

# Compensation Survey Reveals Risks

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Risks are inherent in managing a diverse work force over multiple locations, as well as in complying with the 30-plus employment laws for which most



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financial institutions are held accountable. A few of the top risks identified by the 29 financial institutions participating in the 2008 Compensation Survey sponsored by the New Jersey Bankers Association are described here.



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## COMPENSATION PRACTICES

Less than 60 percent of the financial institutions responding to the survey have a

formal salary administration program in place. Defense against claims under the Equal Pay Act, Americans With Disabilities Act and Fair Labor Standards Act is jeopardized without clear documentation of job responsibilities (in the form of job descriptions), equitable pay practices and justification for classifying positions as exempt from overtime pay. Common problems that arise when formal salary administration programs are not in place include the following:

- Job descriptions, if they exist, do not conform to a standard format, which jeopardizes compliance with the ADA and FLSA;
- Duties defined for exempt job titles do not satisfy legal criteria for exemption from overtime pay;
- The employee handbook does not provide a definition of compensation that is included in the calculation of regular rate of pay for purposes of determining time and a half for overtime pay under wage and hour regulations;
- Base pay programs do not define how hiring rates, promotional increases or merit

increases are determined, to ensure fairness across job types and protected employee groups;

- Incentive programs do not define program objectives, eligibility or payment rules, thus providing the organization no defense for employee claims of inaccurate pay or pay discrimination;
- Criteria for assignment of officer titles have not been documented. Lack of documentation leads to inconsistent designation of officers and potential discrimination disputes with employees.

## RETENTION PRACTICES

The average employee turnover rate for the responding financial institutions is 25.1 percent:

- When adding up the costs for recruiting, orienting and training a new employee, the cost of turnover can quickly accumulate to one-fourth, half, or even more of an employee's annual salary. This cost doesn't take into consideration lost productivity, opportunity or customer churn that can occur when positions are vacant or current staff is not adequately trained to meet business demands;
- When turnover is not voluntary, other risks are associated with proper termination practices and documentation.

## TRAINING AND DEVELOPMENT PRACTICES

While 89.7 percent of survey participants identify "developing employee skills and knowledge" as a most important HR management issue, companies are lagging in the type of training they provide and in evaluating the effectiveness of the training provided:

- None of the respondents have a formalized leadership development process in place, and 20.7 percent do not offer any training on manager skills, which can result in management effectiveness and succession planning being left to chance;
- Only 20.7 percent track changes in the

performance results of those who receive training. As a result, for most organizations the return on resources invested in training cannot be measured;

- 27.6 percent do not evaluate training effectiveness to ensure that the training provided leads to the achievement of learning objectives;
- Only 48.3 percent test training participants to determine if knowledge or skill development was attained.

Since supervisors have a significant role in representing their institution to employees and making employment decisions, institutions risk inconsistent or erroneous administration of policy in the absence of formal training about compliance with the Civil Rights Act, ADA, EPA, FLSA, and Family and Medical Leave Act. Areas of risk include:

- Evaluating employee performance;
- Addressing employee job performance or behavior problems;
- Terminating employees;
- Interviewing job applicants and making hiring decisions;
- Recognizing potential leave-of-absence situations and responding appropriately;
- Understanding wage and hour provisions of the FLSA and managing work schedules appropriately;
- Understanding the harassment policy and responding appropriately to allegations of harassment.

Do any of these risks related to managing human resources exist in your financial institution? If so, now is the time to identify and mitigate them. ■

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