

HaRe Group newsletter: 19 January 2010

Subject: How was your last pay review?

Actually, I didn't mean "were you satisfied with your annual pay increase?" – my question was about process quality and if your organisation could have stimulated the exit of talented people. Specifically, as a business leader:

1. *How well are your employees' pay levels aligned to relevant market rates?*
2. *Does individual capability and experience correlate with market practice?*
3. *Are managers and employees satisfied with the pay review process and fairness of the outcomes?*
4. *Are you satisfied that the time & effort that went into your review process delivered a worthwhile result for all concerned?*

Market leaders experience some common problems with each of these points – they often implement similar solutions:

1. Market survey reports will usually supply practical data for some positions, but most Australasian companies struggle with the data gaps – many employees are in jobs that don't have a good survey match within their industry, or to a job family, so there is no direct market rate for many individual employees.
Common solution: put all employees into job families, delineate substantive positions by work value, select benchmark roles with good market matches, and align position bands to market rates using the benchmarks (picking the correct rate is also a big issue)
2. A good performance management system should summarise the relative contribution of all employees on a meaningful scale – such a scale should inform pay increase percentages, but these increases often fail to consider how well an individual employee is already being paid.
Common solution: define pay ranges to suit each job family (based on market interquartile rates & organisation culture) and establish a pay increase matrix that favours the high performing, low paid employees – the well paid, "sub-average" performers get the least
3. Many managers feel disengaged from the pay review process (too many decisions are made behind closed doors); involved managers often use cumbersome worksheets that can lead to data leakage and quality failure; too many employees feel the process is confined to a black box and the outcomes are unfair.
Common solution: allow managers to become engaged in the process, which should include systemic access to relevant data and meaningful input; employees respond well to open and detailed communication about pay review principles and process guidelines
4. Dissatisfaction with pay review outcomes is a frequent stimulant to the exit of talented employees; some managers feel powerless and not trusted; HR & payroll staff spend days reprocessing and double-checking reams of data; business leaders suffer from a lack of budget discipline and the subsequent blowouts in remuneration cost.
Common solution: eliminate methods using isolated worksheets – introduce a tailored on-line system with live databases for benchmark positions, aligned market data, pay structures by job family, and a budget driven pay increase matrix – provide access to managers for local decision making – give employees consistent and clear information about the process and its outcomes

For most organisations, a successful pay review system has a facility to create position bands and pay ranges specific to job families; these systems account for relative employee performance and pay disparities; the outcomes are fair, objective and robust. The system should also meet the particular demands of your industry, business strategy and organisation structure, as well as providing the flexibility that is essential to cost effective remuneration management.

Simon Hare

www.haregroup.com.au