HELP WITH THIS PAGE

TOUR

FREE TRIAL

ıl BLR®

Compensation Management White Papers

November 30, 2015

Salary structure for small companies: Too much?

On the surface, the formal salary structure program Judy Canavan helped implement at a 20-person, not-for-profit company might seem like wearing a tuxedo to a hoedown· a bit much. But when you look a little deeper, you may get a different impression.

For a Limited Time receive a **FREE** Compensation Special Report on the "Top 100 FLSA Q&As," designed to provide you with an examination of the federal **FLSA Overtime Regulations** in Q&A format, including valuable tips for **FLSA Coverage, Salary Level, and Deductions from Pay. Download Now**

Canavan, managing partner of HR+Survey Solutions, designs compensation programs for companies of varying sizes and industries, public, private, and not-for-profit. She is accustomed to using formal processes, but they are generally not necessary for very small companies like this one. Canavan was skeptical that a formal program was necessary when she spoke with the company's CEO.

Canavan says, "I initially told her that putting in a salary structure was more than what was needed to manage pay when they only had a handful of employees. Usually, you wait until the company has a couple hundred employees before you need to do that.+As the discussion progressed, though, Canavan changed her mind.

"With this company, there are only a couple of top senior managers, and they have a great relationship with the employees. The CEO, who is extremely smart and extremely knowledgeable, wanted to keep a good relationship with everybody in the company. At the same time, she needed assistance establishing pay levels that are externally competitive and internally equitable, and how to explain why one person is making more

than the other person.

"When there is only a handful of employees, everybody knows everybody," Canavan adds. "They know what everybody else is doing, they know if they're out, they know everything· probably more than they should." And, their knowledge can extend to compensation, so being able to support the pay figures can be crucial to maintaining employee morale.

Arm's length process reduces emotional element

Canavan says she sees similar situations at other companies. "Sometimes you need to be able to explain things at an arm's length. If Sue is making more than John, John might know that, even if he shouldn't. So, it gets sticky, and you have to be able to explain it. Setting up a very formal salary structure and performance management system worked really well for this company.

"For them, it was important to do things by the book, because it enabled the CEO and management to have that casual, friendly interaction with their employees and still, when it came to how much people are being paid and the size of their bonus or salary increase, they could point to a very structured approach that isn't personal.

"Of course, salary is personal, but with a structure in place it's not based on opinion. Instead, it's based on facts; here are the five things you needed to do, you did two of them. Or, here are the five things you needed to do, and you did all those plus you did six and seven.

"If somebody came in without knowing the background, they might think the structure is overkill, but the CEO loves it because it made pay decisions more objective. They can stay very businesslike, very arm's length, and the pay system can operate separate and apart from other relationships."

,p>Inevitably, when company policies change about something as important as pay, employees are concerned. With this particular company, there were already concerns about pay from management and from employees, says Canavan.

For example, longtime employees who had received regular raises regardless of performance or added skills were sometimes overpaid. Newer employees, whose skills were more current, were often paid less. And, many of the employees had done online pay searches and concluded that they were underpaid relative to their peers in other organizations.

Communicating the program thoughtfully adds value

Developing and implementing the new pay system was only part of the process; it was also important for employees to understand it. Canavan knew that a measured, thoughtful approach to communicating the information would determine the program's success or failure. "You can design the best compensation plan in the world, but if you don't communicate it well, all your design efforts are for naught," she explains.

"Effective communication makes employees feel good that management will take the time and invest the money to make sure they're paid correctly. I think a big mistake that managers make is they'll do everything but the communication, or think that a memo is adequate communication. They really should take the time and do the communication right because if they don't, they are losing value. They invested all this money and they're not going to get the return if they don't do a good job with the communication."

Canavan used a multistep process starting with an employee meeting. "First, we did a PowerPoint® presentation for the employees," she says. "We walked them through the reasons for the new program. We explained that we had found market rates for their pay,

how we did that, and the categories of people we compared them to.

"We kept it very open and clear. We explained salary structures and how the program works so they would have a level of comfort with it and understand it. Then, we told them what was going to happen after the meeting: Their manager would sit with them and tell them their pay grade, what the midpoint is, how their salary compares to the midpoint, and what their pay increase would be for the year."

Managers need to thoroughly understand the system and be prepared to communicate it effectively. "I had a colleague come in to do some coaching for the managers," says Canavan. "I did a presentation of how the program works. Then she did one on how to have the conversation with the employee.

"After that, each manager was allotted some time to spend with her one on one. They could use that time for whatever they needed. They might have performance reviews coming up and want some coaching on that, or maybe they had a problem employee and wanted coaching on handling it."

Positive impact from changes

By taking a thoughtful approach, the impact of the new system was overwhelmingly positive. Managers felt more comfortable in their pay decisions, and good relationships with employees were maintained. Company leadership felt confident that its compensation costs made sense, and a potential problem was averted when auditors requested compensation records. They were so satisfied with what had been produced, they simply moved on.

Canavan says it's important to have a solid foundation for salaries for the sake of the employees and the company. "You need to be able to explain what you did, and help employees see you looked at the right relevant sources. When you do, and when you take your time and communicate the changes effectively, everyone understands the process and feels comfortable." Even if they are in a tuxedo.

Compensation.BLR.com®

Quick Search　search