Business Remuneration

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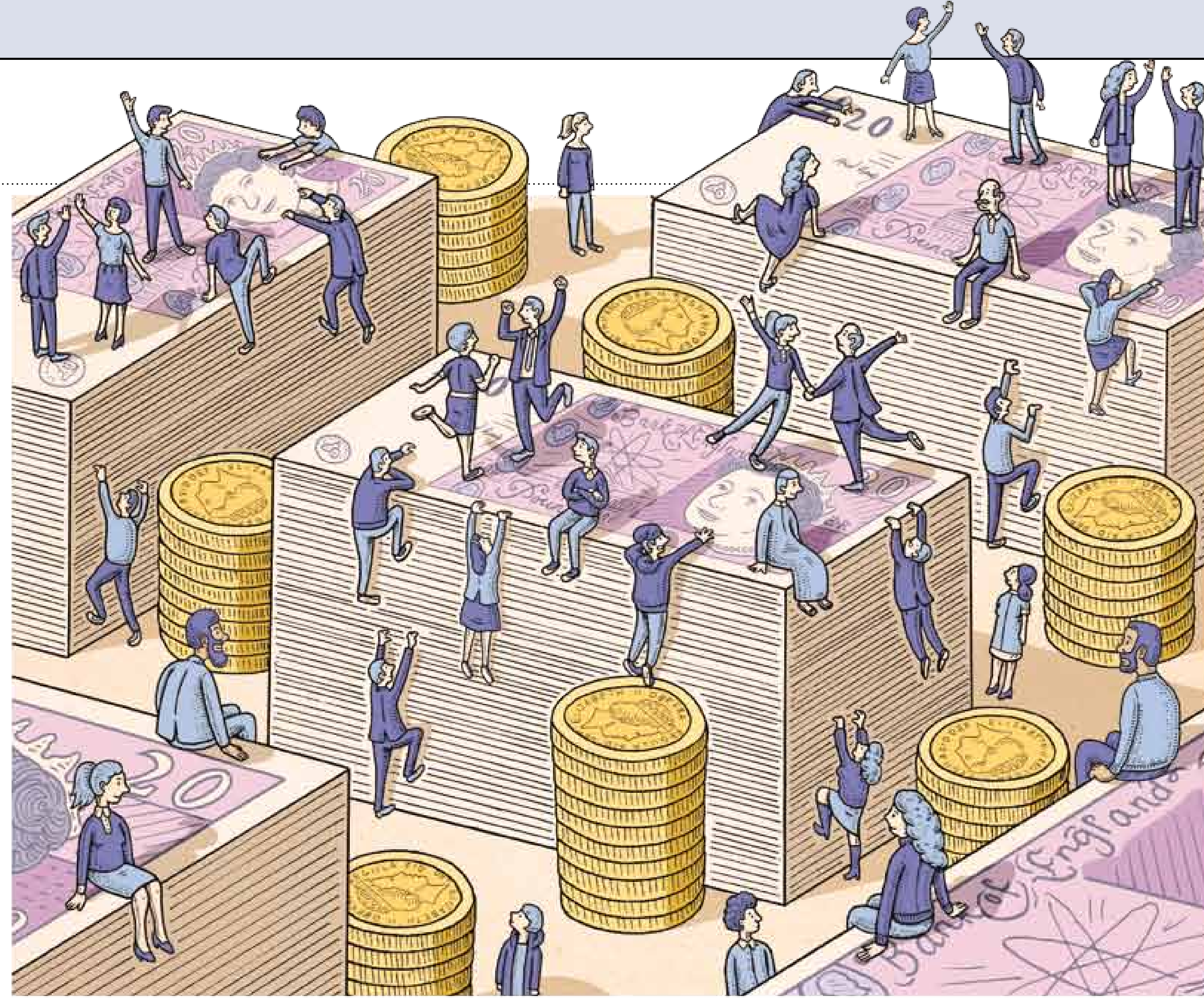
Fairer salary scales will help prevent **pay-day moans**

When it comes to setting salaries, it pays to play fair, both for the sake of staff and the health of the business as a whole Words **Rob Gray** Illustration **Phil Hackett**



Comedian Steve Martin delivers a wonderful line in the movie *Sgt. Bilko*. "All I ever wanted," he says, "was an honest week's pay for an honest day's work." It's a great gag, not least because it rings true. Which of us, honestly, wouldn't like to earn more for the work we do?

Pay is a tricky issue, for employer and employee alike. Staff who are paid at levels below market rates for comparable jobs will likely feel disenchanted and demotivated. While overpaying staff significantly may reduce a company's ability to compete... perhaps to the point where it is no longer commercially viable.

Good practice when it comes to setting salaries, and other issues relating to pay, will clearly go a long way towards fostering staff satisfaction and keeping a business on track financially. So where to begin?

"There would be a need for a benchmarking exercise before pay scales can be set and a clear pay policy created," says BPIF Head of Legal and HR Anne Copley. "Engaging with staff and regular appraisals or one-to-ones would help to manage expectations and possibly help minimise disputes over pay with the union."

When setting wages, you can't escape the market. If you are wildly out of step with the going rate, problems will arise.

"Salaries that are too low will fail to attract good candidates," says Dani Novick, director at recruitment company Mercury Search & Selection. "Those that are too high can lead to a bidding war within a sector, driving up salaries for all."

Therefore, arm yourself with knowledge. Members of the BPIF can get information on average pay for a variety of roles, and specialist recruitment companies with knowledge of the print sector can also offer guidance. This can extend to providing employers with an indication of what level of skills, experience or potential performance they are likely to get for a given salary.

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Obviously if salaries are out of line with employee expectations, it's a recipe for disharmony. One print boss, who wishes to remain anonymous, says: "If you are always having hassle about the base salary people are on, either you're not paying the right level for the people concerned, or you should suggest they look outside at the greener grass. Either way, it's solvable."

Balanced approach

Employers should avoid focusing entirely on basic pay. Particularly in niche sectors, where it can lead to spiralling salaries as employers compete for the same talent. Instead it's advisable to consider a balanced package to include base pay, a performance element and a range of other benefits.

Consequently, when trying to attract or retain staff it's important to pitch the benefits of the whole package. This could include career progression, training and development as well as general rewards such as healthcare and pension.

On the theme of hiring staff, there's debate on whether to be specific on salary in job ads. Many employers feel that the flexibility of stating DOE (depending on experience) plays to their advantage when trawling for talent.

"The insertion of a salary in a job ad can help to increase application rate and mark a clear line for the candidates' own assessment of their financial worth in the job market," says Banner Managed Communication managing director Catherine Burke. "However, generally at BMC, we find it better not to provide salary information or a salary banding when advertising a vacancy, as this can provide greater flexibility when deciding on what salary to offer, as well as avoiding the possibility of good potential candidates discounting themselves from the role based on the salary offered.

"It also can make a position seem more intriguing and draw the applicant in. It can send out a message that the salary is open to negotiation and appeal to the more 'challenge-orientated' applicant."

There is certainly much in favour of going to the market with a salary range, with the final package to be determined by what the successful candidate will bring to the business. This has two advantages, explains George Thompson, joint managing director at recruitment agency Harrison Scott Associates. Firstly, if the chosen candidate is currently near the higher end of the salary range on offer, it gives the flexibility to put together an attractive package. Secondly, if a less experienced candidate who clearly has the potential to climb the ranks is favoured, this person can be brought on board at the lower end of the salary range.

Policies for setting pay scales vary from employer to employer and often have some elasticity. Staff occupying what seem to be ostensibly similar roles may of course be paid considerably different salaries based on their experience and also in recognition of what they bring to the role. Star performers who consistently deliver profitable new business or make valuable savings for a firm will understandably often receive a better package than less stellar performers.

"A common issue is for employers to end up in a situation where a number of people have the same title, the same job description/contract and are nominally doing the same job," says Novick. "Over a period of time it could be that one member of the team isn't cutting it and is effectively sidelined and misses out on pay increases, resulting in large pay differentials. Often this situation arises because the employer has been overly sentimental and wanted to avoid confrontation with the individual. If this person just happens to be different to the others in terms of any of the "protected characteristics" for discrimination and discovers the difference, they may make a claim. Employers must avoid this by actively and specifically addressing performance issues."

Tim Hill managing director at print business Speedscreen says that "in general all senior members of staff are on a similar pay scale, varying very marginally". Supervisors are on a higher scale, with trainees on a little above the national minimum until trained. In terms of managing staff expectations with regard to pay rises, his policy is to implement "above inflation" increases every year, with this year's pay rise coming in at 3%.

> **"Bonuses are an excellent way to motivate staff, however they must be achievable otherwise they will be counter-productive"**
> **George Thompson** Harrison Scott

Fair play

At BMC, elaborates Burke, the belief is that best practice is to operate a pay review process which is – and vitally, is also seen to be – fair and equitable. "Communication of the process is key as employees may be left feeling demoralised or resentful if the process is insufficiently transparent or seems unfair," she says. "BMC operates an individual award policy in certain areas to ensure that behaviours, attitudes, performances and values are recognised and rewarded. Other elements we consider are recruitment and retention needs, external comparable salaries and individual performance. This is discussed between employees and line management at regular one-to-ones. Elsewhere within the business we operate across the board salary increases where employees may not have the opportunity to demonstrate individual performance."

The economy is undoubtedly in far better shape than a few years ago. ONS figures released by the government in October show a fall in the unemployment rate to 6%, with the number of jobless dipping below the 2m mark – representing the lowest numbers since the pre-recession days of 2008.

But despite this heartening news, it's fair to say that although some print firms are feeling the benefit of the recovery, many are still just getting back on their feet. Staff don't expect owners to share with them every minor detail of the finances of their company, however for those companies not doing as well as they were a few years ago, a degree of openness is probably a good idea.

"By drawing comparisons between current performance and that of previous years, if the company clearly isn't doing as well as it has in the past staff will have greater sympathy if salary rises are not possible," says Thompson. "For those companies fortunate enough to be doing well, the same exercise will serve as a way of thanking staff and forging a link between good performance and any enhanced earnings they can make possible to staff."

Performance-related pay is another important issue to consider. Employers need to weigh up whether this should be limited to commission for sales people, or also be offered more widely – for example as a profit-share scheme.

However, as Novick points out, the danger with a standardised company-wide scheme is it fails to take into account individual contribution and there have been case where this has bred resentment from those who perceive their own contribution to be high or perceive colleagues to be coasting. That said, team-level bonuses can be very effective at both motivating and helping teams self-regulate. Ideally, for maximum effect, team size shouldn't be too large.

"Bonuses are an excellent way to motivate staff, however they must be achievable otherwise they will be counter-productive," concludes Thompson. "The vast majority of bonuses are linked to profitability. Without naming the client, the best bonus plan I have ever seen in operation was a £10m-turnover print firm that linked 50% of the overall staff bonus to profitability and the other 50% was a mixture of subjective criteria including repeat business and customer satisfaction. In regard to this subjective element of the bonus, the managing director specified the areas where the company excelled due to the efforts of the whole team." PW

Turn the page for the tearsheet guide →

HRtoolkit

Getting staff salaries right can be a difficult balancing act, requiring you to harmonise the needs of the firm with the expectations of new and existing employees. The tearsheet guide below sets out the basics

Setting salaries

The practicalities of pay

Setting pay and managing employee expectations

- Take the time to find out the going rate for all relevant positions – you don't want to be paying significantly above or below market levels.
- Aim to benchmark against both local and industry averages.
- Employees should be clear on what they are being paid to do so that they have a handle on the level of performance required to justify their existing wage.
- Bear in mind that a salary is like other business expenses in the sense that it is an investment on which you should get a return.
- Review everyone's pay annually.
- Flexibility and empathy go a long way towards keeping employees satisfied and may help soften the blow if pay rises are not viable.
- Never forget that important though it is, basic salary is only one part of the equation.
- Make sure you communicate all the benefits of the total reward package to staff and potential recruits, including components such as pension, healthcare, company car as appropriate.
- Fixed pay scales are useful as they may lighten the administrative burden and can be perceived as fair, but you must always make provision to reward the hard work and achievements of your best people.
- Keep a positive dialogue going with staff about business performance throughout the year; it's much more motivational all round to say that a pay rise is possible if business target X is achieved than to say "no, because..."
- Consider offering a tax-efficient salary sacrifice arrangement where it makes sense to do so. Salary sacrifice, which can be beneficial to both employers and employees, involves an employee giving up a portion of their cash pay for a non-cash benefit, for instance childcare vouchers. Further details from HMRC can be found at www.gov.uk/salary-sacrifice-and-the-effects-on-paye.

Hiring and pay for new recruits

- Give yourself wriggle room when advertising vacancies, for example by including a salary banding rather than a single figure, as you risk putting off exceptional candidates if you are inflexible.
- Don't shoot yourself in the foot by advertising a vacancy at a far higher salary than existing employees in a comparable role are earning.
- You must observe the law, for example by not paying under the minimum wage and issuing pay slips.
- Be active in your local chamber of commerce/business groups. You will gain insight into remuneration trends by talking to other entrepreneurs/managers.
- Always remember that there are costs involved in recruiting new employees beyond their salary/total package. Not only are there the costs that come with advertising a position or using recruitment consultants but you should also remember that the time spent sorting through applications or interviewing candidates is time spent away from making sales or broader business development.

Performance-related pay

- Apply bonuses fairly and consistently.
- Set realistic targets as unachievable ones are pointless and will almost certainly stir up resentment.
- When paying individual bonuses on the basis of performance, make sure targets/KPIs are agreed with the employee in advance and adhered to.
- Once accurate measures of performance have been established, monitor them regularly and methodically.
- Offering bonuses to (fairly small) teams can promote greater flexibility, co-operation and ultimately boost productivity as team members focus on results and supporting/covering each other as necessary.
- Bonuses should be paid when there is a tangible impact from performance: giving an employee a bonus without being able to show the reason for doing so does not encourage a high-performance culture.
- When paying commission to your sales people, if possible base this on a formula that goes beyond a percentage of the value of the order as this can prompt sales teams to push for volume over profitability – it's better to link commission to a profit measure on the sales brought in.
- Consider paying sales people a higher commission when securing business from a new customer than when delivering repeat business from established clients.
- Remember that sales people are not an island of value creation and that others often make a big contribution to building revenue.
- Appropriate commission structures can be very motivational for any employee that has the ability to influence lead generation, increased earnings, greater efficiency, cost savings or indeed faster payment terms.
- Be on your guard so as not to permit individual performance-related pay to drive selfish behaviour that might be detrimental to your business.

Potential pitfalls

- Be very careful to avoid pay discrimination against workers on account of their age, sex, race, disability, etc.
- Don't freeze employee pay pleading poverty – and then come to work in a flash new sports car, glowing with the suntan from your five-star holiday in the Caribbean.
- Company-wide bonuses/profit share can be good for morale as they are seen to be egalitarian – but don't forget to incentivise your top performers.
- Don't overlook those on long-term sick or maternity leave when considering pay rises.
- Make judgments about pay on merit/performance factors, not personal favouritism.
- Respect confidentiality.
- Making counter offers can be counterproductive. If a substantial offer is made in an effort to hold on to someone who's planning to jump ship, that person may wonder why their efforts weren't deemed worthy of higher pay before they resigned. And if word gets out, counter offers can stoke resentment among colleagues who may feel that they too should be due a big rise.