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show me the money: compensation at cel

Stephen D. Risavy, Karen MacMillan, and Steve Munn wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“And what are your expectations when it comes to compensation?” Jeff Arvidson, president of Cisca Engineering Ltd. (CEL), had posed this question hoping that Ron Grubb, the candidate he was interviewing, would give a reasonable number. This was someone he wanted to be able to afford.

Grubb was being interviewed for a position as a mechanical engineer—specifically, as a pipe stress analyst. This was a line of work that CEL was looking to add to its professional services repertoire. Both Arvidson and engineering manager Bob Davies, who was also part of the interviewing team, were pretty much convinced—not only that Grubb had the technical skills they needed but also that he would be a good fit for the culture at CEL.

After pausing for a moment, Grubb looked confidently at both interviewers in turn, and answered, “Well, based on my seven years of engineering experience, as well as the unique set of skills that I bring to the table, I would expect my salary to be in at least the CA$90,000[[1]](#footnote-1) to $110,000 range.”

Putting his head down to make a note on Grubb’s resumé, Arvidson tried to hide his disappointment. The amount was significantly higher than he had hoped. Uncertain of how to deal with the issue, he decided to push it off, and he responded, “Well, that is more than most engineers usually start out at here, but let’s put off the compensation discussion until after we finish assessing your fit for this role.” Arvidson then sat back and allowed Davies to lead the remainder of the interview.

Arvidson’s mind started to distance itself from the conversation going on in front of him and focussed instead on what it would take to get Grubb, or someone like him, to accept an offer at CEL. Arvidson felt that, as a smaller employer, his organization sometimes had difficulty attracting the critical people it needed to continue to grow. He knew that the work environment, the people, and the interesting projects they worked on were strong selling points—but there was no denying that sometimes the compensation levels lagged behind those at larger firms, and money was important to people. After hearing Grubb’s salary expectations, he knew that something was going to have to give. He was tempted to simply do whatever it took to convince Grubb to join, even if that meant paying him a lot more than most of the other engineers received. However, Arvidson knew enough to be mindful of how such a decision could affect the other employees in the company.

CEL Background

CEL was a Canadian engineering consulting firm located in Waterloo, Ontario. It provided customers throughout the world with services related to the manufacturing of pressure equipment. Pressure vessels were containers that held liquids or gases at pressures that differed from regular conditions. Since the material was being held under pressure, the containers could potentially explode, hurting anyone nearby. Due to this danger, each country carefully regulated the manufacturing and operation of pressure vessels. No one in Canada could legally use a pressure vessel unless it had been proven to meet the high standards set by the government. Organizations from other countries that wanted to sell pressure vessels in Canada also had to have an engineering firm certify that the containers met Canadian regulations. This is where CEL came in. The company had the engineering qualifications necessary to provide this certification to customers in a number of industries, including oil and gas, water filtration, food and beverage, instrumentation, and pharmaceuticals.

Founded in 1999 by Cheryl Landsberg, CEL had 16 employees in 2018. When Landsberg retired in 2017, she had maintained a 20 per cent share in the company and arranged for employees to take ownership of the rest. This meant that a majority of CEL’s employees had about 5 per cent stakes in their employer. Employees were able to purchase shares at 10 per cent of fair market value. To make it easy for employees to be involved, the company had arranged a plan that enabled them to purchase shares over time as dividends accrued. In this way, employees were able to become minority owners without much personal cash outlay.

To continue to grow the business after it became employee-owned, Arvidson and the board of directors had decided to branch out into pipe stress analysis, which was related to the work CEL traditionally performed. CEL clients often needed this type of work, but since CEL did not have the necessary resources, it had always passed this work on to another engineering firm. Arvidson was tired of forgoing the opportunity for increased revenue, and he also wanted to better serve the firm’s clients, so he knew it was time to hire someone with these skills.

Compensation Data

After the interview was over and Grubb had been shown out, Arvidson and Davies remained in the conference room to discuss their impressions. They agreed that Grubb was someone they wanted to add to their team; however, they couldn’t ignore the issue of compensation.

Davies said,

I saw the look on your face when he said he wanted 90 to 110 grand. Now Jeff, I know that’s more than some of our other engineers make, but we really need this guy. Right now, we are farming out all of our pipe stress work. If Grubb was on board, we could keep it in house. He’ll pay for himself in no time. Plus, he will help to strengthen the company by giving us a whole new skill set to offer our customers.

Arvidson shrugged and replied, “I know what you’re saying, Bob. I’d like to have him here too. But we have to be careful. If we pay him more than we pay the other engineers, how is that going to make the others feel? We may end up with one happy employee and half a dozen unhappy ones.”

Sifting through a folder in front of him, Arvidson remarked, “I’ve pulled some data.” He handed Davies a sheet of paper (see Exhibit 1). “This is some information on what we pay our engineers currently. If we stayed consistent with this, based on Grubb’s experience, we would have to offer him a starting salary of about $85,000.”

As Davies started to review the page, Arvidson pulled out another sheet and passed it over (see Exhibit 2), saying,

I almost forgot, I also pulled some salary survey data from a couple of sources. That first sheet will help us figure out how to pay fairly within the company. This second one will tell us how to ensure our employees are being compensated fairly compared with people in other companies who are in mid-level engineering roles.

Arvidson added, “I think the dividends aspect will end up being a game-changer when it comes to compensation. Our base salaries are not as high as they could be, but the dividends could end up being a real windfall at some point.”

Davies replied,

I love that we as employees own the company now, and the way you set it up to let everyone be involved was a great idea. I know that we won’t get much in terms of dividends in the first few years because the profits will go to pay for our shares, but after that we could get a dividend of between 30 and 40 per cent of our earnings in a good year. That’s a big deal!

Arvidson sat back in his chair with a sombre expression; then he continued:

Between you and me, I’ve heard some grumbling from a couple of employees that they would rather have a higher base salary than live with the uncertainty of dividends that are dependent on firm performance. It is hard for them to see that, as owners, they have to accept the risk along with the potential for reward. They have to understand that this set-up will make us stronger over the long term, because we won’t have super-high compensation costs in the bad years. I’ve seen some companies go under because of that.

Davies smiled as he replied: “I guess it’s hard to see the big picture when you are hoping to buy a new big-screen TV right away.”

Arvidson shook his head and chuckled. He said,

Well, you’ve got me there. I just wish they would remember that money isn’t everything. We do well by employees in other ways too. As you know, there are lots of other benefits associated with working here. We have good holidays, a great environment, help with training, and the list goes on.

Nodding, Davies agreed: “That’s for sure. Hey, speaking of lists, don’t you send employees a sheet reminding them of everything they get?”

Pleased at the reminder, Arvidson stood up. “You’re right. Good thinking!” he said. “We do send out a total rewards statement every year. That could help this discussion. Let me go and get a copy.” He left the room, returning a few minutes later with two printouts. Handing one to Davies, he said, “Here is a sample statement that was the starting template for the last one. This goes out every April. I printed a copy for each of us” (see Exhibit 3).

Perusing the document, Davies remarked, “There are a lot of different things on here. It really adds up, doesn’t it?”

Nodding, Arvidson replied, “It sure does. We started doing this to help employees get an idea of all the things CEL provides. I’m always worried about employees leaving, so I thought this would help them to see that we’re doing right by them.”

A phone buzzed, and both men looked at their screens.

Davies said to Arvidson, “That’s me. Sorry, but I have to go. Can we finish this conversation tomorrow?”

Arvidson nodded and collected his papers. As he stood, he said, “Sure. We don’t have to decide anything today. I’d like to collect some more data anyway.”

Together, they walked out of the conference room, and each headed off in a different direction.

The Employee Perspective

Wanting to obtain some employee input, Arvidson spent the next couple of hours walking around and chatting informally with his employees about compensation and rewards. Unsurprisingly, he found that their opinions were varied. Some thought that money mattered most, but many others on the team put more value on the lifestyle aspects of the reward system. The latter group valued flex time, the collegial working environment, the weekly barbecues, and so on. One employee noted that she wanted a higher salary but commented at the same time that another employer “couldn’t offer anything to make me want to leave.”

When he asked what stood out to them on their total rewards statement, only a few employees could remember the details in the document. Reading between the lines, Arvidson realized that they reviewed it when it came in but then mostly forgot about it. He began to worry that, while the statement had a lot of good information, it might not have enough impact.

Decision Time

Back in his office with time to review his thoughts, Arvidson sketched out his three main options on a pad of paper and pondered what to do. Should he offer Grubb the job at a lower salary and take the chance of being turned down? Should he give Grubb the salary he wanted and risk upsetting his other employees if they found out? Should he completely revamp his compensation system and increase salary levels for all of the engineers?

He wasn’t sure which option was the best choice.

Exhibit 1: Average Base Pay for Current Employees at CEL (in $CA)

Average base pay for engineers with less than five years’ experience: $78,000

Average base pay for engineers with between five and 10 years’ experience: $85,000

Average base pay for engineers with between 10 and 15 years’ experience: $96,000

Source: Company files.

Exhibit 2: 2017 Salary Survey Data from Professional Associations—Intermediate Engineering Position (in $CA)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Base Salary** | | | **Total Cash Compensation** | | |
|  | **Low** | **Average** | **High** | **Low** | **Average** | **High** |
| **Salary Survey 1** | $70,600 | Not available | $95,000 | Not available | Not available | Not available |
| **Salary Survey 2** | $72,250 | $84,600 | $96,400 | $73,700 | $89,100 | $101,650 |

Source: Created by the case authors based on the data for Salary Survey 1 which came from a 2017 report from Randstad, and the data for Salary Survey 2 which came from a 2017 report from the Ontario Society of Professional Engineers (OPSE).

Exhibit 3: CEL Total Rewards Statement

SAMPLE—Communicating the Value of Your Total Rewards

Your 2016 Personalized Total Rewards Statement

DATE/MONTH/YEAR

Dear *(Employee Name*),

In February, you received your 2016 T4 statement, which summarized the compensation you earned as a member of the Cisca Engineering team this past calendar year. As part of our ongoing efforts to make CEL an employer of choice, we are continuing to create Total Rewards Statements annually.

The Total Rewards Statement is used to communicate all of the benefits you have received as part of your employment at Cisca Engineering.

We define Total Rewards as everything CEL provides our employees in exchange for their investment in our organization. It includes both the tangible rewards, such as your base salary, health-related benefits, and pension support, along with intangible benefits, such as our company culture, career development opportunities, and a safe workplace.

People are the foundation of what makes a company successful! Cisca Engineering takes pride in employing a highly skilled level of associates.

Please review the attached Total Rewards Statement, and if you have any questions, please feel free to discuss them with me directly. Thanks again for your contribution and for being part of the Cisca Engineering team!

Sincerely,

Jeff Arvidson

President

Exhibit 3 (continued)

Sample Employee

Total Rewards Statement for 2016

|  |  |
| --- | --- |
| **Total Compensation** | **Annual Cost** |
| **Regular Earnings** | **$64,353** |
| Vacation Accrued | $5,275 |
| **Total Regular Earnings** | **$69,628** |
|  | |
| **Other Cash Compensation** | |
| Profit Sharing | $9,813 |
| Deferred Profit-Sharing Plan (DPSP) Contributions | $3,709 |
| **Total Other Cash Compensation** | **$13,522** |
|  | |
| **Employer Paid Benefit Premiums and Pension Contributions** |  |
| Health Care | $4,125 |
| Dental Care | $1,412 |
| Life Insurance | $249 |
| Accidental Death and Dismemberment (AD & D) | $73 |
| Short-Term Disability (STD) | $281 |
| Long-Term Disability (LTD) | $380 |
| **Total Premiums & Pension Contributions** | **$6,520** |
|  | |
| **Other Benefits** | |
| Professional Fees | $241 |
| Training | $3,704 |
| **Total Other Benefits** | **$3,945** |
|  | |
| **Your Total Compensation** | **$93,615** |

**Total Rewards Snapshot (Company Contributions)**

77.6% Annual Base Pay

15.1% Total Other Cash Compensation

7.3% Total Premiums & Pension Contributions

4.6% Total Other Benefits

**Benefit Allowances**

Statutory Holidays: 10 Days

Vacation: 23 Days

Christmas Shutdown: 3.5 Days

Additional Total Rewards Elements

Group Plans

Health & Dental

Coverage to assist you and your family members with your medical expenses, which include but are not limited to prescription drugs and paramedical practitioners (i.e., chiropractor, massage therapist, physiotherapist, naturopath, podiatrist, speech therapist, and acupuncturist).

Exhibit 3 (continued)

In addition, the plan also covers emergency out-of-country coverage while travelling for business or personal vacation. The plan also provides coverage for you and your family members under our comprehensive dental plan, which includes current Ontario Dental Association (ODA) rates and major restorative work.

Long-Term Disability (LTD)

Benefits are payable after a period of 85 working days. You will receive a monthly income benefit equal to 75% of your regular monthly earning, to a maximum of $6,000 per month.

Life Insurance & Accidental Death & Dismemberment (AD & D)

Cisca Engineering provides you with basic life and accidental death & dismemberment (AD & D) insurance in the amount of two times your base salary to a maximum of $300,000. Additional optional employee paid insurance is available as well as spouse and dependent coverage.

Learning and Development

CEL creates an environment that fosters employee opportunity, empowerment, and growth. The company provides on-the-job training and supports cross-training initiatives and company-approved external training.

A personal development plan supports skills and knowledge within the current job and prepares the employee for future opportunities and career growth.

CEL also promotes learning by providing 100% tuition and books coverage for job-related courses, which provides employees with the opportunity to develop further in their roles or for possible future roles. In addition, employees taking a college or university class are entitled to one paid study day per course.

Registered Retirement Savings Plan (RRSP) Contributions

Registered Retirement Savings Plan (RRSP) Contribution Plan

CEL employees are eligible to participate in the registered retirement savings plan (RRSP) after their probation period with the company has been completed.

CEL will match an employee’s contribution to the plan up to a maximum that varies with years of service. The current contribution rates are:

Up to 5 years with CEL: 3%

Over 5 years with CEL: 6%

The employee and employer make equal contributions, and employee contributions are automatically deducted from payroll.

CEL contributions become vested with the employee after two full years of service.

Exhibit 3 (continued)

Health Care Spending Account

Each year there will be $500 available to use for health-related expenses not covered by our benefits. Any unused funds will roll over into the following year, allowing you up to $1,000 in year two if no funds are used the first year. The maximum available at any time will be $1,000. At the start of each year, if there are any funds unused from two years prior, they will be rolled into your RRSP plan.

Additional Employee Benefits

* Annual Christmas Dinner
* Children’s Christmas Party
* Christmas Shutdown
* Flexibility, Work-Life Balance
* Team-Building Events (Paintball, Gaming Nights, Dodge Ball)
* In-House Training (First Aid / CPR, True Colours, Career Concepts)
* Weekly BBQs
* Monthly Lunches
* Compassionate and Bereavement Leave
* Employee Sponsorship for Team Events

Discount Programs

* People Corporation discount programs at Loblaws Pharmacies and Loblaws Optical outlets
* Guaranteed dispensing fees of $8.83 when filled at a Loblaws or affiliated pharmacy

Source: Company files.

1. All currency amounts are in CA$ unless specified otherwise. [↑](#footnote-ref-1)