

**DEVELOPING A
SALARY POLICY**

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Introduction

What is a salary policy?

A salary policy is an institutional policy that provides a common framework from which all salaries of the organization are determined.

What are the objectives of a salary policy?

- To attract the best qualified people available to achieve the organization's mission;
- To provide equitable and consistent remuneration to employees in accordance with their assigned duties and responsibilities;
- To motivate and stimulate employees to achieve a high level of performance;
- To encourage the retention and productivity of qualified personnel;
- To communicate to staff the basic parameters for setting salary.

A sound salary policy that is communicated to and understood by staff will assist the organization in establishing equity among staff and assist in staff planning and resource allocation.

Establishing a Salary Policy

Before establishing a salary policy, an organization must establish a foundation on which to start. The organization may do this by asking the following questions:

- Do we currently have a “salary policy?”
- If so, what does this policy look like?
- Why is it important to review the salary policy now?

This analysis may be conducted by the Human Resources Department, if one exists, or a committee that is formed specifically for this purpose. This committee may be comprised of the Executive Director, a member of the Board, and the Administrative or HR Officer. It is important that the Committee have staff and Board representation to ensure adequate perspective on all aspects of the organization.

Components of a Salary Policy

Once the preliminary review has occurred, the committee can then begin to discuss the various components of the salary policy, which are listed below. It is important to carefully review each component and answer the questions presented under each component. This will help the organization to reach a consensus on the structure of that component. As you progress through these, there may be cause to revisit components previously discussed. Through answering the questions, the organization will begin to develop a framework for the organization's new salary policy.

The necessary components of a salary policy are:

1. Clear and current job descriptions, which include the employees' responsibilities, the reporting relationship and the level of education and experience required.

- What does the organizational chart look like? Is it current?
- What kinds of positions does the organization have? Are there natural groupings? (e.g. clinical, administrative, technical)
- How many staff does the organization currently have? In what way might the organization grow or contract in the future?
- Are all the job descriptions current? Are there any that need to be changed?

These questions will help the organization to determine whether the organizational chart and the job descriptions as they currently exist are appropriate. It will also help the organization determine if changes must be made prior to the creation of the new salary policy. It is critical that the Committee answer these questions in order to move onto Component 2.

2. A defined classification or banding structure which clusters jobs with similar levels of skill, experience and responsibility.

- How might you categorize or group positions in the organization?
- Do clinicians and administrative staff need different classification structures? If so, why are they different?
- Looking ahead to the future, how can you develop a structure at this time that can handle the staffing changes that might occur in the future? Does the strategic plan of the organization hope to increase the funding level, and thus create the need for more staff? Or does the organization anticipate that the size of the organization will remain relatively consistent or shrink?
- How many bands or levels are necessary?

A classification or banding system is the basis of the salary policy. The questions above will help you determine what band or classification system is appropriate for your organization. The band or level system is not easily modified, so it is important that the organization chooses a system flexible enough to handle possible changes in the organization. Typically the first level may be comprised of drivers or guards. The highest level will be the executives. Those levels in between may be categorized into

administrative support, clinicians, mid-level managers, department heads or other technical positions. Typically, an NGO may have between 5 and 8 bands depending on the size and needs of the organization.

3. A salary range for each classification or band is determined by a market analysis of pay scales for similar jobs in like institutions in the same local and/ or similar geographic areas. It may be necessary to analyze a broader geographic area if there is a shortage of qualified people available locally for some positions, (e.g. computer programmer).

Note: It is difficult and problematic to change an implemented salary structure and is therefore imperative to establish ranges which allow for growth in the future and/ or irregular changes in the cost of living.

- Within each band or level, what kinds of differences in responsibilities and tasks exist?
- How might these differences present themselves in ranges?
- Do the current positions “fit” within these ranges? Does the range of responsibilities found within given job descriptions reflect the groupings?
- How might you define the levels of responsibility and accountability for each range?
- In what other organizations can the staff work and what kinds of salaries would they receive there?
- Should you use market research? If so, what research will you use and how often will it be reevaluated? If not, what other external factors will be consistently used to evaluate the salary ranges?

Market research is fundamental to establishing a salary policy. The organization must remain cognizant of the market to ensure that it remain competitive and retain qualified, experienced staff. This research can be completed by a number of methods such as analyzing the local newspaper for similar job postings; contacting the Commerce Department for any employment statistics they may have that are relevant, or contacting a private firm such as a public accounting firm for any analysis they have completed recently on salary levels for different positions. This will provide the organization with a sampling of salaries in the area, as well as provide a relative scale from which to base the policy. The means by which the market analysis is obtained should be consistent to ensure equitable comparative analysis. It should also be done on a predetermined, regular basis such as every 2 years.

The organization must also think about how to establish sufficient ranges within each band/level to account for professional growth and changes of each staff member in a given band/level.

4. Particular attention should be paid to the starting salary in each salary range to ensure equity across the organization.

- What will be the basis for establishing a starting salary?
- What are the levels of accountability and responsibility related to the job description?
- How heavily should experience and/ or academic background be weighed?
- How will the organization clearly communicate how the starting salary is calculated?
- Do current starting salaries fit in with these qualifications? If not, do adjustments need to be made? If so, how will the adjustments be implemented?

It is important that the formula for establishing a starting salary is equitable, consistent and clearly understood. Based on this formula, staff begin their salary history with the organization, and therefore the organization wants to ensure clarity to avoid future salary related problems.

5. Each salary range should include steps that provide opportunity to increase people's salaries equitably as they demonstrate high performance.

- Does each range allow for professional growth and/ or promotions?
- Is it feasible for the organization to absorb this growth within its current structures?

Each band/ level is assigned a salary range based on the answers to the above questions. Within each range it is important that staff have the opportunity to grow professionally and, when appropriate, be promoted based on high performance, therefore, each salary range must have some steps to accommodate this growth. It is common for a given salary range to have three steps for staff in that range. Establishing these salary ranges for each band/ level that can accommodate promotion is important for the retention of staff.

6. A policy is developed to allow for cost of living increases equitably distributed to all employees on a scheduled basis, e.g. annually.

- How often should regular cost of living increases occur?
- Are there enough fluctuations of the currency to merit an organizational policy to make salary adjustments related to the currency fluctuations?
- If so, how often might these be needed?
- What level of currency fluctuation warrants a salary adjustment?
- What might this adjustment look like?
- How should this be calculated? What will be the consistent measure of this change?
- How can this policy be clearly communicated?

Cost of living increases or adjustments are a regular part of a salary policy. It is expected that an organization will accommodate varying changes within the cost of living on a regular basis. However, it is also important to recognize that an economy may become volatile, and thus create huge variances in its currency. These currency fluctuations can have a severe impact on both an organization and staff salaries. It is therefore critical for organizations that function in such an environment to establish an organizational policy to handle these variances on a consistent basis.

7. Establish a Compensation Committee, including board members, which meets on a scheduled basis to review ranges, set percentages for merit increases if these are awarded, and generally be the final arbiter on salary questions.

- Who should sit on the Compensation Committee?
- How frequently should the Committee meet?
- Under what circumstances can the Committee call a special meeting?

It is important for an organization to have a non-partisan body to assist in salary reviews to avoid confusion or inequities. This Compensation Committee allows for the salary review to be fair, balanced and not to rely on one person. Lastly, it is important for the staff to understand the Committee's role so they may see the Committee as an avenue of equity. This Committee may be comprised of at least four people such as the Director of Human Resources, the Executive Director, a Board Member and the Administrative Director. Within the new salary policy a schedule for the Committee meetings should be included. It is advisable that the Committee meet twice annually and also if any dispute arises. In addition the purpose and composition of the Committee should be communicated in the salary policy so all staff may understand its existence. This communication should be included in the Employee Handbook and referred to during annual salary adjustments. In addition, during the recruitment process, the salary policy should be clearly communicated to potential staff in order to ensure clarity of the policy from the beginning of employment

Conclusion

Establishing a salary policy is a critical function of human resource administration and serves to support the organization's most valuable asset - its human resources. A salary policy should be equitable, structured and clearly understood. By following these components of a salary policy and answering the questions posed, an organization can reflect on its past and present salary policy and establish a salary policy that is sound.