



Why Spend Money on a Pay Plan?

We understand that organizations want to save money these days. As you plan to better manage your organization's compensation decisions, it's important to consider that establishing a systematic approach to pay administration can in some ways save you money, and in other ways, can be viewed as an investment.

Saving money:

There are three main ways to save money with a pay plan: (1) not overpaying employees, especially if they are long-tenure, (2) avoiding the substantial, and sometimes hidden, costs associated with employee turnover, and (3) preventing the potential costs of litigation associated with violations of equal pay laws and wage & hour regulations. These benefits are primarily associated with base pay plan design.

1. If you make annual salary adjustments to all employees without the benefit of a market-competitive structure, it's possible that you're overpaying long-service employees, and this may be significant. The longer the service, the more important it is to make sure you're not overpaying.
2. Estimates of the costs of employee turnover range from 50% of annual base salary to as much as 200%. These costs include lost productivity, recruitment expenses, managerial time, administrative costs, training of the new employees, etc. We contend that keeping even one employee from going elsewhere because of low pay and/or lack of perceived opportunity would more than offset the one-time costs of compensation plan development.
3. Legal landmines with respect to pay abound, especially in California. Unintentional pay inequities may be evidence of illegal adverse impact linked to race, gender, age or other protected class characteristics. The other potential legal issue relates to whether jobs are legally classified as exempt or non-exempt and whether compliance with wage and hour laws occurs. Both of these legal hazards can become class action lawsuits, and, at the very least, can be expensive to defend. Having an objective and fact-based approach to making pay decisions provides significant protection from legal exposure and the astronomical costs that can result from these situations.

Investing money:

Developing a performance based pay plan is one way to invest in the future organizational success. Done well, and treated as a management tool, such a plan can powerfully motivate employees to increase productivity, quality of outcomes, and both short- and long-term results. Incentive plan principles can be applied at all levels in your organization, from the Executive Director to the lowest-paid staff. Even a small incremental increase in productivity, measured in terms of quantity, quality and/or timeliness, can support the organization's ability to fulfill its mission.

The additional benefits of linking pay to performance include: (1) improved employee morale, (2) clearer communication about performance expectations, (3) perceived pay equity, e.g., top performers earn more, and (4) provide an additional incentive to prospective new employees to sign on.