

The Business Case For Completing A Compensation Audit

We all agree that there is a basic requirement in business to have in place a solid performance management, reward strategies and system capabilities to be successful. Although, all too often the reality is that companies reward one behavior when they actually seek a different outcome.

Simply stated, the framework should:

- Define the desired performance in real goals and action plans
- Describe the ideal areas and measure them appropriately
- Create the proper rewards for achieving the right measures

Bonuses, incentive pay, variable and at-risk compensation are good methods for incentivizing appropriate behavior while preventing it from regressing.

Retooling a company's performance strategy is an important opportunity to make a solid performance and reward system a distinctive competency and a competitive advantage.

How should we start?

Employee salary, bonus, incentive and equity programs should be reviewed or audited on a periodic basis to determine their effectiveness, competitiveness, and compliance.

The following questionnaire is an appropriate place to start:

- Has the company recently changed its business or sales strategy? If yes, has the compensation plan been reviewed to determine if it supports the new strategy?
- Has the company been experiencing growth?
 - Do you feel satisfied that your pay programs provide sufficiently motivating rewards for the achievement of company business objectives?
 - Are there fair differentials in pay for current employees when compared with the pay offered to new hires?
 - Do you feel comfortable that there are good compensation systems to ensure employees are paid in a fair manner relative to their responsibilities, performance, and overall contribution?

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- Have there been issues with recruitment or retention of employees and executive management due to inadequate employee compensation or financial rewards?
- Are you comfortable that all levels of management are appropriately setting employee performance standards, measuring and rewarding performance?
- Are you satisfied with the information that you have about competitor compensation and benefit practices?
- Have you reviewed your compensation practices for compliance with state wage orders, state employment discrimination laws, FLSA and EEO (Title VII, Equal Pay Act, etc.) statutes in the last few years?
- Do employee salaries and bonuses reflect changes in job duties as they evolve?

The review process should include detailed questions related to each of the above issues as well as others, and would typically include, a detailed analysis of compensation-related documents and policies, review of payroll and personnel records, and interviews with key management personnel.

[Please share your thoughts!](#)

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