Annual Salary Review – A worthwhile employer investment?

"*There's no way I can justify my salary level, but I'm learning to live with it.*" Drew Carey.

Probably not is the answer to the question above! is the harsh truth in many organisations to the question raised above on whether the annual salary review process is a worthwhile employer investment. Practices for performing annual salary reviews and salary increases differ by company and industry. My primary focus in this blog is on employers who typically decide each year whether to give employees a salary rise or not. For the sake of this blog, I am excluding public sector employers and private sector employers covered by collective bargaining agreements because salary increases in these cases are typically uniformly applied.

So, what exactly is the employer investment in the annual salary review process? The employer investment is substantial and exceeds the cost of the salary increases. To conduct the annual salary review process effectively, employers must evaluate the market competitiveness of their employees' salaries, fund any salary increases, pay social insurance contributions, and ensure that salary adjustments are handled in a fair and consistent manner by managers. This necessitates a significant investment in both manager training, manager calibration of proposed salary increases and employee communication. This time and effort comes with an opportunity cost because the salary review process takes away time that could be utilised to focus on other organisational and business priorities.

So, how can employers make sure the annual salary review process is a worthwhile investment? I have listed some pointers below for consideration.

- Make sure your reward strategy and philosophy are fully understood. Spread the reward strategy and philosophy far and often throughout your organisation. Make certain that the organisation's people managers have received comprehensive training on the organisation rewards philosophy, reward strategy, the process utilised to establish market competitiveness of current paid rates and criteria utilised by the organisation to determine employee's salary increases. Salary makes up a sizable proportion of an organisation's overall rewards costs. As such, a reward strategy will not succeed unless people managers are able to defend and explain salary decisions to employees. Employees need to understand how their salary increase were determined and the process the company followed to determine salary levels. The acid employee engagement test in relation to salary, is whether employees perceive that their salary is fair, relative to both their internal and external peers.

- Internalise that salary levels are important to employees. There is quite a bit of claptrap spoken about the relative importance of salary versus other elements of total rewards to employees. It is commonplace to here that salary is not the most important element of rewards and e.g., elements like wellbeing or work life effectiveness are equally or more valuable. For the avoidance of doubt, I think this is nonsense. Salary is typically the single largest element of what an employee earns in terms of monetary value. Salary is also a hygiene factor, so salary levels must be understood and valued by employees to ensure employee engagement. For those who believe salary is less important to employees compared to other elements of rewards, please consider that salary is the primary driver of an employees, and their families standard of living. Regurgitating mantra's that salary is of limited importance to employees is simply not credible.

- If you are going to link salary increases to employee performance, then buckle up and prepare for the ride! Management have been very creative in their efforts to find ways to camouflage pay for performance e.g., rating less performance reviews. Linking salary levels with employee performance is in my view a noble endeavour, as it makes sense at both a business and employee level. My advice to organisations is to decide to either go all in here or decide that pay for performance is not for them. The concepts and practices of linking pay to performance have been around since the 1940's so I do not intend to rehash them here. Linking pay with performance is one of those things that should be done well or not at all.

- The annual salary review process requires stellar project management and stakeholder management skills. It is my lived experience that 80% + of the issues associated with the annual salary review process can be addressed via effective project management and stakeholder management skills. Effective project management ensures that the various stakeholders know what they need to do, why they need to do it and when to do it. Effective stakeholder management ensures that the workload burden is spread evenly across the stakeholders.

- Finally, begin with the end in mind. Organisations should think about how their employees will experience the annual salary review process. Key questions to address here are, Will employees understand our reward philosophy/strategy? Will employees understand how we established the market paid rates for their job? Will employees understand the criteria we used to determine their salary increase? Will employees perceive that their salary level is fair relative to internal and external peers? If, the answer to these questions is yes, then the organisation is in good shape.