FALL 2014

Leading EDGE

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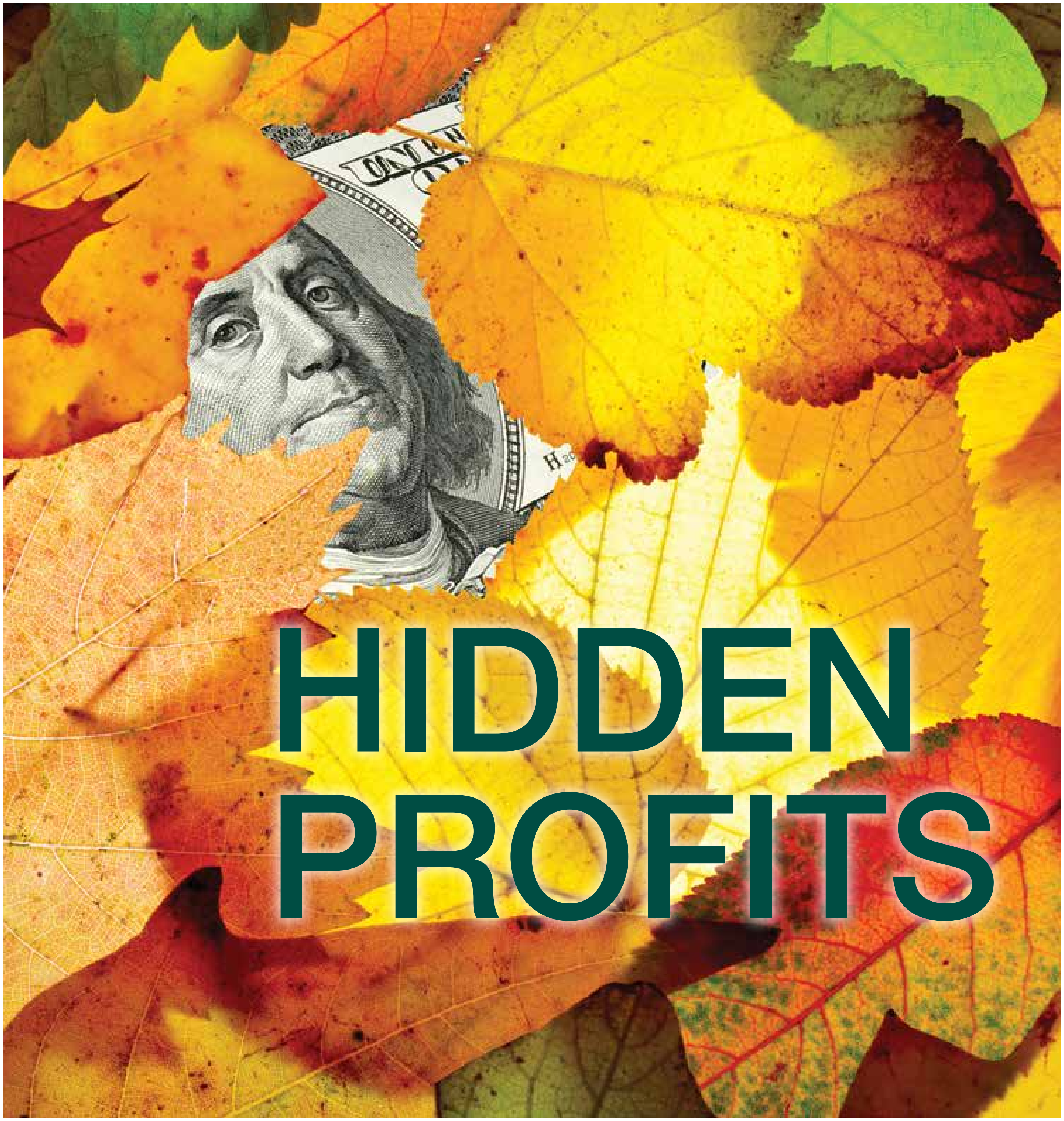

Leading EDGE

ADVICE & INFORMATION TO HELP YOU MANAGE YOUR BUSINESS

Welcome to the fall issue of *Leading Edge* magazine. “Hidden profits” is a term that refers to the sum total of money lost due to incorrect pricing and wasteful practices. While profit and loss statements provide a great deal of information, they do not tell you how much money you are leaving on the table. You need to closely examine the efficiency and effectiveness of your business practices to ensure you are taking advantage of all opportunities.

The task of maximizing profits is a large-scale one that requires constant vigilance. But it is also rooted in common-sense principles that are central to good business. Our cover story provides tips to maximize your selling opportunities, eliminate wasteful practices, and focus on the things that truly matter to your bottom line.

Also in this issue, Kreischer Miller’s advisers examine:
- Five investment planning ideas for high income taxpayers
- Three costly M&A mistakes to avoid
- The rise of state residency audits
- How big data can play a role in your business improvement process

This issue also features an article on the often difficult task of creating equitable compensation between new hires and existing employees. In this competitive job market, companies will pay a premium for certain skillsets. But when employees discover that a new hire’s starting pay trumps their tenured salaries, it can become an issue for managers. When employees start sharing numbers and stop feeling fairly compensated, the company suffers. Having a solid compensation plan in place and communicating it effectively can minimize the long-term costs associated with disgruntled, unproductive employees.

As you consider what is best for you and your business, please know we are here to help.

Kreischer Miller is committed to providing you with valuable information to assist you and your business. Please share any suggestions, comments and ideas for future articles with me at (215) 441-4600 or schristian@kmco.com. We appreciate your continued confidence in us and welcome any feedback on how we can better meet your needs.

Steve

Stephen W. Christian

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KREISCHER MILLER
100 Witmer Road, Suite 350
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FINDING HIDDEN PROFITS

Are you maximizing your profit potential?

By Erik Cassano

On the surface, business is guided by some fairly simple principles. You produce a product or service at a cost, and sell that product or service at a markup that is sufficiently large enough to turn a profit without pricing you out of your target market.

If those factors are not managed correctly, you could be leaving money on the table. Those who consult businesses on lean and efficient practices call it hidden profits, and it is made up of the sum total of money lost when items are not priced correctly and wasteful practices lead to unnecessary financial drain.

"Broadly, we can define hidden profits as any opportunity where your profit potential is not being maximized," says Steve Wilkinghoff, the Calgary-based author of "Found Money: Simple Strategies to Uncover the Hidden Profit and Cash Flow in Your Business." "For example, if you have a whole bunch of customers, you might have a decent rate of average profitability, but when you segment your customers, you might find that certain types of customers are making you far less money than other types of customers, and you might need to take a look at why that is."

Ultimately, it comes down to the efficiency and effectiveness of your business practices, and often, that means streamlining your practices so they are easy to understand and control.

"I've owned 11 companies in my career, and, for me, simplicity has always been the key," says Troy Hazard, a Florida-based entrepreneur and

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"Every company leader has to have the ability to pull back and look for undeveloped lines of business and ways to improve internal efficiency. But you will never be able to take those profit-maximizing steps if you are working in the business instead of on it."

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author whose latest book is "Future-Proofing Your Business: Real-Life Strategies to Prepare Your Business for Tomorrow, Today." "How can you always be looking to make your business more efficient and effective?"

The task of maximizing your profits is a large-scale one that requires constant vigilance. But it is also rooted in common-sense principles that are central to good business.

Look at the numbers

Profit and loss statements can tell you a lot, but they really only tell a part of the story when it comes to your company's money. Gross profit numbers are aggregate numbers, and they do not tell you where your profits are strong and where they are weak. The areas where your margins are weak are the ones where you could be losing out on the chance to maximize profits.

"Lots of business owners look at their profit and loss statements and see a gross profit of 40 percent," Wilkinghoff says. "But they might not realize that percent is just an aggregate number. Some products might make 20 percent, some might make 70 or 80 percent, and it doesn't always correlate to sales volume."

Some of your best-selling products may be yielding the thinnest profit margins. If that is the case, you may have made an error in pricing to the market, or internal inefficiencies are leading to cost overruns in the process of bringing the product to market. Analyzing every part of the process for needless or poorly defined steps and redundancies can help you eradicate waste. In addition, compare your prices to those of the competition. You want to price competitively, and below the competition, when possible, but not so far below that it is eating into your margins.

"Know the value of what you offer," says Jonathan Smith, head of the Washington, D.C.-based business strategy firm ChiefOptimizer. "For example, your pricing on a service might be 10 percent below the market, but the quality of the service dictates you should be about 20 percent above the market. Know what you are offering and how it stacks up to what is out there in the marketplace."

Maximize selling opportunities

Many products and services lend themselves to add-on sales opportunities. If you do not offer those add-ons, or your sales staff does not do an effective job of selling them, you are missing out on one of the most basic forms of profit maximization.

The little things add up. If you run a manufacturing company, you can sell a service agreement on a big-ticket product, which is a time-tested way to increase profits without much committed in the way of resources or manpower. However, if you bundle multiple services as part of the plan and charge a nominal but mandatory convenience fee for the bundling, additional money is attached to each sale.

"In manufacturing companies, for example, a service contract sold on the back end of the purchase can help drive revenue," Wilkinghoff says. "But I've also worked with a printing company that packaged certain services along with their products and sold them to clients. I proposed a slight shift — bundle the services, but charge a $5 convenience fee to the package as an add-on. It seems like a little thing, a small amount of money, but it was small enough that the customers didn't complain. You multiply that $5 fee over thousands of customers, and it's a big profit point."

You can also find additional sales opportunities by understanding the pain points of your customers. If your company can solve problems, you'll develop a loyal customer base of grateful clients who view money spent with your company as money spent wisely. And loyal customers equal repeat customers, which not only means increased profits but increased profits on a steady basis moving forward, as those clients funnel regular business through your door.

"You have to be willing to step back and take a look at the whole picture of where your business stands and where you have the strongest relationships with customers," Smith says. "You have to think beyond the sales contract that is sitting in front of your face to how you can develop relationships with customers and leverage those relationships to drive profits."

"Profit and loss statements can tell you a lot, but they really only tell a part of the story when it comes to your company's money"

Eliminate wasteful practices

Wasteful practices are one of the biggest profit swallowers in any type of business. If processes contain too many steps that delay results, if there are tasks that do not fall under anyone's job description and are subsequently piecemealed out, those things can affect your efficiency and, by extension, your bottom line.

Accounts receivable is one area that demands efficient operations and accountability, or you almost certainly will find yourself losing dollars. If you are able to sell add-on services, or find other ways to use additional services and options as a means of driving revenue, it does not mean as much to your financial standing if that money fails to arrive in your office in a timely fashion.

"That's one of the main questions you can be asking yourself — how many days out are your accounts receivable?" Smith says. "And are you collecting in a timely fashion?"

Good organization can cure a lot of problems in your accounts receivable process. Define roles in your accounts receivable department, including who is in charge of follow-up calls on delinquent payments, and how many days you are giving customers to send the check.

Keep track of all of your accounts receivable data in a single location. Smaller businesses might be able to keep track of everything with a basic spreadsheet. As businesses grow, however, the need arises for more sophisticated software built specifically for managing receivables.

There are many other areas to address with an eye toward eliminating waste and making your business leaner. Do you have the right amount of salary committed to the right areas? Sometimes eliminating positions is not the only way to cut costs. An employee, or group of employees, might be performing tasks that should be categorized under another department, which can take overhead away from an underperforming department and place it in a department that is better suited to operate with the additional overhead.

"I've seen homebuilders hire warranty people and treat that as project overhead, but is that really overhead?" Wilkinghoff says. "Should that be allocated to another part of the business? Those are the types of questions I like to bring up."

In addition, be reluctant to take on additional overhead costs. You might think you are careful with regard to adding overhead costs, but it is very easy to spend money when you have a good month or quarter.

"A lot of business owners treat extra overhead almost like a reward for themselves," Wilkinghoff says. "You have a good month, come in over sales projections, and you hire an assistant, or add on to the office. That's great, until you have a bad month and still have to pay those bills. When you spend your money, make sure it's on a valid need. Otherwise, it's more wasteful spending that's eating into your profit margin."

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Wasteful practices equate to dollars tied up in resources, dollars that could otherwise be added to your bottom line. It is not just about making money; it is about how you spend it.

Do not get caught up in the drama

Every company leader has to have the ability to pull back and look for undeveloped lines of business and ways to improve internal efficiency. But you will never be able to take those profit-maximizing steps if you are working in the business instead of on it.

Hazard calls it "getting caught in the drama." If you feel the need to involve yourself in every email, phone call, and general distraction that you encounter, you are not leading in a way that will allow you to find the unexplored areas that could boost your profits.

"Those distractions can prevent you from analyzing what's ahead," Hazard says. "You should be looking at leading indicators and reacting to those in a way that allows you to maximize your profits. But many business owners don't take that time. They get caught up in the day-to-day stuff and end up looking at lagging indicators of sales and financial performance."

He says that, by then, it is too late.

"All you can do then is look back at the end of the month, quarter, or year, and see how much money you wasted," he says.

Hazard recommends setting goals — on a daily basis, if necessary — to ensure that you maintain the proper outlook with regard to profits and performance, and do not get bogged down in things that should be delegated.

"In my own businesses, I'll take stock every morning," he says. "I'll look at what I accomplished yesterday and what I can get done today. I look at what I can do to maximize efficiency and continually improve the performance of the business."

Hazard divides the items on his desk into three buckets: the things he can change today, the things he is involved with but cannot change today, and the things that he cannot change or that should not be on his desk.

"It's about what you can do to be effective today," he says. "If you've sent out a proposal but can't take any action on it for a couple of days, make a note not to think about it for that timespan. Beyond that, if you can't influence something at all, it's simply taking up space in your head. If you didn't register to vote, don't watch the polls. It's the same principle in business."

It is as much a matter of culture as it is a matter of dollars and cents: An efficient CEO tends to run an efficient business that maximizes its money-making opportunities by capitalizing on business opportunities and eliminating wasteful practices.

"There is a correlation between the effectiveness of the person in charge and the effectiveness of the business," Hazard says. "Efficiency and effectiveness help cash flow, and that's key if you have plans to grow. Simplicity, in general, leads to more profitability. If you make your job simpler, you can make it easier for your business to make money." **LE**

5 Investment Planning Ideas for High Income Taxpayers

Brian D. Kitchen
Manager
Tax Strategies

Many taxpayers noticed a significant increase in their 2013 tax liability. For most, this increase was attributable to the American Taxpayer Relief Act of 2012 (ATRA 2012). As we move into the fall season, it is time to turn our attention to year-end tax planning and think about what can be done to minimize taxes for 2014 and beyond.

The ATRA 2012 and legislation from the Affordable Care Act increased the highest federal tax bracket to 39.6 percent and the qualified dividend and capital gains tax rates to 20 percent. It also restored the itemized deduction and personal exemption phase-out and implemented a 3.8 percent surtax on investment income. With numerous indirect influences on your income tax liability, your Adjusted Gross Income (AGI) and taxable income become even more important.

Here are five investment planning strategies that can help minimize your AGI, taxable income, and future tax liabilities.

Take advantage of tax-deferred accounts

One of the most efficient investment planning techniques involves holding assets that generate taxable investment income (i.e. interest income and/or dividend income) in tax-deferred accounts, such as a 401(k) or an IRA. When a taxable account holds these assets, the income generated from the investments could be subject to a total tax rate of 43.4 percent (39.6 percent top tax rate plus 3.8 percent investment income tax). If the assets are held in a tax-deferred vehicle, the income would not currently be subject to tax.

Assets that are intended to grow are reasoned to be more efficiently held in a taxable account, since the tax will not be paid until the asset is sold. In addition, minimizing investment income will lower your AGI, which will have the ripple effect of minimizing exposure to the highest tax bracket, as well as the itemized deduction and personal exemption phase-outs.

Consider tax-exempt investments

In instances when you may need a stream of investment income in a taxable account, tax-exempt municipal bonds and federal tax-exempt mutual funds are an efficient choice. For taxpayers in the highest tax bracket and subject to the 3.8 percent surtax, the after-tax yield on taxable investments could be less than yields generated from municipal bonds.

Harvest losses

If you find yourself with large capital gains during a particular year, it is vital to review taxable investment holdings for unrealized losses. There may be opportunities to realize losses on certain assets, thus reducing capital gains for the year. This technique is often called “tax-loss harvesting” and could be an efficient choice to reduce your taxable income. A word of caution, though – the IRS is aware of this technique and has issued rules regarding “wash-sales.” It is important to discuss these rules with your investment and tax advisors.

Think about a Roth IRA conversion

There is currently an opportunity for taxpayers who are otherwise disqualified from contributing to a Roth IRA to do so through a Roth IRA conversion. The mechanics are quite simple. You contribute after-tax dollars to a traditional IRA ($5,500/$6,500 age 50 or older) and then immediately convert it to a Roth IRA. The federal tax implications should be minimal if this conversion is completed in a short period of time.

Maximize retirement contributions

Whenever possible, it is prudent to maximize contributions to individual retirement accounts and employee-sponsored retirement plans such as 401(k) plans and Simplified Employee Pension Individual Retirement Accounts (SEP-IRAs).

Investment planning can be an effective way to minimize your tax liability. These are only a few of the opportunities available. We encourage you to speak with your investment and/or tax advisors to determine the best opportunities for your circumstances. **LE**

3 Costly M&A Mistakes to Avoid

Jeremy G. Chapman
Manager
Audit & Accounting

As the market continues its recovery and interest rates remain at historic lows, we have seen a significant increase in M&A activity in both the private and public markets. While no two transactions are the same, most deals go through a similar process. Regardless of whether you are on the buy-side or the sell-side, be on the alert for common mistakes that can prove costly.

Not utilizing non-disclosure agreements (NDAs)

Use an NDA to legally safeguard confidential information and provide an extra level of security for sensitive items such as intellectual property. It is important to be involved in tailoring the terms of the agreement to ensure adequate coverage.

Conducting inadequate due diligence

When going through the due diligence process, take time to thoroughly review financial and nonfinancial details. Ensure that you have a strong understanding of the corporate environment as well as what the financial information represents and how it is captured.

To avoid costly post-close integration issues, fully define the integration process and management's strategy for addressing any issues that may arise. These could include incompatible IT infrastructures and different transactional processing policies, as well as organization and reporting structures and employee responsibilities post-merger.

Spending time pre-close to anticipate how you would address these potential scenarios should greatly reduce the amount of time and resources needed post-close if a situation does arise.

Not being as detailed as possible in the purchase agreement

The purchase agreement serves as the basis for how the transaction will be executed, so it is very important to ensure that all terms, details, and examples are properly included. This will be especially helpful should a dispute arise post-close. Details should include purchase price adjustment clauses and specific financial metrics on which the adjustments are based - typically net working capital (NWC) or earnings before interest, depreciation, and amortization (EBITDA).

The purchase agreement should also avoid broad statements such as a general reference to GAAP compliance. Go a step further and be specific about the acceptable method of GAAP being used. With multiple acceptable methods of GAAP, especially regarding reserves, be sure that both parties are in agreement about which method is being applied. It may also be helpful to include examples, especially when calculating any purchase price adjustments.

Having specific language for terms and purchase price calculations can limit the potential for certain disputes, but it cannot prevent all of them. As such, it is important for the purchase agreement to outline a dispute resolution process that includes the time period to submit disputes, where and how they must be sent, who will serve as the arbitrator, and how the arbitration process will be conducted.

Agreeing on the arbitrator before executing the purchase agreement may take time, as both parties need to be in agreement. However, having a detailed dispute resolution process in place should help reduce unnecessary costs and allow parties to reach resolution in a more effective manner.

All M&A deals are unique and require time and effort. Be careful not to cut corners during the process. Giving adequate consideration to the items outlined above will increase your chances of a smooth and successful transaction. **LE**

Thinking About Changing Your State Residency?

Beware the Residency Audit

Thomas M. Frascella
Director
Tax Strategies

Our state of residency determines where you pay state personal income tax. Most states define a resident either as someone who is domiciled in the state or as someone who, although not domiciled in the state, maintains a permanent place of abode and spends in aggregate more than 183 days in the state. Individuals who meet the latter test of spending more than 183 days in the state are commonly referred to as statutory residents.

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Changing statutory residency status is more easily accomplished than changing domicile. Domicile refers to the place where an individual intends to create a permanent home. Once a domicile is established, it does not change until the individual moves, with the intention of making the new location his or her permanent home.

At one time, it was relatively easy to establish a new domicile and to make the new location your permanent residence. Changing your domicile usually required a minimum amount of proof such as a new voter registration card, a driver's license from the new state, and a new forwarding mailing address.

During the Great Recession, states became much more suspicious of changes in taxpayer residency status. They began to realize that many taxpayers still maintained significant ties to the state in which they were formerly domiciled, despite a change in the location of their residences. Thus, states began to conclude that the change in location was motivated more by a desire to reduce state tax liability than to make a permanent move. This resulted in a significant increase in residency audits.

Residency audits became a means of holding onto taxpayer dollars during a period of state budget deficits and political demand to hold the line on taxes. States such as Minnesota, New York, and Pennsylvania have begun to implement these audits as part of their return review procedures and have taken taxpayers to task when they do not believe the facts and circumstances support a conclusion that the taxpayers intend to reside in their new location permanently.

Other states and localities are looking at this issue on a more informal basis, but will likely adopt a more formal approach as it becomes clearer that there is benefit to be gained by implementing an audit policy around the issue.

Residency audits focus on the facts and circumstances of your move from one location to another to determine whether you have met the burden of establishing your intent to make the new location your permanent home.

If you are contacted by a state or locality for the purpose of conducting a residency audit, there are several things you can do to make sure you are prepared for and successfully defend the audit.

- Be ready to demonstrate your new location is permanent by showing that it is where you spend the majority of your time and that your prized possessions are there with you.
- Limit the time you are actively engaged in a business enterprise located in your old domicile. Otherwise, you risk the state taking the position that your domicile has not truly changed.
- Resolve any issues related to "trailing" family members. The state will take an unfavorable view of family members such as a spouse or minor children left behind in your former state of domicile for a prolonged period of time.
- Sell your residence in your prior state as quickly as possible after your relocation. **LE**

Big Data Can Play a Big Role in Your Business Improvement Process

Robert S. Olszewski
Director

"Big data" is a popular term to describe our ever-increasing access to information. So far, it has received mixed reviews. On the one hand, others feel that more data leads to more confident decision making and greater accuracy when monitoring desired outcomes. Others believe that too much information can lead to "analysis paralysis," prolonging the decision making process and hampering the ability to effectively implement change. So which viewpoint is correct?

You can make the most of your company's big data through benchmarking. Benchmarking is a useful tool as you strive to continually improve your business processes. Simply put, it helps you find better ways to do what you do. It compares one set of measurements of a process, product, or service to others within your organization or an external organization. Any business process can be benchmarked and it is a valuable exercise whether you are a manufacturer, distributor, service company, non-profit entity, or training organization.

Benchmarking historically focused solely on financial performance and information was limited to key executives and shareholders. More recently, successful organizations have seized the opportunity to share information more broadly and they have come to rely on big data for much more than the financials. They use it to:

- Enhance the probability of success
- Change the company's culture from inward-looking to outward-facing
- Improve the quality and quantity of performance information
- Drive accountability by making key performance indicators more visible

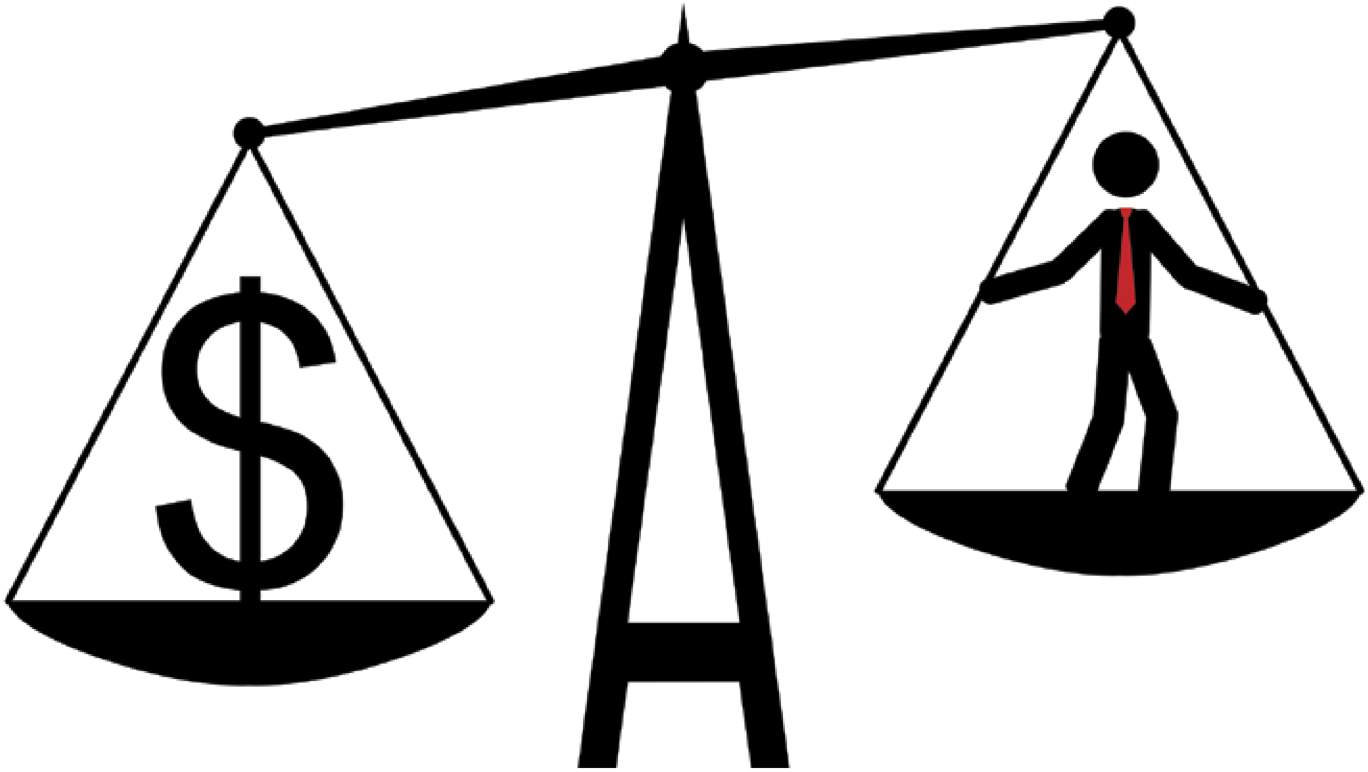
Measurements taken before implementation confirm that a problem really exists and set a baseline to measure future performance. After the solution is implemented, the measurement is conducted again. The variance tells you the degree of success of the project. Examine the measurement carefully before rushing to conclusions and to avoid data overload. You cannot know if your plan succeeded unless you thoroughly measure the quantitative results.

One of the common mistakes companies make when benchmarking is only looking at their own industry group or companies in their back yard. However, most business processes are common across industries. For example, Toyota would have similar fundamental Human Resource processes for recruitment and staff training as an accounting firm. So consider benchmarking your business against a company that is well known for being a high performer in a particular area.

The benchmarking process involves nine basic steps:

1. Identify what you want to benchmark.
2. Identify comparative companies.
3. Determine your data collection method and collect the necessary data.
4. Communicate expectations and gain acceptance from your team.
5. Project future performance levels.
6. Establish functional goals.
7. Develop action plans.
8. Implement specific actions and monitor your progress.
9. Recalibrate your benchmarks as necessary.

Technological advancements have given companies access to so much data that it can be overwhelming. The best place to begin is by addressing your major issues first; isolate the significant few from the trivial many. Identify a select number of issues and begin the benchmarking process. Then use your "big data" to evaluate the results and effectively implement lasting change. **LE**



Striking the Salary Balance

How to structure equitable compensation between new hires and existing employees

By Brooke N. Bates

In this competitive job market, companies will pay a premium for certain skillsets. But when employees discover that a new hire's starting pay trumps their tenured salaries, it can become an issue for managers. When employees start sharing numbers and stop feeling fairly compensated, the company suffers. "Unbalanced salaries keep compensation managers up at night because of the employee relations issues they create," says Preston Handler, associate partner of broad-based compensation for Aon Hewitt. "Perceived pay inequities can lower morale, render employees disengaged and less productive, and even increase turnover."

Employees expect CEOs to make much more than managers, who make much more than receptionists; these salary differences are not unbalanced because they are relative to each position's responsibilities. But when employees compare themselves and their salaries to peers in similar positions, the compensation scales quickly skew out of balance.

"To discuss unbalanced salaries, we first need to understand what we mean by balanced salaries," Handler says. "Balanced salaries are not the same thing as equal salaries. Balanced salaries are equitable, meaning there is an appropriate relationship based on reasonable criteria."

Understanding which criteria determine the pay structure for a particular position is key to balancing perceived disparities. Although unbalanced pay seems more prominent in industries where specialized skills can hike up salaries, it can happen in any organization when internal pay rates fall out of sync with the external job market.

Say, for example, that Sally joined the company three years ago, when starting pay was $20,000, but now the job market has shifted starting pay for that position up to $22,000. If Sally's incremental raises have not kept pace, she will feel duped when Joe joins her team at a higher salary with less experience.

"That unbalanced salary comes into play because you are chasing a limited amount of talent," says Brittany Cullison, Senior HR Advisor for G&A Partners, a full-service human resource outsourcing firm in Houston. "Then you get into situations where starting compensation is higher than it was a few years back, and you're trying to play catch-up."

New hires may also demand higher salaries because they have more up-to-date skills. The more specialized or strategically important these skills are to an organization, the more it will pay for new talent. In addition, it is simply more expensive to hire new employees than to retain staff.

"The most frequently cited reason managers give for bringing a new hire in at a higher salary is that they have

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to," Handler says. "The fully qualified candidate looking to switch employers typically seeks a 15 to 20 percent increase for the same work. This salary will be higher than those onboard who have seen miniscule increases in the last several years."

Fall back on a plan

Regardless of the reasons supporting a new hire's salary, existing employees may perceive an imbalance when they look at relative performance, and it is that perception that managers must battle. The problem, however, is that perception is innately biased. So it is imperative for companies to document and communicate compensation plans before salary comparisons become an issue.

"You want to be able to justify why compensation decisions are made, in the event they are challenged or argued as unfair," Cullison says. "Because my perception of my performance is going to be different than your perception of my performance, it is best to implement development plans linking goals to performance to pay, so that employees know what they are working toward, what they are measured against, and where their compensation is rooted."

A compensation plan should define pay ranges for various positions, based on skills, experience, and education at the time of hire, as well as performance milestones over time. Nailing down solid numbers is not easy with so many factors at play. What is important is that the company develops a balanced system to determine hiring rates and pay ranges, reflecting both internal and external factors.

The better that managers understand the compensation plan, the better prepared they will be when an employee demands a raise to settle a perceived imbalance.

"I encourage my clients to share compensation-related information with supervisors regularly, like how pay ranges are developed, how they are maintained, and what tools are available to make good pay decisions," says Katie M. Busch, owner of HR Compensation Consultants LLC, a full-service HR consulting firm in Boynton Beach, Fla. "When employees ask questions about pay and managers do not know the answers, it heightens their frustration and perception that the company must be hiding something. The more you build that elevator speech about compensation into processes, the higher level of comfort supervisors and managers have to pass that on to employees."

By the time an employee storms into a manager's office — angry about a rumor about the new hire's salary, or generic pay rates gleaned from the Internet — it is too late to introduce a compensation strategy. Communicating plans regularly throughout an organization can pre-empt predicaments.

"If someone comes to you and says, 'I don't feel like I'm being paid fairly,' it's much easier to fall back on a comp plan, versus not having a structure and trying to explain why there's variance between employees," Cullison says. "Usually, having those discussions upfront will avoid the uncomfortable situation."

Balanced pay differences

So is it worth paying a premium for new talent, only to risk upsetting loyal staff members who suddenly feel underpaid by comparison? Or should companies hire low and risk losing new candidates?

"It's usually easier to hold on to an existing employee who's not pleased with the new person's pay than it is to bring the new hire onboard with a lower pay package," Handler says. "But hiring managers should always attempt to keep a new hire's salary in line with existing employees' salaries."

Balance may require offsetting a lower starting salary with a hiring bonus to keep salaries in line. Or it may call for a more holistic approach to regularly reviewing compensation across the organization. In fact, whenever an employee questions salaries, Busch institutes a widespread pay evaluation, making sure that any salary adjustments are made with the whole company in mind.

"If you really need that skillset and it is going to cause some internal pay inequities, then address the internal pay inequities when you hire that new person," Busch says. "Often, when we implement new pay ranges, we will also do some equity adjustments for existing employee pay, passing on some increase in the job's market value."

Spending money in equity adjustments can actually save companies from the long-term costs of disgruntled, unproductive employees or recruiting searches. However, equity adjustments should be combined with performance assessments to avoid unconditional pay raises across the board, which could perpetuate disparities.

Simply flattening salaries, known as compression, is not the solution because competitive salaries are not necessarily equal. Instead, justifying why salary variances exist is a more balanced approach. After all, salaries differ for a reason.

"Pay ranges are intended to reflect differences in performance, experience and contribution," Handler says. "Little dispersion among salaries is a red flag that the organization is ineffective at differentiating performance. It's no longer acceptable for managers to keep the peace by giving everybody the same salary. More than ever before, organizations are accepting unbalanced salaries because it's important to differentiate pay based on performance in order to attract high performers." **LE**

8 things to know about doing business in Spain

Thinking about doing business in Spain? Here are some tips to keep in mind.

Spain is a country with a Western culture and free-market economy, like most of the developed world. But it is also a country with unique customs and a major generational gap in terms of work styles and attitudes, and as a result, there are significant differences between the business culture in Spain, and the cultures of other Western countries such as the U.K., France, Germany, and the U.S.

1 Background is important to remember. Since the death of dictator Francisco Franco in 1975, a new breed of Spanish businessperson has evolved. State-run businesses gave way to privatization, often spurred by younger business leaders who were educated outside of Spain, and their attitudes are often more congruent with what you might find in other Western countries. Older and domestically educated Spaniards often harbor a more traditional attitude, which is rooted in individualism and hierarchy, as opposed to teamwork and peer-to-peer relationships.

2 Respect is given to the person, not the title. Hierarchy and vertical organizational structures are important in Spain, but Spanish culture dictates that the interpersonal relationship between superior and subordinate is more important than the job titles. Spanish workers respect a CEO with whom they can build a working relationship; they will not simply respect the title of CEO.

3 Management style is of great importance. Because respect is given to the person and not simply to the title, personal attributes are more valued in a leader than is mere technical excellence. A leader must demonstrate trustworthiness and high ethical standards to receive respect, no matter how competent that person is in the job.

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4 It is not a "meetings" culture. Although the younger workforce is breeding more of a conventional Western mindset in Spain, it is still a country where individualism is highly valued, and extroverted behavior is considered the norm. Meetings, when they do occur, are often explicitly so that a superior can instruct subordinates. The brainstorming sessions found in other countries are less common and are often counterproductive, due to the Spanish tendency to express opinions emotionally and forcefully, as opposed to working toward a consensus.

5 Dress is conservative. Spain is known internationally for its colorful and flamboyant customs, but it is a country of conservative dressers. Managers are almost always dressed in a conservatively colored suit and tie and are well-groomed, especially in the finance and legal industries. Dress may vary from industry to industry, but conservative dress is the norm.

6 Summer dress is light, in fabric and color. Spain is a Mediterranean country with a semiarid interior, and cities such as Madrid can get extremely hot in the summer. Dark clothing and heavy fabrics are not recommended in the hotter months.

7 It is still a male-dominated society. Most high-ranking positions are still held by men. That trend has been slowly changing over the past few decades, but it is still considered something of a novelty to see a woman in a senior position, and a woman in such a position should be prepared to be viewed as such, at least initially. However, overt acts of gender discrimination are rare in Spain, and women are generally treated with respect in the Spanish workforce.

8 Long meals are the norm. When entertaining a business client over a meal, do not expect to squeeze it in between appointments. Lunch is the main meal of the Spanish day, and Spaniards often do not have lunch until mid-afternoon – 2 p.m. or later. When Spaniards sit down to eat, they take their time to relax and converse. It's common for lunch to last more than two hours, with a number of meal courses and alcohol. Sometimes, the opportunity to talk business does not present itself until late in the meal. A two- or three-hour lunch is a difficult adjustment for someone used to the impatient pace of Western business, but it is viewed as central to relationship-building in Spanish culture.

bits & pieces

WHISTLEBLOWER PROTECTIONS EXTENDED

Whistleblower protections have been extended to employees of many private companies. In the case of *Lawson v. FMR LLC*, the U.S. Supreme Court recently ruled that Section 806 of Sarbanes-Oxley, which protects employees from retaliation, also applies to private companies, contractors, and subcontractors that provide services to public companies. "Retaliation" is broadly defined to include the discharge, demotion, suspension, threatening, harassment, or any discrimination against a whistleblower for his or her actions.

Companies should ensure that whistleblower protections are deeply embedded in their compliance and ethics policies, which should encourage whistleblowers to come forward, provide a reporting mechanism, establish investigative procedures to resolve complaints, and promote acceptance of anti-retaliation policies throughout the organization.

NEW RULES FOR COMPANIES PAYING FOREIGN VENDORS

The Foreign Account Tax Compliance Act (FATCA) went into effect July 1, 2014, and businesses that make payments to foreign vendors or investors must determine whether that payment is subject to FATCA.

The act, created as part of the Hiring Incentives to Restore Employment Act of 2010, requires companies to disclose information, related to payments made to organizations outside the U.S., with the goal of identifying and discouraging offshore tax evasion by making payments to overseas accounts more transparent.

Provisions will continue to phase in through 2016.

If your business makes payments to foreign vendors or investors, you can either choose to become compliant, gather information, and disclose it to the IRS by filing Form 8966 and 1042-S, or choose not to comply and be subject to a 30 percent withholding penalty on overseas payments.

Rent paid to a foreign entity is exempt from the requirement.

TRENDING IN BUSINESS

Three innovative trends are taking hold at businesses across the country, according to *Inc.* magazine.

- **Unlocking employees' hidden strengths.** By focusing on building relationships with those who work for you, you can not only uncover hidden capabilities but give your employees a feeling of ownership of their work.
- **Giving second chances.** More companies are stepping up to solve some of the country's problems. Cascade Engineering, for example, started a program called Welfare to Career, which hires people who have been on government assistance for long periods of time. The program raised retention rates and employee satisfaction, and was so successful that founder and CEO Fred Keller initiated a second program aimed at hiring ex-felons and giving them a chance to start a new life.
- **Implementing democracy.** In the past, companies often operated under the command-and-control style of leadership, but that does not work anymore. By hiring people with curiosity, modesty, and passion, you can create a culture focused on individual participation and empowerment, says Clarizen CEO Avinoam Nowogrodski. Under his system, everyone in the organization is equal. The result is that employees do not feel like there is someone above them dictating to them, giving everyone a voice in the company.

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