How to Carry Out Employee Salary Adjustments

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At some point, it will become necessary for an employer to adjust their employees' salaries. More often than not, these adjustments will be upward revisions (pay raises) and not downward revisions (pay cut). This is because naturally, people are non-satiated, in that what they have never seemed to be enough. There is always something more that we believe we can do with a little more money, however, when we get a little more money, we find that there is still more that we can do with the money. Thus, humans naturally prefer more of a thing to less of the thing. This is what makes pay cuts difficult for employers. If not done right, they risk upsetting and demoralizing their workforce, which can be contagious and ends up causing more damage than was intended. It is important to note that even pay raises can also have the same adverse effect on the workforce. This can happen when an individual employee receives a pay raise which is perceived to have been unwarranted. Other employees may feel they are working just as hard and are just as productive, thus there is nothing to justify the raise that they did not receive. Without a doubt, most employees in this situation will feel they have been unfairly treated, which in turn can have adverse effects on productivity and morale. It is thus important to know the right way to make salary adjustments.

Step 1: Ensure a Job Evaluation has been conducted

The first step is to ensure a comprehensive job evaluation has been conducted. A job evaluation is a way of ascertaining the value and worth of a job when compared to other jobs in the company. A systematic comparison between jobs will be performed to find out their relative worth. This is done with the intention of coming up with a rational and defendable pay structure. This is possible because a job evaluation does not evaluate the employee but the job, and considers current company systems and structure in place, as well as any future plans that may come. Jobs are then judged as being "low" or "high" in comparison to other jobs in the company hierarchy.

Step 2: Ensure a Job Analysis has been carried out

The second step, which is part of the first step, is to ensure a thorough job analysis has been carried out. A job analysis is a process in which the duties and responsibilities of each job in a company are determined and clearly established. A job analysis is very important to a company's recruitment and retention policy as it uncovers the qualifications and competencies necessary for each job. It produces job descriptions that detail minimum hiring standards for jobs. This goes a long way in ensuring companies seek out the right candidates for each job, limiting the need to keep returning to the job market after a new hire proves to have been mismatched with the job. It is vital that companies get this step correct, as the practice of hiring and subsequently replacing bad hires is a very expensive one. To uncover the conditions of work necessary and the key competencies relevant for each position, interviews with staff or surveys may be conducted.

Step 3: Ensure a reliable Job Grading system is in place

The third step is to ensure a reliable job grading system is in effect. A job grading system is a system that categorises jobs of equivalent worth into groupings called grades. Job grading gives the employer a foundation to base its reasoning for paying its employees different levels of pay. As all positions are evaluated using the same system, job grading ensures that work done of equal value will be rewarded similarly.

Step 4: Carry out a salary survey

The fourth step requires a salary survey to be carried out. A salary survey is a process of collecting market remuneration/salary data and is usually carried out to identify what the market is paying for each position. Salary surveys allow companies to match and compare salaries they are paying their employees with those paid in the market to employees with similar responsibilities or grades. Failure to remunerate employees comparably may result in failure to attract key talent, as well as, high employee turnover because of unfair or inequitable remuneration. Therefore, it is imperative that every company works to ensure that its salaries are comparable or better than what competitors are paying.

Step 5: Design an equitable pay structure

The fifth step is to design a pay structure that promotes internal and external equity while promoting process equity. A pay structure establishes a logically-designed framework within which equitable, fair and consistent remuneration policies can be implemented. Furthermore, it establishes the basis for the effective management of relativities that are associated with pay such as making salary adjustments. It also communicates the pay potential available to employees. It is here that the company will decide to lead, lag or meet market remuneration. Companies generally choose to meet the market, i.e. pay salaries that are equivalent to what the market median is currently paying. This is because, at this level, the company will neither be overpaying or underpaying its employees. Some companies choose to lag behind the market, i.e. pay salaries that are below the market median, say the market 25th percentile. This choice is normally practiced by small companies that are not in a financial position to compete with the market as they either cannot afford to pay at that level, and/or cannot sustain that level of remuneration in the long run. It is also common for big popular companies that every employee would like to work for to pay at this level, as they offer value to their employees in other ways. Companies that lead the market, i.e. pay salaries that are higher than the market median, say the market 75th percentile, are more likely to retain their employees, however, such companies must ensure they can sustain that level of remuneration in the long run.

Step 6: Pay structure policy and procedures

Organisations must then decide on how the pay structure is going to be administered and maintained. This means deciding on how salaries for new employees within the pay structure framework will be remunerated, as well as, when and how to give employees pay raises. Other issues to be finalised are the criteria for moving existing employees within the pay ranges, as well as, determining the pay raise being paid to employees being promoted from one grade to another. All this is done while ensuring any regulatory obligations, such as the government-imposed minimum wage, are adhered to.

Step 7: Making the salary adjustments

Once all these steps have been implemented and the structures and systems are in place, salary adjustments can then be safely made. The reason for the adjustment will determine the treatment of the adjustments that need to be made.

Employees earning less than their grade minimum

Now that a new pay structure is in place, it can be revealed that some employees are earning less than what the pay structure deems to be the minimum an employee in the respective grade should be earning. A general rule is that no employee should earn less than the grade minimum. Thus, the salaries of such employees need to be adjusted upwards to their grade minimum.

Employees earning more than their grade maximum

It is also possible that under the new pay structure, some employees are paid above their grade maximum. This may have been a consequence of a high bid made by the company to snatch up an employee who was high in demand. However, as a general rule, employees should not earn above their grade maximum. To solve this, the employee can either be given additional duties to justify the wage they receive and/or can be reassigned to a position or grade provided they meet the criteria set out in the job evaluation. In the case that the employee is already in an appropriate grade, regrading may be adequate to solve this.

Cost of Living Considerations

There are times when countries experience a high level of inflation, such that the purchasing power/value of employees' salaries becomes eroded. Inflation is simply the rate at which the prices of goods and services within an economy increase. Inflation affects many different goods and services, most of which are consumed often by employees. Examples of goods and services affected are food items, transportation, electricity, and water, education, health and communication. In cases where the inflation is rampant, salaries need to be adjusted to compensate employees of the loss of value of their salaries. Failure to do so could result in employees seeking better employment opportunities that make up the loss in value. However, as inflation in most cases does not remain rampant for very long, companies are advised to adjust these salaries with caution, as the alleviation of the inflationary pressures may result in companies overpaying its employees, which may not be sustainable in the long run. Thus, this adjustment may be in the form of an allowance that is reviewed regularly.

Awarding good performance

Employees should be awarded for good performance. Thus, high performers must be differentiated from poor performers. In such cases, high performers must be awarded, with a move towards the high end of the grade. Generally, to begin with, high performers can be paid at around the midpoint of their grade.

Starting Pay for New Employees

New employees should generally be paid closer to their grade minimum. This is done to avoid paying new employees, who have yet to prove their worth to the company, the same as more experienced employees. This is however not applicable when the new employee in question has skills that are high in demand.

The company's financial health

There are times where a company is forced to make difficult decisions concerning its employees as a result of its financial standing. It may have to choose between laying off some employees and making pay cuts to certain employees, if not across the board. In either case, companies are encouraged to communicate their decision to employees before acting on it. While the outcome may not be ideal, employees may be more accepting of their new reality when the company treats them like humans and extends the courtesy of informing them of the decisions made which affect them.

Change in responsibilities of employees

In the case of a change in the responsibilities of an employee, their new salary should reflect the change in the responsibilities. This is to maintain the job evaluation and analysis carried out in steps 1 and 2.

Transferring employees to new locations

There are cases where employees are shuffled and some are transferred to a different location. In such cases, companies may need to allocate an allowance that covers any relocating expenses incurred by the employee.

Periodic Review of the Pay Structure

To avoid lagging behind the market, companies are encouraged to make regular periodic reviews of their pay structure. Without doing this, the pay structure may become outdated and irrelevant causing the company to be left behind by competitors. The best way to do this is through another salary survey, which would ensure the company keeps up with competitors. An alternative would be to increase all salaries in the pay structure by a predetermined percentage.

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