



MANAGING SALARIES IN TOUGH TIMES

Most companies have very limited merit budgets for salary increases this year, if any at all. Many companies have delayed merit increases and are now beginning to strategize their salary management approach for the year. A constrained budget makes for difficult decision making and companies need to be sure scarce compensation dollars are spent as effectively as possible. This “Top Ten” list summarizes some of the possible approaches for allocating merit increases and why (or why not) to use them.

1. **Competitive Market Based**

Identify those positions and incumbents whose salaries are furthest behind competitive market levels and increase salary levels toward market levels as the merit budget permits.

- Consideration: You may end up increasing pay for positions not critical to the company’s strategy or incumbents with poor performance ratings.

2. **Function Based**

Identify the functional areas that are key to the organization’s long-term strategy (e.g., research, engineering, fundraising/development) and allocate merit increases to these areas.

- Consideration: This may result in salary increases for positions and/or incumbents already paid at or above competitive levels and could create the perception of functional favoritism.

3. **Retention Based**

Identify key incumbents in various functional areas that are most critical for the organization to retain.

- Consideration: This may result in salary increases for positions and/or incumbents already paid at or above competitive levels and may lead to perceived internal inequity.

4. **Performance Based**

Identify the highest performing employees in the organization and allocate salary increases to them.

- Consideration: This may result in salary increases for positions and/or incumbents already paid at or above competitive levels.

5. **Salary Range Based**

Using the Presidio Pay Advisors *Merit Manager*, evaluate employees by position in salary range and allocate increases to those in lower third of the range who have performed satisfactorily or better.

- This requires salary ranges that accurately incorporate the current market value of jobs as well as internal equity within your organization.
- Consideration: This approach may not reward the highest performers or the key functional areas.

6.

Management Consensus

- Have each department manager nominate the top 10% of their employees to receive merit increases.
- From this pool, provide increases to the top performers as agreed by either consensus or majority opinion of senior management.
 - Consideration: Smaller departments may end up with a greater proportion of employees getting an increase.

7.

Combination of Position and Incumbent

Assess both positions and incumbents for their relative importance to the organization as either: High, Medium or Low. For example:

Position	Incumbent		
	High	Medium	Low
High	Merit Increase		
Medium			
Low			

- Focus increases on incumbents rated “High” who are in positions rated “High”.
- Consideration: It may be difficult to gain consensus on the position and incumbent ratings. Labeling groups of employees as “High” importance may create a two-class culture.

8.

One-Time Performance Bonus

Provide employees receiving a performance rating above “Satisfactory” or “Meets Expectations” a one-time nominal cash bonus (e.g. \$500 to \$1,500) to acknowledge performance without increasing the company’s fixed costs.

- Dollar amounts may not be significant enough to differentiate between levels of individual performance, but the gesture should provide goodwill to the employees who are contributing the most.
- Consideration: After taxes, the dollar value realized may be insignificant to employees.

9.

Exclude Senior Management

Senior management is often excluded from salary increases during economic difficulties, because they are presumably better able to weather a financial hardship than lower paid employees.

- Senior management could also take pay cuts or forego bonus payments to fund a modest merit increase pool for top-performing employees.
- Consideration: If the current senior managers are the right team to turn things around, retention concerns may prevent companies from implementing this strategy.

10.

Freeze Salaries Altogether

This translates to no base salary increases for any employees this year.

- If the alternative is layoffs and senior management communicates its decision making rationale honestly to employees, they may be more understanding of a salary freeze. Many companies are employing this strategy right now, so employee expectations may not be as high as in prior years.
- Consideration: If your company does not implement a salary freeze together with a hiring freeze, be prepared for negative backlash from employees who wonder why there is money to hire altogether new employees but not enough to reward the ones with a proven track record of performance.

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