

SALARY INCREASE BUDGETING

Each year at about this time, organizations across the country, in a variety of industries, begin the process of setting their salary increase budgets for the following year. Many organizations base their salary budget increases on the median increase reported in annual salary projection surveys. While salary projection surveys can provide valuable information, additional factors should be taken into consideration when establishing a salary increase budget. These factors include the organization's compensation strategy, relationship to the labor market, local labor market conditions, and the performance and tenure of the organization's workforce. Each of these factors are addressed below.

COMPENSATION STRATEGY

A compensation strategy should define the organization's desired relationship to the market. A strategy which targets pay at the median of the market may be supported by an increase budget consistent with projected median increases. However, a compensation strategy targeting pay above market may require an increase budget which is above the projected median.

LOCAL LABOR MARKET CONDITIONS

Local market conditions can vary significantly and many salary projection surveys do not provide data for specific geographic locations outside of major metropolitan areas. Organizations in a highly competitive local labor market may need a salary increase budget significantly above the national or regional median in order to attract and retain talent.

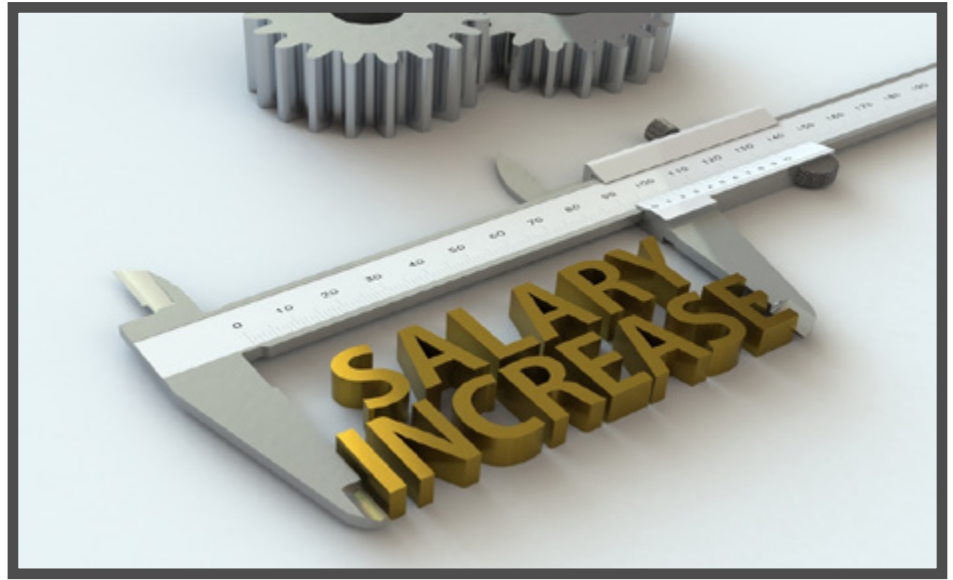
CURRENT RELATIONSHIP TO THE MARKET

An organization's current relationship to the market should also be considered when determining an appropriate increase budget. If actual compensation trails the market, organizations may need to consider an increase budget greater than the projected median increase. Conversely, if current compensation is above the median of the market, an organization may consider an increase budget that is less than the projected median increase budget. Another aspect to consider is the impact of variable pay. If it is the organization's strategy to equate total compensation to market, when lower bonuses result in total compensation falling below the median of the market, a larger salary increase budget may be necessary in order to maintain a competitive total compensation package.



EMPLOYEE PERFORMANCE

A best practice is to differentiate merit increases across high, middle and low performing employees. An organization with a high percentage of high performing employees who are driving business results and organizational success, may want to consider an increase budget that is greater than the projected median increase. A larger increase budget allows managers the flexibility to differentiate between middle and high performers.



EMPLOYEE TENURE

Increases generally become more conservative as employees reach the maximum of the salary range. Therefore, an organization with a high proportion of long-term employees who are near the top of their range may find that a salary increase budget below the projected median budget may be sufficient. On the other side of the spectrum, an organization with a significant proportion of new, less experienced employees may require an increase budget greater than the median in order to be able to recognize and reward employees who are learning and growing at a rapid pace.

SUMMARY

Determining an increase budget takes careful planning. While it may be tempting to simply follow the trend in the salary increase budget surveys, best practice organizations take time to consider internal and local external factors when determining their most appropriate annual merit and bonus amounts.

FOUNDATIONS CONSULTING is committed to providing the best, most comprehensive and reliable compensation assistance possible.

For more information, please contact Beth Ostrem or Heidi Nelson.

Meet the Foundations CONSULTING TEAM



BETH OSTREM
651-282-8718
beth.ostrem@farmcreditfoundations.com



HEIDI NELSON
651-282-8446
heidi.nelson@farmcreditfoundations.com



HEATHER BINGER
651-282-8807
heather.binger@farmcreditfoundations.com



CLAIRE BRANDENBURG
651-282-8449
claire.brandenburg@farmcreditfoundations.com