CMC Compensation Group

Why Managers Don't Manage Pay

When an employee is promoted to their first manager's position, they are given the proverbial Keys to the Kingdom – your company. They now have the authority to spend your company's money. From hiring, to promotions, to salary reviews and equity adjustments they are now able to make the decisions that directly impact (increase) your labor costs.

However, most of these managers turn out to be, at best, well intentioned amateurs at the process of making pay decisions that are appropriate for the needs of the business. Fresh from being anointed they often lack the basic internal education necessary to make business vs. emotional decisions – and their actions commit you and the company to costs that may not be in your company's best interests.

Actions taken by these managers not only increase direct costs, but often irritate other staff members as the circumstances become known, creating morale and internal equity problems at the same time. The net result is usually a corresponding lack of engagement and ultimately separations by disenchanted employees.

Note: Most employees leave managers, not companies. Thus actions do have consequences. Likely this is not what you envisioned when you made that promotional decision.

Now, how did (fill in the name of your company here) get themselves into this mess?

First of all, no one *really* trains managers on how to properly attract and reward employees via base salaries and incentive pay.

A few anecdotal examples:

- Just because some bloke is a good "XYZ Operator" does not mean they will be an equally good "XYZ Manager". The skill sets for success are dramatically different.
- How many managers understand your company's philosophy about pay? Do you? How many understand the workings (the what and the why) of the company's pay practices and methodology? These are the folks responsible for spending 40% to 60% of your revenue in the form of employee pay, and even the most well-intentioned is prone to make mistakes.
- Managers want to be liked; they do not wish to pick favorites, do not want to discriminate on the basis of performance and definitely do not want to have their decisions challenged. They would rather point a finger at HR and assign the blame to them for having to assess performance and distinguish one employee from the other. Left to their own devices they would give everyone as much as they can.

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If you were a high performing employee, would you like to work for this sort of Manager? If you were coasting at work, barely putting your time in, would you want to work for this sort of Manager? Which sort of employee do you think will eventually tire of being undervalued, and quit? Leaving the Manager with a staff of . . . . You get the picture.

Ineffective managers are always afraid that an unhappy employee will decide to quit, but that is usually a selfish thought. Their prime concern is more often what your departure would mean to their deliverables, to their reputation as a manager. Your departure is typically viewed as an inconvenience to them, not an avoidable loss for the company. A reflection of this is when managers resist a transfer that is clearly in the employee's career interests. The manager's concern is how that transfer affects their department – and whether their personal success becomes that much more difficult to attain.

Ineffective Managers can be a defensive lot, challenging attempts at reform. Why? Because of their fear that spotlighting reform action will demonstrate their ineffectiveness (make them look bad), and that is unacceptable. Typically their advantage within the company is that the more ineffective the manager, the stronger their political connections. And as senior management oftentimes surround themselves with those most agreeable to their own way of thinking, it's not surprising.

Assuming the company's willingness to make key decisions and the presence of the all-important support from senior management, companies can correct the problems that they've created. They can:

- Select candidates for management positions on the basis of their skills / potential for actual management (dealing with people, managing projects, business-oriented, professional demeanor, etc.)
- Educate Managers in the philosophy and methodology of the company's pay programs, ensuring that this information is shared with their staff
- Construct job specifications that call for a Manager to manage, as a prime accountability, limiting or even eliminating the retention of individual contributor responsibilities.
- Measure and reward the performance of the Managers primarily on the basis of how they have actually managed their employees, or on the performance of their unit
- Encourage Managers to develop the potential of their employees, to the point that a staff member being promoted / transferred upward is a mark of success for the Manager
- Ensure that procedural checks and balances are in place to ensure that pay decisions are reviewed by at least one higher level

- Hold Managers to an annual salary budget; let them develop the budget and monitor / adhere to it during the year

Consider the above as a checklist that can be used to test your company's vulnerability to wasted money, employee morale problems / turnover and avoidable cost increases.

Would you be comfortable with how your own company would score?

My advice to clients is to face these issues straight on, to implement policies & procedures that save money without penalizing high performers or mistreating their employee base. But the challenge will always remain, as there is an inherent reluctance on the part of many managers to make the tough decisions, because we do want to be liked, we do like to give good news, and we do not like to play judge and jury with an employee's career.

But that behavior is not managing is it?

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