CEO UPDATE

Groups reassess staff compensation as salary demands soar

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Experts say a shortage of workers, inflation and post-pandemic priorities are having a ripple effect on pay throughout associations

Inflation. The Great Resignation. The talent shortage. All are pushing staff pay significantly higher, posing challenges for groups still recovering financially from COVID-19.

More and more associations are conducting market assessments of prevailing wages—or simply trying to make new hires—and finding they need to boost compensation broadly among their staff.

Entry-level employees are hardest to find, said Christie Tarantino-Dean, CEO of the Chicago-based Institute of Food Technologists. Their pay demands are forcing a reassessment of the salaries of those with more seniority.

"We are seeing a lot of the higher salaries for entry-level positions," Tarantino-Dean said. "There definitely is a trickle effect" that affects pay throughout the organization, she said.

IFT has been benchmarking staff pay annually for years. In 2019, it hired compensation consultant Marcia Hoisington of Chicago-area firm Westcott Hunter.

The group is hiring new people and creating new roles for staff as it bounces back from the pandemic, which caused it to lay off 20% of its employees. Tarantino-Dean and her senior team recently convened to discuss recalibrating compensation for IFT's 65 employees in light of the new roles, new hires and higher salaries in the marketplace.

IFT increased staff compensation twice last year, at the normal midyear review period and at year end.

Workers in driver's seat

Charlie Quatt, president and founder of Quatt Associates, said compensation consultants such as himself are extremely busy as more nonprofits reassess pay levels.

"People really want to make sure they are paying competitively," he said. "My feeling is employees are in a better negotiating position than the employers."

Merit increases that once averaged about 3% are now moving up to 4% or 5%, Quatt said. A majority of his many nonprofit clients have been paying staff "reasonably and consistently," he said, but commonly finding that compensation levels were 5% to 7% or more below market.

Many associations have been benchmarking pay over the years but more are starting to do it, said Lorraine Lavet, head of the association search practice at Korn Ferry.

"The Great Resignation is directly impacting associations as strongly as the private sector, if not more in some cases," she said. "They're feeling it very strongly and doing what is appropriate to retain their top talent in some cases. I fully expect to see more focus on pay competitiveness but also benefits and workplace flexibility."

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Fairness also is a bigger issue today.

“Many organizations are also taking a step back and assessing pay equity, and being proactive in making changes where appropriate,” Lavet said.

While associations in the past might have earned a reputation for reacting slowly to market forces, that is changing, she said: “Associations are moving more quickly than I’ve ever seen before” in responding to the new compensation realities.

Some states are beginning to legislate pay equity. Maryland, New York and California, among others, now mandate that job posters include salary ranges or make the range available to candidates on request. That requires a well-thought-out compensation plan.

The new laws are intended to address inequities in compensation for groups such as women and minorities.

“If you don’t have a really good system, it’s hard to explain what is equitable or not,” Quatt said.

Role changes

Lavet also said that many associations are fundamentally changing employee roles post-pandemic, as Tarantino-Dean said IFT was doing.

Bob Weidner, CEO of the Rolling Meadows, Ill.-based Metals Service Center Institute, said the hybrid nature of employee roles at MSCI convinced him to persuade his board to hire Quatt Associates in 2020. The 11 staff at MSCI often wear multiple hats, Weidner said.

The group has gotten more focused on pay ranges since 2016, Weidner said, following changes he urged in association governance. In addition to reducing its board size, MSCI committed to having members of its compensation committee be familiar with compensation issues.

Weidner and the board were pleased with the process Quatt followed—which included having each employee write a job description for their current role—and the results.
The compensation ranges established by Quatt’s work are shared with MSCI’s employees.

“We never had salary ranges before,” he said. “So now, on a continuum of 80% to 120% of a salary range, every employee knows where they are in terms of base compensation within the range. That is the market for that hybrid position.

“And we also put in place three bonus targets. Everybody knows what they can do to move up on their range.”

Following the compensation study, merit increases that had typically been about 2% were raised to the 3% to 5% range. MSCI’s IT director got a 20% hike, Weidner said.

Transparency

The Rockville, Md.-based American Speech-Language-Hearing Association has been benchmarking pay against the market and sharing market salary ranges with its 300 staff since 2007, Chief Human Resources Officer Janet McNichol said. The group employs Quatt Associates.

“It’s very market-driven and our staff appreciates the transparency,” she said. ASHA has studied its compensation for women and minorities and found no inequities, she said.

The association adjusts compensation for all staff annually, but it also does an intensive study of market data for the roles held by one-third of employees each year.

Like other groups, ASHA has seen market rates rising faster—most recently an average of about 4.5% percent for association staff, McNichol said.

ASHA posts salary ranges when it advertises positions.

“If you’re either trying to get somebody for as little as possible, or not doing your homework to make sure that you’re offering a competitive and fair price, that’s sometimes how things get really inequitable,” she said.

After the ASHA board sets the budget for staff compensation, the association uses a matrix to distribute it, McNichol said. The rows in this matrix are performance ratings and the columns are salaries relative to market.

Board support needed

So, how to approach your board about increasing staff compensation despite recent pandemic losses?

Weidner and Tarantino-Dean said their volunteer leaders understand how a talented workforce is essential to achieving objectives.

“We recognize that we don’t want to cut our nose off to spite our face,” Tarantino-Dean said. “Our staff is our most highly valued resource in the organization to implement these aggressive strategies and goals that we have.”

But the board wants to see the extra pay paying off.

"We can't just say we have to spend significantly more on staff and then not start to deliver results," she said.

Weidner agreed.

"In organizations, the only source of long-term competitive advantage are their human assets," he said.

Though MSCI's revenue got cut nearly in half in 2020, to about $6 million, the board approved a 2021 budget—incorporating increased compensation levels—that assumed a $1.4 million loss. (Ultimately, the association only lost $300,000 last year, Weidner said.)

Cutting expenses each year to match anticipated revenue is not a winning strategy, he said.

"If we get caught in what I call 'cost-reduction anorexia,' that is a recipe for extinction. If you're delivering value, then comp and benefits are like an afterthought," Weidner said.

But boards shouldn't make the mistake of trimming programs to deal with wage inflation either, said association governance consultant Glenn Tecker, founder of Tecker International.

"Some associations appear to be cutting costs by reducing the quality or quantity of programs and services provided to members in order to fund increased staff salaries," he said in an email. "History suggests that this is a mistake that trades small short-term gains for significant long-term consequences."

GOVERNANCE, CONSULTATION KEY FOR COMPENSATION

Helpful hints for reassessing staff pay levels and ranges:

Get governance right: "The compensation committee has to be populated with directors who really understand compensation," said Bob Weidner, CEO of the Metals Service Center Institute.

Ask the staff: Part of compensation consultant Charlie Quatt's process is to have each of his clients' employees provide their own job description.
"We have a questionnaire that we ask each employee to fill out because it gives them an opportunity to explain the job from their perspective. Then we typically ask their supervisor to edit or add comments to it."

Consult experts: "Get an outside review of your compensation practices on a regular basis," said Christie Tarantino-Dean, CEO of the Institute of Food Technologists.

Don't just rejigger titles: "It's a very common practice" to elevate titles to justify a raise in order to keep employees, Quatt said. "We find in the long run, it doesn't work. It completely distorts faith in the system if someone is paid as a vice president but everyone knows they're not really a vice president."