

Evaluating a Hiring and Variable Pay Plan

Effective Management Solutions (EMS) is a small, rapidly growing management consulting company. EMS has divided its practice into four areas: management systems, business process improvement, human resources, and quality improvement. Strategically, EMS has embarked on an aggressive revenue growth plan, seeking a 25% revenue increase in each of the next five years for each of the four practice areas. A key component of its plan involves staffing growth, since most of EMS's current entry-level consultants (associates) are at peak client loads and cannot take on additional clients; the associates are also at peak hours load, working an average of 2,500 billable hours per year.

Staffing strategy and planning have resulted in the following information and projections. Each practice area currently has 25 associates, the entry-level position and title. Each year, on average, each practice area has five associates promoted to senior associate within the area (there are no promotions or transfers across areas, due to differing KSAD requirements), and five associates leave EMS, mostly to go to other consulting firms. Replacement staffing thus averages 10 new associates in each practice area, for a total of 40 per year. To meet the revenue growth goals, each practice area will need to hire 15 new associates each year, or a total of 60. A total of 100 associate new hires will thus be needed each year (40 for replacement and 60 for growth).

Currently, EMS provides each job offer receiver a generous benefits package plus what it deems to be a competitive salary that is nonnegotiable. About 50% of such offers are accepted. Most of those who reject the offer are the highest-quality applicants; they take jobs in larger, more established consulting firms that provide somewhat below-market salaries but high-upside monetary potential through various short-term variable-pay programs, plus rapid promotions.

Faced with these realities and projections, EMS recognizes that its current job offer practices need to be revamped. Accordingly, it has asked Manuel Rodriguez, who functions as a one-person HR "department" for EMS, to develop a job offer proposal for the EMS' partners to consider at their next meeting. The partners tell Rodriguez they want a plan that will increase the job offer acceptance rate, slow down the outflow of associates to other firms, and not create dissatisfaction among the currently employed associates.

In response, Rodriguez developed the proposed hiring and variable pay (HVP) program. It has as its cornerstone varying monetary risk/reward packages through a combination of base and short-term variable (bonus) pay plans. The specifics of the HVP program are as follows:

- The offer receiver must choose one of three plans to be under, prior to receiving a formal job offer. The plans are high-risk, standard, and low-risk.

- The standard plan and participation 20% of current
 - The low-risk plan age and no participation
 - The average market by HR.
 - The individual 1 on three indicated, and client-
 - The hiring manager and standard plan on need to fill the
 - The hiring manager initial starting salary years.
 - Switching plans
 - Current associates
- Evaluate the HVP
1. If you were an offer receiver, which plan would you choose, and why?
 2. Will the HVP program increase the acceptance rate, slow down the outflow of associates to other firms, and not create dissatisfaction among the currently employed associates?
 3. Will the HVP program increase the revenue growth goals?
 4. How will the HVP program affect the current employees?
 5. What issues are associated with the HVP program?
 6. What changes are needed to improve the HVP program?

ENDNOTES

1. M. W. Bennett, D.J.F. (Washington, DC: Business Resources, 2004), p. 15.
2. *Manual* (Boston, MA: Resource Management, 2004), p. 15.

- The standard plan provides a starting salary of 10% below the market average and participation in the annual bonus plan, with a bonus range from 0% to 20% of current salary.
- The low-risk plan provides a starting salary that is 5% above the market average and no participation in the annual bonus plan.
- The average market rate will be determined by salary survey data obtained by HR.
- The individual bonus amount will be determined by individual performance on three indicators: number of billable hours, number of new clients generated, and client-satisfaction survey results.
- The hiring manager will negotiate the starting salary for those in the high-risk and standard plans, based on likely person/job and person/organization fit and on need to fill the position.
- The hiring manager may also offer a "hot skills" premium of up to 10% of initial starting salary under all three plans—the premium will lapse after two years.
- Switching plans is permitted only once every two years.
- Current associates may opt into one of the new plans at their current salary.

Evaluate the HVP program as proposed, answering the following questions:

1. If you were an applicant, would the HVP program be attractive to you? Why or why not? If you were an offer receiver, which of the three plans would you choose, and why?
2. Will the HVP program likely increase the job offer acceptance rate? Why or why not?
3. Will the HVP program likely reduce turnover? Why or why not?
4. How will current associates react to the HVP program, and why?
5. What issues and problems will the HVP plan create for HR? For the hiring manager?
6. What changes would you make in the HVP program, and why?

ENDNOTES

1. M. W. Bennett, D. J. Polden, and H. J. Rubin, *Employment Relationships: Law and Practice* (New York: Aspen, 2004), pp. 3-3 to 3-4; A. G. Felin, *Primer on Individual Employee Rights*, second ed. (Washington, DC: Bureau of National Affairs, 1996), pp. 7-29; G. P. Panaro, *Employment Law Manual* (Boston, MA: Warren, Gorham and Lamont, 1993), pp. 4-2 to 4-4; Society for Human Resource Management, "How to Create an Offer Letter Without Contractual Implications," Sept. 15, 2010 (www.shrm.org/templatedocs/howtoguides/papers/howtocreateanofferletter.aspx).
2. Panaro, *Employment Law Manual*, pp. 4-61 to 4-63; D. Cadran, "Coming to Terms," *Staffing Management Magazine*, Oct. 2009 (www.shrm.org/publications/staffingmanagementmagazine/EditorialContent/Pages/1009cadran.aspx).

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