantee that this will result in retaining your good employees.

Employee retention is very simple. Please consider the following employee

wants and needs:

- **Employees want** to do interesting, challenging work in which they can assume some responsibility. Employees welcome work that is challenging and want the chance to think for themselves and contribute new ideas. If you don't give people work that is challenging and motivating, you force them to get job satisfaction through compensation - more money and higher benefits. This results in more wage and benefit demands and labor unrest. Spiraling wages over the years have not motivated working people except to look for their next wage increase. So-called "*fringe benefits*," which now cost employers approximately 35% of their annual payroll, do not motivate employees. People spend less time working for money and more security than ever before, and the trend cannot be reversed.
- **Employees want** recognition for good work. Verbal and tangible recognition is often more important than pay increases. "*Recognition*" from management makes an employee feel important and appreciated. These basic "*self-esteem*" needs, when consistently met by management and supervision, is one of the most powerful, intrinsic job motivators.
- **Employees want** to work with managers and supervisors who treat them with respect. Employees, supervisors, and managers bring to the job a consistent need to be treated fairly, consistently, and with respect. They desire employee and communications that are two-way, not one way, and free of verbal threats, verbal abuse, and unrealistic demands.
- **Employees want** to have the chance of developing new skills. Employees want the opportunity to advance and grow into more skillful people so they can have the opportunity to move into more responsible, challenging, and financially

rewarding jobs. We have observed in our consulting profession that the more employees are qualified to do, the more they are motivated. The less they are qualified to do or have to do, the less they are motivated.

- **Employees want** to work with managers who listen and appreciate employee ideas on how a job can be done better, more productively or more safely. Employees want to have the opportunity of sharing their opinion on how their company can be a better place to work for everyone.
- **Employees want** a chance to think for themselves rather than just carrying out rigid instructions from their boss. Today's working man and working woman are more intelligent and better educated than any previous period in our U.S. labor history. Employers that implement employee involvement programs, quality circles, and management-supported employee suggestion systems have benefited greatly by meeting this on-the-job need of working people.
- **Employees like** to see or know the "*end results*" of their work. The employee wants to know how his job will contribute to achieving the company's mission and objectives. The need for "*job enrichment*" is not a one-time proposition, but a continuous management challenge.
- **Employees want** to work with managers and supervisors that are committed, dedicated, and supportive. We all wish to work with a manager or supervisor that is an effective leader. Employees want to be loyal and supportive of their managers and supervisors.
- **Employees want** to know what's going on. Today's employee wants to know how well the company is doing and the problems and challenges facing their employer. Only in this way can employees and their families decide whether or

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not to go in debt for a new home, a new vehicle or to borrow for other family needs.

- **Employees want** to feel good about working for their employer. They want to have pride in their contribution to the company's objectives. Employees want to feel proud about where they work. They want to work with ethical managers that believe there is no right way to do a wrong thing.

3. The Realities of Compensation -

Compensation, how much we pay an employee, is not a long-term motivator. Certainly, we must pay employees a reasonably competitive amount but our pay levels must be based on a number of factors including:

- Industry
- Affordability/ability to pay
- Internal competitiveness
- Market competitiveness/region

Your business will never be the highest payer in your region and, frankly, should not be. Wages and benefits must be a derivative of your ability (affordability) within the market you operate, cost-of-living indexes for your specific regions and the positions that you employ.

Example - Currently, SESCO is assisting an employer in challenging their current compensation system and offerings. They operate in the state of Virginia. When conducting a wage and benefit survey, wages as reported varied significantly across the state. In Northern Virginia, the cost-of-living index is 144% to the rest of the state. Where this employer operates, their cost-of-living index is .92% to the state average. As such, it is critical for employers to know and understand the market in which they operate as if you begin to chase after talent by simply paying more, you will create a model that strips your affordability as well as create significant compression within your pay system.

In this same example, it was also determined that the duties commonly found titles/positions in the marketplace varied. It was determined that a position in various organizations wear multiple hats and have

different responsibilities than other similar positions in the marketplace. This reality also creates internal equity issues based upon the experience, skills and abilities to perform the job.

What should all employers do now?

4. **Check the Market** - Conduct a customized survey of your market. Your market are those organizations for whom you compete for talent. These organizations may be within the same industry but also will include other employers who are recruiting and retaining similar behaviors and skills.

In analyzing wage survey data, keep in mind cost-of-living indexes, position responsibilities to ensure internal equity and always request actual pay for current incumbents - not ranges.

Some basic tenets of compensation that must be contained in your philosophy include:

- You will never be the highest payer in your market.
- You must define your "right price" for every position. And this is not as easy as "matching the market." Most employers simply cannot survey and subsequently match the market. You must base your right price off of your ability to pay as well as the position value as ranked internally to other positions. Internal equity is as or more important than external equity.
- Your compensation program must be in writing.
- Internal equity and fairness are more important than dollar amount.
- Lean staffing levels and high-performance expectations are necessary for sustained profitability.
- Owners/managers/leaders more than anyone else determine payroll staffing by the quality of person they hire, develop and train to perform the services.

Bottom line is the answer is no, the answer is not simply to increase your pay.

SESCO Client Feedback

"We met last week at the SHRM meeting. I just wanted to take a moment and say thank you for taking the time to visit with us and share some of your expertise; sometimes I can take a lot home from those meetings, and your visit was certainly one of those times. I appreciate the weekly updates your office sends out as well. A colleague from the chapter and I were talking the other day, and I said that most of the time I just delete the mass emails that I get, but that yours is one of those which I take the time to skim and pick out topics to read on about each week. So, thank you again. Like I said, I just wanted to let you know that I appreciate your time and effort in helping us out, and I hope we have the chance to do it again soon." ~ Mike Davis - Ammar's

Special Thanks to New SESCO Clients!

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SESCO Client Corner

LTK Engineering Services

LTK Engineering Services has provided outstanding service to the passenger rail industry for 80 years. Founded as a one-person electrical engineering firm in 1921 by Louis Tobias Klauder, LTK is North America's largest consultant dedicated exclusively to the passenger rail industry.

Passenger rail is LTK's sole focus. LTK provides highly-specialized technical and management expertise to meet their clients' toughest rail vehicle and rail systems engineering challenges.

LTK's market leadership is founded on the industry's largest portfolio of specialized rail project experience. Whether it's rail cars, signals, traction power supply and distribution, fare collection or simulating all rail operations, LTK provides clients with practical, efficient, economical solutions incorporating the best of both existing and state-of-the-art technologies.

SESCO is proud to call LTK Engineering Services a valued client!

"If you work for a man, in heaven's name work for him, speak well of him, and stand by the institution he represents. Remember, an ounce of loyalty is worth a pound of cleverness. If you must growl, condemn, and eternally find fault - resign your position, and when you are outside, damn to your heart's content - but as long as you are part of the institution, do not condemn it. If you do, the first high wind that comes along will blow you away, and probably you will never know why."

~ Elbert Hubbard