Solutions
BUSINESS BUILDING ARTICLES

Steps to Develop a Compensation Plan that Keeps People Happy without Bankrupting your Business

Creating a compensation plan is a critical component of your people development program. Whether you are a family-owned and run business or a seasonal business, having a clearly outlined and defined compensation plan can help prevent employee conflict, dissatisfaction and turnover. Here are some steps for creating a compensation plan that your team feels like they have contributed to and that you can manage easily.

Document & Group Positions

First, be sure to document all jobs in your business. Write down the responsibilities and functions of each job. Then have each employee fill out a job questionnaire detailing what he or she does. Use both to create written job descriptions.

Assess all of the jobs and begin to group them. Create an internal hierarchy by ranking each job from lowest to highest in terms of value to your organization. Then look for clusters in the hierarchy, and group the positions in appropriate grades.

Collect Market Data

Once you have completed these internal steps, begin to collect market data. Look at recent surveys containing pay data for your line of business and location. Much of this information is available online now. Don't expect perfect matches, but use other positions for comparison.

Create Salary Ranges

Now you should create levels and ranges of pay. Use the data to fix a salary midpoint and range for each grade of positions. For administrative positions the information you gathered may suggest a mid-range salary to be $30,000 but can vary anywhere from $25,000 to $35,000. It is likely that the salary range for a given grade will overlap with ranges from the grades immediately above and below.

Implement Your System

Now that you have taken the time to devise a system, it's important to implement it. You may find that some of your employees' salaries fall well under the range. Make a point to devise a plan to adjust these team members' pay. For those who are overpaid, you may want to institute a salary cap or limit future increases. But you should consider whether these people are excellent team members who perform beyond expectation. Those are the team members you do not want to lose. Whatever you decide, be sure to explain how thorough you have been in devising your system and your means and methods for arriving at the current system.

Performance Evaluation System

Once your basic pay system is set up, it's important to integrate a performance evaluation and feedback system. Performance measures should be incorporated into your pay system. Identify key performance indicators by which you will measure your team. This may be anything from specific phone answering calls to a target number of sales. By implementing performance indicators, you give your team members something to strive for. And you can clearly communicate how pay is tied to performance.

Maintain Documentation of Your System

Always remember to maintain your system and document new jobs, re-document revised jobs, and obtain new pay data on a regular basis. Setting up a regular time to evaluate your pay structure should be an important part of your system.

Solutions At A Glance...

In summary, this article deals with these issues:

- ☐ Document & Group Positions
- ☐ Collect Market Data
- ☐ Create Salary Ranges
- ☐ Implement Your System
- ☐ Performance Evaluation System
- ☐ Maintain Documentation of Your System

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