TenStep, Inc.

TenStep Supplemental Paper

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Managing Pay Hikes for Diverse Teams

Doling a salary hike to an entire group of employees in an effort to implement a new range minimum is not a new phenomenon. However, HR executives face the challenge of justly altering the salary ranges for specific employees without generating the "what about mine" syndrome. They also must deal with offsetting the unjustifiable gain for employees already being paid above the industry average.

Why is the process necessary?

Organizations might alter compensation packages for various reasons. The most important being a rise in the salary range in the industry as a whole. In such situations, the change happens across all grades and jobs at a specific time of the year. On some occasions, an organization might undertake a hike for a certain section of employees only. Such moves could be driven by the impending scarcity of talent and rapidly rising salaries in those jobs. In certain cases, organizations also issue a new salary range when the job description and responsibilities undergo a drastic change.

To start with, the HR department should conduct a job assessment and evaluation and determine the extent to which the job and salary should be enhanced. HR executives have various options:

1. Amend all salaries by the amount of raise in the range minimum, range midpoint or market rate
2. Alter the salaries of employees who are below a specific point in the new salary range (such as midpoint or market rate)

The first option would prove expensive, as organizations would have to increase the salary of everyone in the job group, irrespective of pay their level. However, this might lead to job re-evaluations being considered as an entitlement. Salaries are being hiked irrespective of the market rate. The more the hikes an organization bestows upon its employees, the greater the free rein managers will have over the salary budget for their staff.

Salary hikes after mergers and acquisitions

A similar situation awaits the HR executives during mergers and acquisitions. In such situations, it is best to ignore a one-size fits-all solution for compensation. It would be ideal to frame a common guideline of compensation. HP-Compaq adopted such a strategy successfully in the wake of its multi-billion dollar merger a couple of years ago.

Some of the business-related issues that one must consider in such circumstances include:

1) Are the businesses involved similar to each other or is the management trying to project a "one company" image that makes a common compensation guideline necessary? If the businesses are unrelated, a common guideline may not be feasible.

2) Do employees transfer between the different businesses so that some common guidelines are essential to enable the smooth transition of staff between businesses? If yes, to what extent and in what types of jobs?
3) What is the prevalent level of competitiveness in each country and how is that reflected on the company's cost of products or services? To put it in a simpler manner, if the company were to implement a common compensation guideline, is it economically viable everywhere?
4) What are the business obligations and objectives for implementing such a common compensation guideline? Will it improve the organizational competitiveness or is it just an operational activity?

In effect, a common compensation guideline across new businesses should be opted for only if it leverages the inherent but varying strengths of the businesses involved, enhances the market standing of the organization as a whole, improves performance levels, integrates diverse businesses and cultures on specific issues, and augments the competitive diversity of the workforce.

Salary hikes should be based on the following factors:

- Performance criteria vis-à-vis the company's pay plans
- Component of salary vs. variable pay
- Fringe benefits, share allocation and retirement benefits
- The component of equity in the reward programs
- The total remuneration that has to be paid for standard performance vs. outstanding performance
- The various sections of the workforce – is it necessary to have varying approaches for technical people vs. administrative staff?
- While implementing a global compensation strategy, the HR team should ensure that expatriates and third-country nationals are paid competitively at par with their country of origin. However, a unique pay package needs to be offered to account for the living expenses at their present country of residence.

In effect, formulation and implementation of a team compensation strategy necessitates the meticulous design, execution and follow-up of the plan so that there is a definite link between team performance and pay. As in the case of other compensation strategies, it should be linked to a company's business and compensation strategy/viability. The compensation guideline should also be based on employee eligibility, expected levels of performance, techniques adopted for performance evaluation, weight given to individual performance while determining the final award, schedule/format of plan, pay out, and employee acceptance.