



**It's Not Just About
the Money:
How SMBs Can Overcome
Today's Compensation
Challenges**

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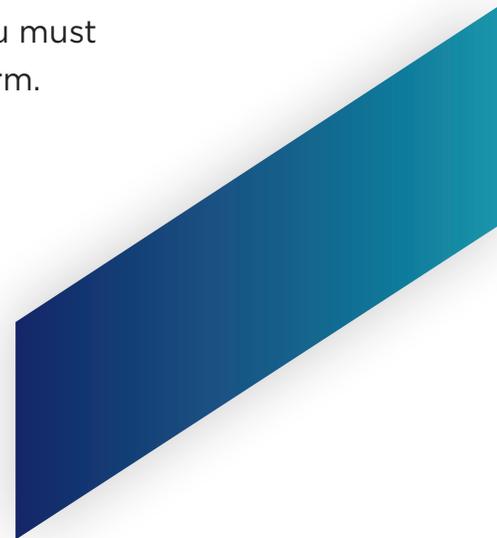
Complex Times Demand Creative Solutions

An unusually complex mix of factors—inflation, an unstable world, the Great Resignation, COVID-19, supply chain disruptions, job openings, a distributed workforce and the threat of recession—can make it hard for even the savviest small and medium-size business (SMB) owners like you to know how to respond.

One particular challenge facing SMBs is the way these factors have emboldened employees and potential employees to not just demand market-rate pay, but also demand SMBs practice pay transparency, and offer benefits such as a more flexible work-life balance, distinctive benefit packages tailored to their needs, a sense of purpose and a genuine voice in what their work-life looks like. While much of this is simply an acceleration of trends long in the making, SMBs like you must creatively respond or struggle to survive in the near- and long-term.

Thankfully, solutions exist that will help you attract the best and brightest, retain your most talented employees and position your business well for when economic conditions shift again.

This eGuide will help you understand the current compensation environment and walk you through some potential solutions that can help lead to more productive, engaged employees who are more invested in the success of your business.



The Forces at Play

The current environment is almost a perfect storm of powerful economic forces. To navigate it correctly, you must first get a handle on what those forces are and how they interact.

Inflation

On July 13, 2022, the Bureau of Labor Statistics released its latest inflation numbers.¹ They weren't pretty. For June 2022, the Consumer Price Index for All Urban Consumers rose 1.3%, seasonally adjusted, and rose 9.1% over the last 12 months, not seasonally adjusted. The July 2022 numbers were slightly better at 8.5% inflation over the prior 12 months, but inflation concerns remained.² Having already demonstrated its concerns by announcing a three-quarter percent increase in June to its key interest rate,³ and then again in July,⁴ the Federal Reserve spiked interest rates another three-quarter percent in November.⁵ Some expect the hikes to continue,⁶ spurring fears of recession.⁷

Businesses of all sizes are scrambling to respond, often with short-term fixes around salary, which are not always effective and can have long-term financial implications. As of this writing, the U.S. Bureau of Labor Statistics Employment Cost Index showed that compensation costs for civilian workers increased 1.2%, seasonally adjusted, for the three-month period ending in September 2022; wages and salaries increased 1.3% and benefit costs increased 1.0% from June 2022.⁸

The bottom line is that competition for employees is fierce, which introduces another complication: **pay compression**. As SMBs raise base pay for new employees, their own long-term employees' compensation may lag behind. If you don't recognize existing employees' expertise and loyalty with appropriate raises in base pay, their frustration could lead to them walking out the door, taking with them years of institutional knowledge that is often critical to running a business well. Having varying levels of compensation for different employees in the same or similar positions may also lead to claims of discrimination and potential violations of applicable equal pay requirements. Therefore, SMBs should proactively evaluate competitive market compensation, establish pay scales and continually review pay processes and systems to maintain equity. SMBs should also be sure to communicate clearly and effectively with their long-time employees so they understand how their pay rate fits in the overall business strategy.

The Federal Reserve continued to spike interest rates another three-quarter percent in November. Some expect the hikes to continue, spurring fears of recession.



1 <https://www.bls.gov/cpi/>. Accessed July 14, 2022.

2 <https://www.nbcnews.com/business/economy/july-inflation-numbers-consumer-prices-rose-85-year-year-summer-inflat-rcna42393>. Accessed August 13, 2022.

3 <https://www.cnn.com/2022/06/15/fed-hikes-its-benchmark-interest-rate-by-three-quarters-of-a-point-the-biggest-increase-since-1994.html>. Accessed July 14, 2022.

4 <https://www.cnn.com/2022/07/27/fed-decision-july-2022-.html>. Accessed August 13, 2022.

5 <https://www.forbes.com/sites/jonathanponciano/2022/11/02/fed-raises-rates-another-75-basis-points-further-pushing-borrowing-costs-to-highest-level-since-great-recession/?sh=26bac464319f>. Accessed November, 7 2022.

6 <https://www.cnn.com/2022/08/12/fed-expected-to-stick-with-hawkish-interest-rate-hikes-strategists-say.html>. Accessed August 13, 2022.

7 <https://www.cnn.com/2022/07/13/fed-report-finds-higher-fears-of-inflation-and-potential-recession.html>. Accessed July 14, 2022.

8 <https://www.bls.gov/news.release/pdf/eci.pdf>. Accessed August 13, 2022.

The Work From Anywhere Generation

Remote work became the norm during the pandemic and many workers in many industries don't want to come back to the office—at least not full-time. They're finding housing in less expensive areas and some studies⁸ indicate that they can be more productive while achieving a better work-life balance.

This raises a number of questions for SMBs:

- **How can you create policies that optimize employee flexibility** for where they work in a way that also benefits your business?
- **How should the cost of living factor into compensation** when employees are mostly working from home?
- **How can you create consistent and compliant policies** for different pay scales in different geographies?
- **How can you validate your policies are fair** and clearly communicated to your employees?

These are some of the difficult questions that the “work from anywhere” generation has introduced into the conversation. Tapping into the expertise of a PEO like TriNet, which has been on top of these difficult questions since early on in the pandemic, can help.



55%

of workers say that the ability to work from home or have a more flexible schedule is more important to them now than it was before the pandemic.

Not Your Parents' Workforce

Expectations about remote work are not the only expectations that have changed. Numerous surveys over the last few years have confirmed that today's workers have many other different expectations about their work life than previous generations. Pay, of course, remains important, but flexible hours, a sense of purpose, opportunities for educational and career advancement, skill development, and benefit packages that include creative or nontraditional benefits all figure in to whether an individual will take or remain in a job.

“Some 55% of workers say that the ability to work from home or have a more flexible schedule is more important to them now than it was before the pandemic,” according to Bankrate's February 2022 Job Seeker Survey.⁹ A recent article at forbes.com¹⁰ noted that, “employees may leave their jobs in pursuit of new opportunities that they think will drive them to reach their highest level of potential.”

⁸ <https://www.apollotechnical.com/working-from-home-productivity-statistics/>. Accessed August 13, 2022.

⁹ <https://www.bankrate.com/personal-finance/job-seekers-survey-march-2022/>. Accessed July 14, 2022.

¹⁰ <https://www.forbes.com/sites/forbesbusinesscouncil/2020/12/16/three-ways-to-retain-a-younger-generation-of-employees/?sh=e97210ab47b0>. Accessed June 21, 2022.

The Great Resignation

The failure of some employers to recognize and meet the needs of today's employees are key factors, along with the COVID-19 pandemic, in what has come to be known as The Great Resignation.

According to the Willis Towers Watson 2022 Global Benefits Attitudes Survey, 29% of employees are looking for new opportunities.¹¹ Lest one doubts how seriously to take that finding, according to the latest State of Work in America from Grant Thornton¹², 21% of its survey respondents took a new job in the past six months. These stark facts make clear how much the investments SMBs make in recruiting, hiring and training new employees—and the invaluable institutional knowledge those employees come to possess—are now at risk.

Several follow-up questions in the Grant Thornton report revealed many of the reasons employees were willing to move on. Perhaps most significantly, employees have options. Almost 60% of respondents who recently took new jobs had two or more competing offers.¹³ Understanding what convinced them to move on can guide employers seeking to successfully compete for new workers and retain their own.

As noted above, base pay remains the most important factor but, again, respondents¹⁴ also made clear they valued work-life balance, opportunities for advancement, benefits and work autonomy almost as much. Clearly, being able to tailor a work environment to an employee's needs has become paramount in today's environment. Flexibility was an especially important enticement, with four in five stating they want flexibility in when and where they work.¹⁵ Career opportunities are another enticement for joining or remaining with a company and the flip side is also true: lack of career opportunities within an organization can be a compelling reason to leave.

SMBs must understand these factors and address them in the months and years ahead.

Compensation Transparency

Employees have also begun to demand pay transparency and a growing number of jurisdictions also have pay transparency and reporting requirements, such as compensation disclosure and pay data reporting. Employees expect to know what their peers earn and what they can expect to earn before accepting a job or deciding to pursue a promotion. They also want to be clear about the expectations for any job or promotion they pursue. Actual or perceived pay differentials, along with the desire to enforce pay equity, have led to increasing pay transparency requirements at the federal, state, and local levels.

Employers have long feared that transparency can force wages up and lead to difficult conversations with their entire workforce. Yet in the current environment, willingness to be clear about what people are paid and why—and posting compensation proactively—may be required for compliance and yield numerous advantages. Doing so sends a clear signal to employees and potential employees that yours is a workplace that believes in pay equity, as well as in being open and honest with your workers.



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¹¹ <https://www.wtco.com/en-CH/Insights/trending-topics/global-benefits-attitudes-survey-2022>. Accessed June 21, 2022.

¹² The State of Work in America: American Workers Find Their Voice. Grant Thornton LLP, 2022.

¹³ Ibid

¹⁴ Ibid

¹⁵ Ibid

The Growth of Non-Traditional Benefits

Compensation includes benefits. Beyond the need for comprehensive and cost-effective traditional benefits like health and life insurance and retirement plans, prospective employees are now looking at non-traditional benefits to enhance their work-life balance. Everything from subsidized child and senior care through employee assistance programs (including various types of mental health benefits) and pet insurance are becoming increasingly common. The challenge for SMBs is being able to offer the benefits employees' desire.

A Checklist of Table Stakes and Creative “Raises”

Despite the challenges of today's compensation environment, there are a variety of compensation approaches that enable SMBs to develop a fully engaged workforce that is central to success in both the present and the future. What follows is a checklist of important tactics that, taken together, address the challenges and make up a thoughtful strategic approach easily tailored to the specific needs of any SMB.

Listen and Communicate

A successful compensation strategy begins with effective two-way communication.

Listening is often the most underused and poorly executed part of two-way communication. Today's workers view having the ear of leadership as integral to being fully engaged in their work. Therefore, it's important to develop tactics that give employees that voice: ways to solicit their input and consider their ideas and concerns carefully.

That doesn't mean you need to meet every demand, but it does mean that when you choose not to meet reasonable concerns, you communicate clearly why you cannot address those concerns. This is the second piece of effective communication.

Once you've determined the level of compensation transparency that is appropriate for your business, it's important to communicate—then communicate some more and communicate again. You should check to make sure your employees are hearing and understanding the messages you're sending and the value you are providing. If they're not, think about other methods you might want to use to keep the lines of communication open with your employees. Communication strategies abound and an experienced PEO can offer guidance in this regard.

Pay People What They're Worth

It is almost always a shortsighted practice to pay your employees less than their worth. As noted in a recent TriNet webinar with Salary.com,¹⁶ an important rule of salary negotiation for employers to keep in mind is to avoid bargains.

So what level of compensation is fair? That will be different for every SMB and every industry, so step one is to understand what your business can truly afford. Equally important, ask your employees what makes them want to stay with your company. Which aspects of their compensation are satisfying, and which would they like to see improved? It may be time to consider conducting an employee engagement survey to measure what they appreciate about your company and what they



value most when it comes to compensation. Share the results with the employees and tell them what actions you plan to take based on the feedback.

Once you have a clear idea of what you can afford and what your employees want, benchmark against comparable jobs. A PEO like TriNet has tools and resources to provide you with current salary ranges and historical context to help you make that assessment.

Understand the Role of COLA, Merit Pay and Bonuses

Employers have a number of traditional tools they can deploy to help provide fair compensation without breaking the bank.

Cost-of-living adjustments (COLAs) are intended to help employees keep up with inflation, so you might look to those first.

In addition, while merit pay, incentive pay and bonuses are not intended explicitly to keep up with inflation, SMBs can use them, within reason and with appropriate policies in place, as shorter-term compensation strategies to address immediate market conditions, without locking your company into compensation increases you may not be able to sustain long-term.

Implement Compensation Transparency

When deploying your compensation strategy, you should be clear about what you're offering and why—and what employees can reasonably expect down the road. In fact, as noted above, a growing number of jurisdictions require compensation disclosure and reporting, so it's important to be transparent about compensation and related decisions, from the time you post a job opening through raise discussions. Be clear on what, how, where and why. When setting compensation ranges, keep in mind pay equity requirements that exist at the federal, state, and local levels. That is:

- **Here is what you get paid.**
- **Here is how we use market data** to adjust pay rates.
- **Here is where you fall in the current pay ranges**—as well as benefits—and where you can reach if you achieve these specific goals.
- **Here is why we approach compensation this way**—this validates you have a culture where everyone understands what their goals and how to get there.

In addition, some employers have moved towards issuing total compensation statements, which give each employee information on their complete pay package on an annual basis, including salary, benefits and perks. Such statements clarify the full investment an SMB is making in each employee, while also helping employees better determine how aspects of their compensation compare with market rates.



Develop Creative Benefit Solutions

Beyond healthcare, selecting nontraditional benefit packages depends on the make-up and desires of your workforce. Here again, the choices begin with communication, especially listening to your employees and doing some research about what you can reasonably offer to validate what you provide actually adds to employee satisfaction and retention. Among the benefits that have been particularly popular over the last few years:

- **Subsidized childcare and/or eldercare**
- **Employee assistance programs**
- **Mental health benefits**
- **Enable employees to bring pets to work**
- **Pet insurance**
- **Access to financial planning**
- **Gym memberships**
- **Student loan repayment**

Benefit funding strategies for your particular workforce is another area where a PEO like TriNet is in a position to provide benchmarking and real time assistance.

Offer A Sense of Purpose

While a sense of purpose can feel like a less concrete “benefit” to define, many employees have clearly expressed a desire to be part of an organization that does meaningful work that contributes to their local community or world writ large.

One important aspect of this is an investment in and a genuine commitment to advancing diversity, equity and inclusion (DEI) in the workplace. Studies have shown such investments can generate positive results for the work environment, employee experience and, ultimately, productivity.¹⁷

Another piece to consider is carving out time for employees to volunteer in the communities where they live and work. Tutoring or mentoring programs, cleaning up parks or beaches, or serving food to seniors are just a few examples of the types of programs that employees may find rewarding.

The bottom line is that it is important to develop mission statements that help define a culture that attracts employees by providing them with that sense of purpose. This will be different for each SMB.



¹⁷ <https://www.mckinsey.com/featured-insights/diversity><https://www.cnn.com/2022/07/27/fed-decision-july-2022-.html-and-inclusion/diversity-wins-how-inclusion-matters>. Accessed July 14, 2022.

Create Avenues for Personal Growth

Personal growth is tightly linked with an individual's sense of purpose, and in the workplace, it is specifically about creating programs that support employees in efforts to acquire new skills that will enhance their careers and earning power.

Training and mentoring programs fit in this category, as does subsidizing classes, certificate or degree programs. How you structure this will depend, again, on your particular workplace and your employees, but training and mentoring is an increasingly valuable piece of any compensation package.

How Meeting the Moment Meets the Needs of Your People and Business

What we've outlined in this eGuide is an overview of how to think about compensation in both the short and long-term, and some essential tactics. While each business is different and so how you deploy these tactics will differ, certain principles should drive everything you put in place.

1. **Know your culture**, both the current culture and, if you're not where you want to be yet, the one you aspire to create. What types of people do you need to create or further that culture and how can you attract and retain those people?
2. **Know your employees.** While new hiring is important, it's also important to value the people you have today. As we've noted, listening to their needs and concerns—and addressing them whenever possible—is essential.
3. **Keep leaders accountable** to diverse and equitable practices by tying diversity, equity and inclusion initiatives to business health and sustainability.
4. **Know your budget.** Know what you can afford to do, but be realistic as well. As we've noted, searching for bargains to save a few dollars rarely works out for the better.
5. **Communicate clearly, effectively and transparently.** We cannot emphasize this enough. Listen first, and then be very clear about what you are doing and why you are doing it in terms of both your company-wide compensation policies and how it affects individuals. Forming compensation and talent philosophies can help you and your employees get on the same page about compensation—and are additional areas where a PEO like TriNet can lend assistance.
 - a. A compensation philosophy is a formal statement documenting your company's position about employee compensation. It explains the "why" behind employee pay, provides a framework for consistency and, as such, plays an important role in attracting, retaining and motivating employees.



“Our partnership with TriNet allows us to offer certain benefits to our employees that may not be possible on our own. Having TriNet in place also allows us to fulfill one of our core company pillars: commitment to people.”

Eileen Mockus, CEO, Coyuchi

- b. A talent philosophy is your company's belief about the most effective way to manage talent to achieve the business strategy. It explains how managing people in this way is linked with company success.
6. **Know your capabilities.** Do you have the internal expertise to devise and execute on a compensation strategy that considers the current and long-range forces at work or do you need outside help to create such a strategy?
 7. **Comply with applicable compensation related requirements.** Increasingly, states and localities are enacting laws requiring salary disclosures for both applicants and promotions/transfers, along with potential salary reporting requirements at federal and state levels. You should also keep in mind pay equity laws that exist at all levels.

As we've shown throughout this eGuide, when you do need outside help, a PEO like TriNet can be invaluable. Not only does a PEO offer access to traditional benefits, including health care, but a PEO also offers best practice experience in tricky aspects of HR management. Finally, in the case of TriNet, we also offer affordable, fee-based compensation benchmarking data, as well as compensation consultations to help you stay competitive in this challenging market.

This is a complex time in a complex world. TriNet is an ally that SMBs can work with to help shape the compensation strategy that works best for your business.

About TriNet

TriNet (NYSE: TNET) provides small and medium size businesses (SMBs) with full-service HR solutions tailored by industry. To free SMBs from HR complexities, TriNet offers access to human capital expertise, benefits, risk mitigation and compliance, payroll and real-time technology. From Main Street to Wall Street, TriNet empowers SMBs to focus on what matters most—growing their business.

Go to **TriNet.com** to get started or speak with a TriNet representative at **888.874.6388**.

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