

Taking the Pain out of Pay Reviews

Andrew Worth, Senior Reward Consultant at NorthgateArinso Reward Solutions offers his best practice advice for annual pay reviews.

The annual pay review can mean different things to different people, but no other process touches everyone in the organization as directly or with as much impact. In fact if pay reviews are not managed effectively, they can have a distinctly negative impact and any substantial investment in pay rises can be largely wasted.

For employees who may receive a pay rise, it's an opportunity to see recognition for the work they have done. For employers, it's often the time to provide feedback on individual performance and recognise the skills the employees bring to the organisation.

Not surprisingly, many chief executives are frequently cited as saying that 'people are our most important asset' but when it comes to the annual pay review, does this phrase get forgotten, ignored or just poorly communicated? Clearly, not all organisations are the same. But those that do get this process right will demonstrate clear communication channels, strong values in people management and motivation with reward operating as a key component of the organisational and HR strategy.

Navigating the minefield – first steps

Policy is key to the first stages of the review process. It's not often that policy is so strongly advocated but it's central to the success of the annual pay review process. A clear pay policy will help avoid salaries becoming over inflated, grade structures being ignored and market benchmarking exercises becoming a waste of time and effort. Most importantly, a clear policy will ensure a consistent approach to rewarding people right across the organisation; this becomes even more critical when operating across many sites and countries.

Dealing with data dilemmas

Reward and HR managers responsible for this process will have already written a project plan that estimates a three-month timescale to complete all reviews across the organisation.

However, this isn't always realistic – a recent survey by NorthgateArinso actually found that pay reviews often take in excess of four months. Equally, there will also be a number of other people, like reward analysts, HR business partners, system administrators and the HR directors themselves, that will all have an instrumental role in ensuring the success of the annual pay reviews.

The chances are the data required for the pay review process is easily accessible within your HR system. So, it's vital the extraction of data happens early so spreadsheets can be prepared for distribution to reviewing managers. There may be hundreds of spreadsheets, depending on an organisation's size and structure, but each must have its own password, and there must also be a data check to avoid embarrassing mistakes. Managers who appear to have half the team 'missing' or listing individuals in the wrong division can not happen.

Once the pay data for review is distributed, likely to be on spreadsheets and emailed to managers, it will need checking both on receipt from the HR system and before it is sent out, which takes considerable time and requires the cooperation of many people.

To add to this, many organisations use market data to inform their pay reviews. The market salary data will likely be a key component of the pay policy. But, it's more data to deal with, inevitably making the process even longer and requiring more resources.

Jobs then have to be matched to each generic job in each survey to which the organisation subscribes. This is the hard part, but once this is complete, taking the market match is relatively simple. It's then a case of deciding how to present the information to the rest of the business. If it is to be devolved to managers, it's another set of data to include in the spreadsheet and also another set of information that will require explanation. Market data can soon become self-defeating if it unnecessarily encourages people to raise salaries. Again, a clear policy will make all the difference.

Consolidation and analysis

Although all pay review materials will be issued with a deadline, delays are inevitable and HR will have to chase missing information and merge the relevant documents, before they can start to analyse the data. Various presentations of the results may need to take place before a pay review can be signed off at the senior level. This involves taking all the merged spreadsheets and looking at the overall cost of the review, the impact on the pay bill, the consistency of application across the business and identification of high performers.

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Equal pay analysis is also becoming more prevalent in the pay review process as organisations prepare themselves for the potential reporting requirements of the Equality Bill, as well as adhering to their corporate policies.

Communication is key

Once the analysis is completed, the costs assessed and the Board have finally approved the overall spend, the pay review process reaches what is viewed by many as the most difficult stage – telling employees. It is not only difficult from a logistical point of view, but it is difficult for line managers to communicate reasons for the outcome to each individual. In some organisations a letter may accompany a feedback discussion, in others it may just be a letter and some may not communicate at all. These different approaches will have a significant impact on morale.

There is no doubt the communication phase is time consuming and ensuring all the letters are consistent but have enough of a personalised message requires understanding and empathy. Some managers may want to add their own words to standard letters, others may avoid them altogether. Whichever way it is communicated, this is often the only result that the employee sees from all their hard work, so it's essential to get it right.

Check, check and check again

For many managers, communication is the final phase, but for the reward manager the process is not complete until each employee's adjusted salary is back into the HR system and part of the next payroll run. It's critical that all the spreadsheets are consolidated into one large file and then checked before payroll runs. If mistakes are not spotted, it can affect the credibility of the whole review. This is why checking, rechecking, then checking again are crucial parts of the process.

Evaluation

Assuming all of the above works smoothly, then there will be a time of reflection to review the process and see what worked well and what could have gone better. There is likely to be lots of feedback and comment from HR business partners and managers to take on board.

So, how can you make the annual process run as smoothly as possible? It is a question that many HR functions will ask themselves as they repeat this process year on year. The most obvious answer is to automate as much as possible. There are various software applications that can do this. But, the key components to a pain-free annual salary review are simple: clear policy, clear communication, effective data management and early engagement with the rest of the business. All departments need to work together and plan ahead. After all, offering pay rises are essential for motivating and rewarding employees, so organisations can't afford to trip at the first hurdle.

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