

# Salary Reviews

Salary reviews can be challenging for employers in terms of striking the right balance between keeping everyone happy and rewarding people who achieve the best results. The following 5 step process will help you to implement a system that rewards staff fairly and motivates them to keep improving their performance.

The key steps in creating a successful process are:

1. Consider how much the company can afford.
2. Determine the going rate amongst competitors.
3. Assess the contribution made by each staff member.
4. Allocate increases based on performance and market rates.
5. Communicate effectively with staff about pay rises.

## Consider How Much the Company Can Afford

The first step is to consider how much your business can afford and set a budget for the total increase in payroll for the company. This process will be easier if you review salaries for all your staff at the same time.

## Determine the Going Rate Amongst Competitors

You need to find relevant market information to compare what your people are being paid with similar roles in other organisations. Gathering information from a number of different sources is the best way to get a feel for true market rates. Salary surveys that include a brief job description for each role enable you to match the data more accurately to the roles in your company. Typically, market information will come from the following sources:

- Specialist remuneration companies.
- Industry Associations
- Recruitment agencies.
- Websites (for example, [www.seek.co.nz](http://www.seek.co.nz) ).
- Word of mouth.

Analyse the data you gather and determine a market range for each position in your company. Decide where you want to position your company compared to market salaries (some companies need to pay at the top end of the market to attract good people, while other organisations might pay less and offer other benefits).

## Assess the Contribution Made by Each Staff Member

To allocate pay rises fairly, it's important to rate the performance of each employee. A strong performance review system must be in place to assess performance on a fair and consistent basis. A salary review process normally follows on from performance reviews. See our article on Performance Appraisals for more information.

## **Allocate Increases Based on Performance and Market Rates**

The next step is to decide how to allocate pay rises to your staff. This requires maintaining appropriate relativities both within the organisation and compared to market rates and taking into account performance ratings and your budget for increases.

Employees often have an expectation that they will receive a cost of living increase, regardless of their performance. While it is useful to monitor cost of living increases during the salary review process, giving regular pay rises to poor performers sends the wrong message and removes a strong incentive for them to improve. You may also find that high performing staff perceive this process as unfair and feel demotivated.

## **Communicate Effectively with Staff about Pay Rises**

One of the most challenging aspects of the salary review process is dealing with staff who are unhappy about their remuneration. Supporting your decisions with accurate market information and a fair performance review process will help to ensure that people are satisfied with the process.

If individual managers in your company are responsible for assessing performance for their team and allocating pay rises, a company-wide review by the senior management team is an effective way of avoiding unfair or inconsistent decisions.

Managers should provide consistent communication to staff about the company's remuneration policy and, if necessary, receive appropriate training and support to deal with disgruntled employees. The more transparent your processes are, the easier it will be to manage staff expectations.