

## **SHOULD PAY RAISES BE TIED TO PERFORMANCE?**

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I was recently asked “What are the issues surrounding using performance appraisals to set pay raises, and how should a company go about translating an appraisal to a raise or promotion?” It is a tough question as there are many things to contemplate. Even though we might not be considering a raise right now, being proactive for the end of the year performance review and raise is important. How do you look at pay raises in your company?

Companies look at pay raises in a couple of ways. Some companies use the performance appraisal as the tool from which they base pay raises. Other companies give across the board pay raises to their employees regardless of performance. I believe in tying performance to pay increases. If you don't, it tends to lead to performance mediocrity. If the pay raise is a blanket pay increase then what is the motivation for employees to perform? If regardless of effort employee A is to receive the same raise as employee B, then the company runs the risk the employees will eventually decrease their performance to the lowest level possible to get a pay increase. By tying performance to pay, it is also an incentive for top performers. Top performers are usually people who do well with established goals. They want to know what it takes to get a better job, a better raise, etc. Performance appraisals, if done correctly, establish those benchmarks upfront. The employee can see what it will take to move to the next level and begin to strive to get there. If they don't make it, they know prior to the performance appraisal meeting which leads to a more positive working session versus a meeting where the manager and employee are at odds about whether or not the employee met the goals.

Companies should devise a system that is fair and equitable to all of their workers, so it doesn't discriminate against anyone or any group. There are many methods that can be used to evaluate performance including job ranking, job classification, factor comparison and point-factor comparison. Some of those methods are quantitative and some are not. When establishing a system for a small business, I always start with making sure the position's job description outlines the goals and objectives for which it was designed. Once that is confirmed, I take the expectations listed in the job description and the training objectives the employee achieved, along with other factors, to develop a list of criteria upon which the employee is evaluated. From that information areas upon which the employee's performance can be evaluated can be determined. Once all expectations are established, I recommend the manager sits with the employee and review what it will take for them to meet expectations and what might be considered above and beyond. Laying that information out up front not only helps the employee achieve the desired raise they want, but it increases productivity which adds to the organization's bottom line.

When tying the performance review to a pay raise, there should be an established maximum amount of money (as a percentage of the employee's annual salary) that will be given if they have a superior performance. Anything below that will be a percentage of that amount. To ensure this system is fair to all, it should be reviewed by the company's legal counsel prior to being rolled out to the management and employees.

Here are some easy steps to remember:

1. Tie all employee job descriptions to the company goals and objectives
2. Develop performance reviews that drive to the expectations in the job descriptions
3. Share the job descriptions and performance review documents with the employees
4. Determine a fair and equitable system to tie pay to performance

It takes time upfront to establish what is necessary to make this work and experts are needed to make sure employment laws are followed; assessments are meaningful, etc. but that time upfront will ultimately save time and money for the company. Certainly it will save headaches for both the employer and the employee.

*This article was written by Courtney Berg, President/CEO of CourtSide Consulting. Courtney has over 27 years experience in HR and Operations management for companies ranging in size from a family-owned furniture store to a national insurance corporation. Her experience includes front-line supervision to executive level positions in both human resources and operations.*