

# A Strategic Approach To Remunerating 'Hot' Skills in Times Of Skills Shortages

It is common knowledge that in a tight labour market where particular technical and business skills are in short supply, it is important for organisations to be aware of market pay rates and adjust employees' remuneration, where appropriate, in order to attract, motivate and retain staff.

What is not so commonly understood however is that the methods used to adjust remuneration for those employees with scarce or 'hot' skills can strongly impact the short and long term profitability of a business. This article discusses a strategic approach to managing 'hot' skills and pay in times of skills shortages. The approach suggests ways in which organisations can remain competitive in the pay stakes without compromising their 'bottom line'.

## Step One: Determining Which Skills Are HOT – Using External & Internal Factors

Step one in a strategic approach to remunerating 'hot' skills is to determine which skills are actually 'hot'. This process should encompass an analysis of *external* and *internal* factors.

*External* factors: Continual monitoring of the recruitment and pay markets is an essential part of determining which skills are 'hot'. Information that can be gathered by businesses and analysed to gauge a change in the market or the supply and demand for particular skills include:

- Exit interview transcripts
- Staff turnover statistics
- The length of the hiring cycle
- Applicant ratio

Keeping abreast of the market can also be achieved by maintaining contact with your remuneration management consultancy. For example, CSi – The Remuneration Specialists publish regular reports on pay for roles within industries across Australia and New Zealand and offer the facility for organisations to request one-off analyses of specific areas of the pay market in order to illuminate rates of pay for 'hot' skills. Regular networking forums are also run and report participants can meet to discuss the scarcity of particular skills, current approaches to pay and the expected duration of particular 'hot' skills.

Whilst assessment of *external* factors constitutes a fundamental process in determining whether a skill is 'hot', *internal* factors must not be overlooked.

*Internal* factors: The criticalness of skills to a business should be established before a skill is considered 'hot'. Business-critical skills should be assessed in terms of the short, medium and long-term goals of an organisation. If a skill that is 'hot' in the marketplace has little or no value in achieving organisational goals now or in the future then it follows that the skill should be excluded from the business's 'hot' skills list.

In summary, the following algorithm provides a simple and effective method for determining 'hot' skills:

Strong market demand x Strategic importance of skill to the organisation x Sustainability of strong market demand = 'Hot' skill



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## Step Two: Determining Whether 'Hot' Skills Payments Are Required

Step two in a strategic approach to remunerating 'hot' skills involves comparing the position of remuneration for your 'hot' skills employees to market pay rates and determining whether adjustments are required.

By producing a 'compa-ratio' for each employee, it is easy to ascertain where employees' remuneration falls behind market pay rates. A Compa-ratio shows an employee's remuneration compared to market rates for their role and the differential between the two.

Following is an example of a 'compa-ratio' report. For the purposes of this example we will assume that the roles are 'hot' in the marketplace and critical to organisational success. You can see that one employee is being paid slightly higher than the market rate, whilst two employees' pay packages lag significantly behind the market. These lagging pay packages should be considered for 'hot' skills payments to ensure they are competitive with the market.

Employee Number	Job Role	Total Remuneration - Employees	Total Remuneration - Market Rate	% Difference
Employee 1	Senior Associate - Chemical	\$120,623	\$153,866	-22%
Employee 2	Experienced Engineer - Hydraulics	\$70,028	\$66,262	6%
Employee 3	Graduate Engineer - Geotechnical	\$35,899	\$43,024	-17%

## Step Three: Selecting The Vehicle For Making 'Hot' Skills Payments

Step three in a strategic approach to remunerating 'hot' skills involves selecting the most appropriate vehicle for making 'hot' skills payments. The vehicle used for making 'hot' skills payments can take many forms and the success of the payment relies on selecting a vehicle that is meaningful to employees and competitive in the marketplace. Organisations should undertake three types of analysis to ensure that the most appropriate vehicle is selected:

- Ascertain which vehicles are being utilised to remunerate 'hot' skills employees amongst competitor organisations
- Assess the pros and cons associated with different vehicles from an employer perspective
- Survey the vehicle that would be most appreciated by employees. Do they want cash? Would they like an additional and temporary benefit in their salary package? In some cases employees may prefer time off in lieu (TOIL) or another non-financial reward instead of an increase in their remuneration.

## Step Four: Communication Surrounding 'Hot' Skills Payments

The final step in a strategic approach to remunerating 'hot' skills relates to making 'hot' skills payments and communicating the terms of the payments. This communication is often overlooked by businesses and can have a significant impact on organisational profitability.

During the communication related to 'hot' skills payments, employers should:

- Indicate a short, fixed period of time that payments will be made to employees
- Set a review date for 'hot' skills payments and convey that payments will be withdrawn when the skills are no longer 'hot' in the market and/or critical to the business
- Ensure that employees understand that their 'hot' skills payments are *outside of their regular salary package*.

It is this final communication point that can have a long-term impact on an organisation's profitability. If an organisation makes the mistake of building 'hot' skills payments into employees' regular salary packages, or fails to communicate the transient nature of the payment, they may be obligated to continue making payments long after 'hot' skills become 'cold'. The long-term impact is an inflated salary bill that eats away at the business's 'bottom line'. The following graphics illustrate this point:



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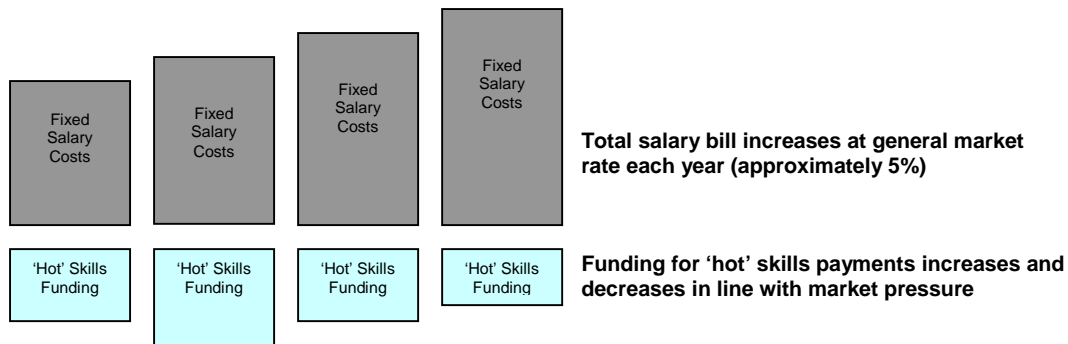
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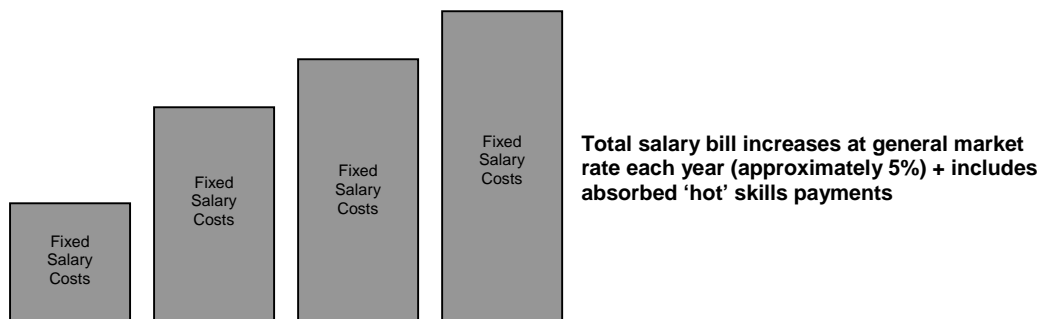
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The graphic above depicts how spend on remuneration fluctuates over time according to market pressure when 'hot' skills payments are paid outside of regular salary packages. The graphic below shows how the organisation's salary bill continually increases over time even when 'hot' skills become 'cold'.



Apart from an inflated salary bill over time, the other problem associated with building 'hot' skills payments into employees' regular salary packages is that employees become priced out of the market. This can eventually lead to a situation where employees may wish to change job role but remain in their position purely because they cannot command the same remuneration package within another organisation. Employees in this situation have typically lost their motivation and by remaining in their role, the organisation is prevented from acquiring fresh ideas and enthusiasm.

### Final Tips For Remunerating 'Hot' Skills

In the interests of maintaining internal equity amongst employees, all 'hot' skills employees should receive 'hot' skills payments for a short duration. Increasing pay solely for new recruits or for those employees that continually complain about their pay can have a demoralising effect on other employees with the same 'hot' skills.

Some organisations tie 'hot' skills payments to the dissemination of 'hot' skills knowledge within the organisation. I.e. in order for 'hot' skills employees to receive their 'hot' skill s payment, they must demonstrate that they have passed on their 'hot' skills knowledge to other employees. This reduces risk for organisations, ensuring that a greater number of employees are armed with the 'hot' skills knowledge. It also leads to the 'hot' skills becoming slightly cooler and the need for the making 'hot' skills payments is therefore diminished.

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