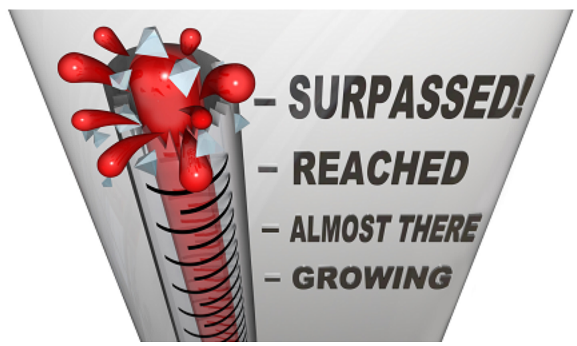
Overmax

“Well Wally, that’s my summary of your performance this last period. And from what I see here in the HR salary file, you’re at the maximum of the salary range, and you know what that means… No, actually what it means is no raise for you this year. I know, it’s been three straight years now, but my hands are tied. Thanks though for another great year, and go get ‘em again this year! Bye!”

Not that far outside of reality? Why have salary ranges and maximum in the first place? And why shouldn’t Wally get a raise if he was a good performer? You can probably imagine Wally’s mood after this phone call.

Why Use Ranges

A pay range represents your pay policy, for example paying on average at the 50th percentile. Typically the midpoint of a pay range is aligned to the market data for a job, and a range (minimum to maximum) is equally distributed around that midpoint. Pay ranges usually have a spread (percentage difference between minimum and maximum) from 50% to around 70% depending on the job type, level, and other individual design factors.



So what do minimum and maximum mean? I think we all know what the words mean, but philosophically they mean the least and most the company pays for jobs in that range. And since there is a spread, that means there is a reason for paying low or high in the range. Paying low is usually for employees who are inexperienced, still learning, less skilled or maybe even those with performance issues. Paying in the top half of the range is for all the opposites of those – higher skilled, experienced, better performers. So from bottom to top, if you were talking about two employees on either end of the pay range spectrum (assuming a 50% spread) your top performer is making 50% more than the employee at the low end.

Do they really need to make more? Remind me again of the definition of maximum? But maybe it’s a tight job market and retention is a problem, or the competition targets a higher percentile like the 75th. All things to take into account.

Of course, I’m assuming you are keeping your pay ranges aligned with the movement of the market. If you haven’t adjusted pay ranges for… awhile… it’s difficult to use your philosophy and objectives as a foundation.

I’ve heard stories, reasons for exceptions, pleading cases… I won’t list all those here. Let me instead talk about what to do.

Keeping Talented Employees Motivated

I recently read a brief article on this subject with a commentary by a compensation professional. There was the usual compensation response – offer a lump sum rather than increasing base (a lump sum is employee's base salary times merit percentage increase and pay as a one-time bonus). That's OK, it's one alternative. (By the way, I had an employee working for me once and gave her a lump sum increase because she needed travel money to visit her sick mother in New York. She mailed me her resignation letter 3 weeks later.)

A more powerful answer than the lump sum (or ignoring the definition of pay range maximum) is to consider the situation outside of compensation. Is this employee qualified for a career more? Why or why not? What would have to happen for that to occur? If they aren't in the right position, a move might create the 'headroom' needed to be able to grow salary in the future.

And an employee at or near the top of their pay range is not a surprise, assuming even basic transparency on compensation. You know who the Wallys are already, why wait for the manager (who probably only talks to Wally once a year about his salary) to have this discussion?

Another thing to keep in mind, especially when there are not career or developmental moves available is that *an employee at the maximum of the pay range is well-paid*. Equip your managers to communicate your pay program objectives and processes as well as the outcome of pay decisions. Sometimes that takes practice, and it's something that in my experience I think managers need to be better at than most are at present.