Salary Management 101

How to perform salary planning and ongoing compensation management.

Background Statements

- As a new manager, no one told me that it was my responsibility to actively address each new employee's salary; I naively assumed that an annual salary review process was sufficient (and since none of my former managers had actively managed my salary I didn't have any better example to follow)
- In the high tech boom of the 1990s, as I hired new graduates fresh from school, I quickly found that after 6 months their salaries were no longer competitive; the tech boom was magnifying a problem that had always existed and still exists today
- In light of what I was seeing as a manager, my previous experience as an employee made more sense to me: the only way to obtain any real salary increase was to find a job at another company and to negotiate a pay increase
- As a new manager I wanted to "do better" for my staff than previous managers had done for me, and so after discussion on this subject with my boss we obtained assistance from a contact of his in our company human resources department
- This active management approach was suggested by that human resources person, but the specific methodology described in this presentation is much more specific and detailed than he suggested

Background Statements

- This presentation is intended to provide a new manager with the nitty-gritty details on how to move a newhire's starting salary to defined targets
- This presentation assumes that you, the manager, have created salary scales and associated targets for the various positions your manage; thus, when employees are moved into your remit, you assign each employee to a specific scale

Salary Management Tools

- Annual Merit increases; where an employee is reviewed and assessed and a salary increase is assigned based upon that employee's performance against objectives that have been previously established with the employee
- Periodic Career Development (CD) increases; where in response to an employee's development (that is, attainment of new capability) that employee receives a salary increase that is not tied to their annual Merit increase
- Salary scales with established minimums, maximums, and a "Market Target" for each role (with normal salaries clustered around the Market Target); in a large corporation these salary scales are set for you, but in a smaller company you may have to establish these yourself

Guiding Philosophy

- Each employee is expected to take 18 to 36 months to reach their full potential within a specific role or position. Over that period, the manager should apply regular salary increases in response to the employee's development, such that at the end of the development period the employee's salary is appropriately placed in the cluster around their target salary
- If the manager does not consciously and actively address an employee's salary, the employee's salary will typically fall behind that employee's expectations and result in decreased employee job satisfaction. By proactively addressing salary with your employees you establish appropriate employee expectations instead of allowing inappropriate expectations to establish themselves

Salary Management Process

This process should be invoked whenever an employee:

- Joins your organization
- Is promoted
- Their job/role changes
- Their performance changes
- The salary scales change

1. Determine the employee's target salary.
2. Establish their development velocity.
3. Build a CD/Merit plan for them.
4. Execute the plan in response to continued development.

1. Determine Target Salary

- The employee's specific job/role should determine the Market Target you assign to that employee
- There are two types of factors to be considered: role-specific factors, and employee-specific factors; where role-specific factors affect all employees in that role, but employee-specific factors only affect that individual employee
  - If a specific job/role requires skills your industry considers scarce, it is usually appropriate to establish a higher Market Target for the individual assigned to that role; that is, individuals who possess industry scarce skills are only paid for those skills if they are in a role that requires those skills (the is a role-specific factor)
  - It is also normal for an organisation accumulate specific individuals who have unique institutional knowledge about your organisation, and so are critical to its ongoing success; establishing a higher Market Target for these critical resources is normally one of the actions taken to ensure these individuals remain with your organisation (the is an employee-specific factor)

2. Establish Development Velocity

- Every person is different, and everyone develops at a different pace; where each employee is rewarded differently based upon their individual performance
- Some people develop quickly, some not so quickly; 18 to 36 months are the upper and lower ends of an employee's typical development timeframe
- By observing and working with the employee in their first few weeks in a new role, determine how long you expect them to take to become fully productive
- Write a development plan *with the employee* and obtain agreement from them on its timing & content; this is a validation of their development velocity
- Writing and obtaining agreement from the employee on their development plan (along with annual objectives) is an important part of setting appropriate expectations

3. Build CD/Merit Plan

- Some definitions:
  - to achieve *regular salary increases* assume 1 Merit plus 1 (or possibly 2) Career Development (CD) opportunities each year; this give 2–3 **Raise Events** per year
  - the difference between the employee's current salary and the target we will call the **Gap**
  - the number of months to develop will be called the **Velocity**
- The **Raise Events**, **Gap**, and **Velocity** are used to calculate the amount of each CD/Merit event required to achieve market target at the end of the development period

Sample Salary Management Worksheet

Employee	Months In Role	Current Salary	Target Salary	Velocity (months)	Months Remaining To Develop	# Merit/CD Raise Events	$ Amt. per Raise Event	% Amt. per Raise Event
Employee One	3	$ 50,000	$ 60,000	20	17	3	$ 3,333	6.3%
Employee Two	24	$ 45,000	$ 55,000	36	12	2	$ 5,000	10.6%

4. Execute The Plan

- Keep in mind that your plan is both a *guide* and a *baseline:*
  - as a *guide* it is ***not*** meant to be followed religiously—"do the right thing" given the employee's performance and situation, don't just follow the plan for its own sake
  - as a *baseline* it tells you whether the employee is on track to achieve market target within the planned time-frame—that is, are you, the manager, doing your job
- Continuously watch for employee development that you can reward with a CD Increase as per your plan—that is, sometime during each quarter, reward a specific achievement with the planned raise for that quarter (remember that no development means no increase!)
- Be open and up front with the employee about their velocity and their pay scale, *without* committing to a specific target salary
- As you approach the end of the plan, fine tune the employee's target salary—for example, high performers should end up above the market target
- Salary scale increases are an opportunity to revisit an employee's position on the salary scale—for example, don't automatically increase employee salaries so that they hold their position relative to the market target; instead, apply the process and potentially increase their salaries in response to continued development or a need to continue to pay competitively for that individual in that role

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