

HaRe Group newsletter: 24 February 2011

Subject: Promotion pay planning

Last year, I asked “how was your last pay review”. Your responses reflected a range of experiences: systematic to ad hoc; good to bad. Some organisations have a well-orchestrated, centralised approach to their annual pay review processes – others allow local managers full autonomy within their budgets.

Regardless of the annual process, Australia’s bubbling economy and the relentless pursuit of talented people means that employers must be more responsive to remuneration challenges between annual reviews – otherwise, talent and productivity could be lost and employment costs could rise.

Compounding the rivalry for talent, most employers need to manage a dynamic organisation that includes people with variable skills. Hopefully, some employees will have high potential for greater responsibilities and more valuable work. These High Potential Employees are often “marked” for special development in talent programs, but many companies fail to compete in remuneration.

Remuneration structures are usually built to manage all employees, including HPEs. These structures are typically bands of jobs and corresponding arrays of pay ranges that reflect market practice. The number of bands and the elasticity of the pay ranges usually depend on business strategy – how they are applied reflects organisation culture.

Despite the overall logic of remuneration structures, their implementation can sometimes disadvantage High Potential Employees. In my experience, the main problems include:

- No remuneration plan to parallel each HPE’s career path plan
- Poor knowledge of market pay rates in the respective job families
- No consideration of targeting higher market rates for HPEs
- Standard pay ranges are too narrow or inflexible
- Reluctance to differentiate (organisation culture may be too egalitarian)
- Poor explanation of position bands and promotional steps
- Inadequate pay increases when promoted
- If mid-year pay increases are given, full merit increases at annual review are not

Of course, some of these issues could apply to all employees, regardless of their HPE status.

The solutions will vary across different organisations, depending on their strategy and culture. However, some useful practices include:

- Defining a promotion as one step up in position band/grade
- Not limiting promotions to one step (especially for HPEs)
- Establishing a minimum pay increase for promotions, based on the new pay range (commonly 5% for staff, 10% for executives)
- Creating a budget to cover promotions, separate from the annual pay review budget
- For those employees promoted, ensure fair recognition in the following annual pay review process

In my experience, organisations that explain their remuneration structures and spell out their promotion policies tend to enjoy a recruitment advantage – talented people are attracted by the prospect of career progression and more pay. Employees are encouraged when they witness promotions and when they see the benefits of promotion pay planning.

Simon Hare

www.haregroup.com.au