

Salary Review versus Performance Review

In our last blog post, we described [how SMART objectives](#) keep employees efforts on target, working toward preset goals that best serve the company's needs. Using strategic objectives is a great way to assess individual performance, but meeting performance goals should not necessarily be tied to salary. Meeting specific objectives should be required for any position, and fulfilling job requirements is a prerequisite for a salary increase, but any change in salary is also dictated by a number of factors that are unrelated to performance.

We recommend that all our clients use a semi-annual salary review process to make sure their salaries [stay competitive](#) with the market. Although a salary review does not always result in a raise, it does assure that the organization stays in step with its competitors and that employees remain motivated because they know they are being fairly compensated. Conducting a regular salary review for all positions assures that employees are appropriately compensated, and understand the logic and opportunity of the wage range assigned to their position. It also gives you an opportunity to make adjustments for changes in responsibility or duties that should affect salary. And you can make adjustments for external factors such as changes in the cost of living or changes in industry standards.

The salary review process is structured to make sure that each position is assigned the appropriate "wage band," or wage range as dictated by the industry standard and cost of living. It also assures that every employee is where they should be within that range, i.e. with job performance relative to their job description, increased responsibilities and skills, and length of time with the company. If the assessment shows that things are on track, it's not essential to provide a raise, although even a small raise is often a good incentive for valued workers.

We use [automated systems](#), which makes it easier to standardize the salary review process. The HR team lays the foundation. They should prepare salary spreadsheets for each employee, including:

1. An analysis of [Industry Standard salary figures](#) for each position so that the wage band can be updated if necessary.
2. Analyzing the financial metrics for the position and how their compensation fits into the budget. For example, if the employees produce for the company by billing clients for their time, you will run a Billable Efficiency report using QuickBooks or whatever tracking software you are using to ensure that their production is covering their salary and contributing to the company profit.
3. Updating the "Full Compensation History" with any past pay increases or bonuses

The data and associated formula is used to assess whether a change in salary is warranted. Once you have the employee spreadsheets, you are ready to meet with individual managers:

1. The HR team should schedule meetings with managers to discuss individual salary reviews and help them decide where a salary increase is appropriate.
2. Where an adjustment is needed, complete a Status Change form for that employee.
3. Each manager is responsible for meeting with each employee to discuss the outcome of the salary review.

This approach brings a standardized process to salary review and is even-handed, assuring that there is no favoritism or irregularities in the process. It also ensures that each employee knows they are being treated equally and fairly.