

Salary Structure Change and Compensation Increase Budgets

The annual release of salary budget surveys prompts technical questions surrounding the results and how they might be applied. Users always want to know what the numbers mean. However, the economic recession that started in December 2007 raised important new and interesting data issues.

From a user's perspective, the salary budget increase and the salary structure adjustment have wholly different purposes, and while there commonly appears to be a relationship between the two — both rising over time, with the salary budget increase generally exceeding the salary structure adjustment — there is not necessarily an actual relationship. We have correlation without causation.

The salary budget increase normally exceeds the salary structure increase because an organization's salary budget increase reflects not just the typical annual increase in wages, but also the acquisition of skills, competencies and experiences as well as employee performance, while the salary structure only reflects the annual wage increase.

The salary budget increase is a reflection of spending in the marketplace. Accordingly, it can be a useful way to compare an organization's annual spending in the marketplace. That being said, the salary budget increase figure also must be considered in light of other relevant factors, such as the organization's actual and desired positions to market.

Salary structure adjustment figures have an entirely different purpose than salary increase amounts. Their utility is in allowing organizations to adjust their compensation structures without necessarily re-doing their compensation structures each year. In effect, an organization can use salary structure adjustment figures as a shortcut, allowing them to adjust their control points (e.g., midpoint) and range minimums and maximums to reflect what is occurring in the marketplace.

As with salary increase amounts, however, any changes in the organization's salary structures should be made only after careful analysis. Of further note, organizations choosing to adjust their salary structures using annual, published salary structure adjustment figures are advised to periodically revert to a comprehensive analysis of their salary structures to ensure they still appropriately address the marketplace.

When it comes to aging the market data, the decision depends on the organization's particular circumstances and needs. The importance of the aging exercise has diminished in recent years as annual compensation changes have hovered in the low single digits. In contrast, aging the data often is essential to maintaining your position in the marketplace as you seek to attract and retain top talent in periods of volatility or high single- or even double-digit salary increases.



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WorldatWork Premier Members can learn more about this topic in Cardinal's WorldatWork-published white paper, "Salary Structure Change and Compensation Increase Budgets."

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