SALARY REVIEWS IN HARD TIMES

When times are tough, it's sure to have an impact on your salary budget. Susan Doughty outlines some creative strategies for dealing with tightening purse strings.

2009 IS NOT A TYPICAL YEAR by anyone's standards. The impact of the global credit crunch has hit organisations where it hurts most—the bottom line. This, of course, has a direct impact on how much will be available for salary increases this year. Here are our responses to some of your questions on this issue.

How do I distribute a limited salary budget and still be fair to our employees?

This is the question most asked. In the recent months we've done a complete turnaround—from some of the highest increases in over a decade to a new fiscally-conscious reality. These new and relatively uncharted waters call for creativity. The strategies in the table (right) are intended as interim measures in this type of market, and are not recommended as long-term strategies.

Creative strategies for small-budget salary reviews

Set a threshold	Consider only paying increases to staff below a threshold, ie, under $50,000. This approach targets employees on lower incomes.
Correct issues or anomalies only	Use your limited salary budget to correct issues or anomalies, ie, for staff paid under the minimum of the pay range, or who were not subject to the last pay review.
Recognise employees with new or increased responsibility only	Provide increases only to those staff that have taken on new or increased responsibility in the last year.
Recognise key value creators and/or business-critical roles only	Focus your spend on key value creators and/or business-critical roles only.
Recognise high performers only	Reward employees demonstrating above average or exceptional performance only. This strategy requires a robust and defensible performance management system.
Use across the board increases	Apply small across the board increases promoting equity and fairness of all staff.
Use a mixture of increases and ad hoc bonuses	If the salary budget is small, an ad hoc bonus can have a greater effect on performance and morale than a small merit increase.
Pay half now, half later	Consider spreading the impact of increases over the financial year, by paying half the proposed increases at the annual review and the other half in six months.
Consider forced ranking	A forced distribution can affect the engagement levels in ordinary times, but there may be merit in using this approach when times are tough.

Should I move our pay range midpoints even though we can't afford to make many changes to salaries this year?

Yes. Without a doubt organisations need to ensure they keep their salary management systems market-competitive—even if they don't have a big-enough budget to make wholesale changes.

If your remuneration system is reviewed annually, this year's move captures the changes from the previous 12 months—and for most of that time salary inflation was still a feature of the market. Therefore it you don't move your midpoints this year, you run the danger of being seriously behind the market in a year's time. Catch up mode is not a good place to be in when the market picks up.

We recommend that you adopt a business-as-usual approach to the market review, identify the key roles or employees who need attention and, if nothing else, make sure you don't exacerbate existing problems and issues.

We can't afford any pay increases this year, what other things can our organisation do to engage our employees?

With 18 percent of organisations deciding on this course of action (dsd's *Market Insights* survey—April 2009), it places pressure on companies to think laterally in terms of recognition and reward. This is where the employee value proposition becomes important—the communication of all total rewards to employees, both financial and non-financial.

The first thing you can do is build a communication strategy around all your benefits and people-related programmes to communicate that the 'value' of working for a company is more than just about pay.

If you have a limited budget, review your current spend. Think about removing benefits that aren't valued by employees and redistributing the spend into other more worthwhile benefits or initiatives. Rewarding individuals or teams who have creative, innovative ideas to help the organisation through the recession is also a great way to encourage engagement. Small meaningful rewards can go a long way to secure the hearts and minds of your employees.

How can I reward performance and key value creators in this type of market?

This is probably the group of employees who are of most concern to employers. Key value creators remain highly marketable and they are essential to the ongoing success of your business in this current climate.

As well as the more traditional monetary rewards (such as ad hoc bonuses for key staff), we've seen great results for employers who focus on identifying and targeting each individual's key engagement areas. This may include career planning, project opportunities, secondments, or other areas such as work-life balance and flexibility. The more individual and tailored the approach, the more impact it will have on an employee's long-term engagement. et

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