

Salary Planning & Budgeting vs. Compensation Management Planning

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Some say “to-may-to” and others say “to-mah-to” but however you say it, this vegetable with its external variety of colors, size and shapes is still consistently the same inside. With human resources professionals, we have found the use of salary planning & budgeting to be synonymous with compensation management planning. The reverse of the tomato statement applies here. The external statement of salary planning and budgeting and compensation management planning sound the same but the internal purpose, structure, systems and processes are truly different.

Most salary planning and budgeting systems are designed to evaluate, calculate and record employee base and variable pay adjustments. These systems are usually integrated with performance evaluations so managers and supervisors are able to assess performance and select an appropriate pay adjustment level within pre-established criteria and based on budget and salary range placement thresholds. In addition, the salary planning and budgeting systems have a roll-up feature that will quantify and display department, division and company-wide salary planning budgets. If our crystal ball were handy, I imagine that we would find that these systems were developed by a CFO round table group. The salary planning and budgeting systems are useful but they are not, nor should they be, confused with compensation management systems that use job evaluation and pay line regression analysis as the basis for compensation planning.

Compensation management systems utilize internal regression pay lines for pay equity analysis by employee groups, individual employees, and protected class groups, (gender, race and age). In addition, external pay competitiveness is evaluated through pay structure analyses and comparisons with market pay regression lines for similar organizations and market studies with like-type positions. The best in class systems utilize an integrated job description and job evaluation process that is automated through software database technology and have the capability to develop compensation policy range structures and the pay placement of each employee’s pay by range quartiles. Compensation management systems that are integrated or operate as stand alone complementary software as a service (SAAS) platforms will have a seamless transfer or downloadable feature of current employee information into the system database. With data and table exports to worksheet environments, compensation professionals will run pivot tables and T-factor analyses for greater pay equity analysis. This information will be shared with the organization’s staff attorney(s) or with outside legal counsel under client-attorney privileged information representation.

In a recent Workspan article written by E. Neil Lapple and Richard S. Sperling, the authors offered excellent insight on “How to Make Your Compensation Plan Work in the RESET Economy”. Mr. Lapple and Mr. Sperling offered advice in this article from a compensation management perspective and not from the salary planning and budgeting realm. Some of the mentioned “Steps to Adjust to Reset Compensation” are 1) Develop and articulate a compensation strategy as a key foundation of compensation transparency; 2) Reassess the balance between use of job evaluation (internal job value) and external competitiveness, including use of compensation surveys that are becoming less valid and available; 3) Examine the use of salary ranges, initial placement in the range, movement through the range and range width and; 4) Get ready to design combination jobs due to the “more with less” focus.

Whether you say “to-may-to” or “to-mah-to”, progressive employee focused organizations and outside regulatory agencies are demanding pay equity and compensation management systems that use regression pay line technology as the means for growing a healthy, vibrant and compliant compensation program.