WORDS ON WISE MANAGEMENT

‘Peanut butter’ salary administration spreads mediocrity

by Joel Myers
F&H Solutions Group

Employee compensation administration is changing, and the demand for talent is exploding. In response, companies may be dusting off old salary administration practices. Why the change?

Between 2008 and 2017, average annual inflation has been 1.45%, while average nonmanagement pay increases were 2.8%. Over that nine-year period, corporate after-tax profits rose 237%, averaging 12.9% per year. Today, national unemployment is at 3.8%, an 18-year low.

Employees recognize that they must become more proactive in their career management, often by looking for opportunities elsewhere. Growth-oriented companies are recognizing this as an opportunity to attract top talent.

Nice and even

Over the past nine years, the typical salary increase budget has been less than 3%. Many companies granted no salary increases at all. Most companies granted across-the-board increases with minimal differentiation based on performance, spreading pay increases evenly over the workforce, which I refer to as the “peanut butter” approach. That worked while employees were held captive by the economy, but times are changing.

That isn’t the best way to administer pay. Egalitarian salary administration falls short when it comes to recognizing and rewarding performance. An effective pay-for-performance scheme involves performance management and salary administration. Both must be done well to be useful.

By the calendar

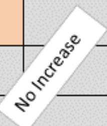
To optimize performance-based salary administration, we have two variables at our disposal: the timing of the increase and the amount. Today, most organizations ignore timing, although companies once awarded increases on an other-than-annual basis.

It’s motivating when an employee receives an unexpected salary increase in six or nine months because his performance exceeds expectations. Somewhere along the way, management has abandoned this flexibility. Pay increases occur annually, often on a common date. The approach is probably due more to administrative convenience than motivational theory.

Just a little, more or less

The second variable is the amount of the salary increase. Today, 97% of nonmanagement employees receive pay increases; 87% will receive +/- 1% of the average raise. Seven percent will receive a little more, while a few will receive less. The differential in pay increase between median and superior performers isn’t enough to motivate employees to continually perform up to their potential. To truly have an impact on performance, the differential between an outstanding performer and a median performer should be twice as much or more. If the median increase is 3%, top performers should receive 5% to 7%.

In the past, companies have used a merit increase matrix that includes both timing and amount as variables, along with salary ranges that are anchored to pay for comparable jobs in the marketplace. If an outstanding performer is paid low in her salary range (below market), she should receive increases more quickly and at a higher percentage until her pay

		Pay Position in Range		
		Lower 1/3	Middle 1/3	Upper 1/3
Performance Rating	Outstanding	9-11 Months	11-12 Months	12-14 Months
		5.50%	4.00%	2.50%
	Commendable	11-12 Months	12 Months	
		4.00%	3.00%	
	Needs Improvement*	12-14 Months		
		1.75%		

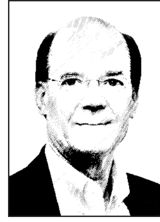
matches the appropriate pay position in the salary range. The lower third of the range is the proper place for new employees who are still learning the job or for employees who struggle to meet performance expectations. The middle third is for those who consistently perform commendably. The upper third of the range is reserved for employees who consistently perform in an exemplary way.

In the lower third of the range, if someone is new but demonstrates a desire to learn, he should receive a raise. If the employee isn’t learning or performing,

he shouldn't receive an increase. Performance, pay position in range, percentage of increase, and timing—considered together—can have a significant impact on pay progression.

Bottom line

For readers who have worked in salary administration for a while, this might be a flashback. For others, it may spark awareness of an additional variable that you have at your disposal as you look for ways to ignite your workforce.



Joel Myers is a management consultant with F&H Solutions Group. He can be reached at jmyers@fhsolutionsgroup.com or 901-291-1576 ✤

LITIGATION

Offhand ageist comments can negate evidence of legitimate policy violation

by Jodi R. Bohr
Gallagher & Kennedy, P.A.

Performance reviews, when done correctly, can fulfill a critical role in managing employees' performance and boosting productivity to higher levels. But more often than not, performance evaluations are viewed as a necessary evil by the managers required to complete evaluations and approached with trepidation by the employees receiving them. The problem with approaching the performance review process with dread is that many employers succumb to common pitfalls that render evaluations more harmful than helpful.

Often, the content of a performance evaluation becomes a major focus of the litigation when a former employee claims discrimination while the employer is steadfast that his poor performance or conduct was the legitimate nondiscriminatory reason for his discharge. How a performance evaluation is completed may affect how a fact finder views the employer's proffered reason for discharge. Next month's "Work On It" column will address the common pitfalls of performance evaluations and provide insight on how to turn performance reviews into a critical management tool, not a focal point for liability. In the meantime, let's look at a case recently decided in Arizona federal court.

Setting the scene

Paul White worked for Home Depot for approximately 22 years before he was fired at the age of 54 for allegedly manipulating inventory records. White was a "packdown" supervisor. He contends that his primary responsibility was ensuring that goods were always in stock. To accomplish that objective, he had to update computer inventory totals when stock ran low so items would be reordered in time. He had authority to make inventory adjustments up to a certain daily limit, after which he needed his supervisor's approval.

To circumvent the need for supervisor approval (i.e., stay under his daily limit), he incrementally adjusted inventory totals. That created an inaccurate product count for Home Depot's inventory records. The company asserted it was also a violation of its integrity/conflict of interest policy, which provides that falsifying, destroying, or misusing a company document constitutes a major policy violation warranting discharge. When Home Depot discovered the process by which White manipulated the inventory records, it instructed him to submit a statement explaining his actions.

According to White, one of the store's assistant managers told him that because he was a long-term loyal employee, he would probably get coaching (the lowest level of discipline). The assistant manager allegedly told White, "Don't worry about it." Instead, corporate decided to fire him. White sued Home Depot for age discrimination, associational disability discrimination, and negligent misrepresentation.

Documenting performance and conduct

As a person alleging unlawful age discrimination, White was required to show that he was (1) discharged, (2) at least 40 years old, (3) performing his job satisfactorily, and (4) replaced by a "substantially younger employee with equal or inferior qualifications or discharged under circumstances otherwise giving rise to an inference of age discrimination." Home Depot didn't dispute the first two elements. But it disputed the final two elements and asked the court to dismiss White's claim, presenting evidence of a major policy violation and two past progressive discipline notices as the basis for his discharge.

Although he admitted to manipulating inventory totals, White argued that his most recent performance review demonstrated he was performing his job satisfactorily. In fact, the performance review done approximately six months before his discharge rated him as a "top performer" or "valued associate" in all categories. The court found the performance review sufficient to establish that White was performing his job satisfactorily.

Multiple age-related comments = inference of age discrimination

White offered no evidence that he was replaced by a substantially younger employee. Rather, he argued that the circumstances surrounding his discharge gave