



Greetings from Shari

Thanks for taking a look at our summer 2009 newsletter.

Foremost on our minds these days, of course, is the economic situation, which seems to be improving a bit. What hasn't changed is that many organizations continue to struggle with approaches to their salary administration practices. The struggle usually is centered on balancing the need to pay employees competitively within whatever budget, if any, is available for salary adjustments. The truth is, in many cases, employers can continue to manage base pay cost-effectively and still remain competitive.

Much of the time, this struggle could be mitigated by the application of more enlightened practices. Our surveys tell us that a large percentage of employers are freezing base pay increases this year. (*See Rita Haronian's summary of CompAnalysis' recent survey in this issue*). Freezing is a short-term solution that will eventually lead to an even more serious problem because labor market inflation continues even in a depressed economy.

So, what can you do going forward? Whether your organization has frozen pay or not, you need to recognize that there are two fundamental ways to manage base pay: (1) salary increase management, and (2) salary management. Although these sound like the same thing, they are actually quite different.

The traditional, textbook approach is to manage pay increases. This involves a focus on percentages, which may or may not be linked in some way to performance ratings and/or where employees' existing salaries fall within an established salary range. This focus on percentage increases generally fails to result in salaries that are competitive, equitable, cost-effective, legal, and tied to performance – the typical objectives most of us intend when we pay employees. Why? Because a focus on increase percentages only works when the salaries are correctly aligned in the first place. If the existing salaries are not already correlated to the values of the jobs and to performance, overall percentage increases will simply perpetuate and/or worsen any existing inequities. And — even if there are specified differences in percentage increases, they are unlikely to be significant enough to correct existing inequities.

The second approach, and the one we recommend, is to manage actual salaries. This requires that jobs first be classified within a salary structure based on an analysis of the labor market and on internal job comparisons. Within this framework, then, one can determine what each employee's "ideal" salary should be. Typically, ideal pay is a percentage of the job value (salary range midpoint) tied to performance. For example, you might want to ideally pay a top performer at 115% of the job value, while new employees and/or those needing to improve their performance may ideally be paid at 90% of the job value. Administratively, then, you can compute the cost of bringing all employees at least to their ideal pay, noting that those who are currently paid more than their ideal pay would not be eligible for a salary increase at this time. If the costs involved are prohibitive, you can, by trial and

error, execute an ideal pay scenario that is less aggressive and results in costs that are within your budget.

So, even in hard times, employers can still work toward meeting their pay goals. In fact, hard times can be a good time to address these issues, as employees are aware of the economic issues and may accept changes more easily. Of course, changes in approach such as I've suggested can present communication and administration challenges. The fundamental questions are: "How much do we care about achieving our goals of paying equitable, competitive, legal, and cost-effective salaries, and how much change are we willing to implement to achieve them – even if there's some pain involved?"

Let me know what you think.

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