

# Setting Wages For a Small, Growing Business



## **✖ Question From a Small Business Owner:**

When we started our business almost 5 years ago we were careful about how we spent our money. We identified the roles we needed, researched the market value for these roles and determined what we believed was fair compensation. Now we are challenged with deciding how to fairly assess compensation for our employees who have been with us for several years. We want to avoid offering wage increases simply based on putting time into a job and we do not push their wages higher than we can afford.

## **Answer:**

It is always great to hear about a growing small company contributing to the economy by providing jobs. There are several options that can enable you to balance the continued growth and health of your business with the needs and expectations of your employees.

## **TODAY'S EXPERT**



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## **Considering These 3 Options for Employee Compensation**

**1) Annual Cost of Living Increases.** One of the most common options that drive wage increases in business. According to a Stats Canada report the consumer price index between March 2012 and 2013 rose 1%. According to the Bank of Canada inflation calculator between 2009 and 2013 there was only a 1.9% change in the average annual rate of inflation. These modest increases might seem like a viable option but it will not address your desire to avoid raising wages simply because someone puts in time.

**2) Establish and Stick With Market Value Wages.** You do have the option of not offering any planned increases and establish the rate of pay based as you have thus far, on the market value of the role. Identify an appropriate range and negotiates within that range as the base rate you want to pay. Once an employee reaches the top of this range he has achieved the top of the range and that is that.

Over time the market value for a position may change trending up or down. You can initiate a 3-4 year review for each position to determine relative market value. If you want to remain competitive understand the trends in wage increases in your community. According to the Special Report on 2013 Salary Forecast from Aon Hewitt the wage increase forecast for 2013 was an average salary increase of 3% (in 2012 it was 3.1%).

**3) Performance Bonuses.** Performance bonuses may be an attractive option and an option for incentivizing employees. There are many ways to structure bonuses including tying them to individual, team or company performance. You can choose to formalize this option and let everyone know or you may decide to set aside a pool of money and offer it only if and when you feel it is appropriate.

This option may best fit your small business because it offers flexibility and you can maintain some control over the compensation you are offering within a given year.

### **Sometimes Employees Outgrow Their Roles**

The fact is sometimes people will outgrow a role or a business and when that happens it may be better to let an employee move on if you cannot meet his salary expectations. You do not want to put yourself in a position where you look at that employee in the future and resent the increased wage you cannot really afford to pay him.

You have to decide on the option that best fits your industry, the state of your business, your personal preference for your company culture and the bottom line today. Remember you can make changes again in the future.

### **Additional Resources:**

[Consumer Price Index, by province \(monthly\)](#)

[Bank of Canada Inflation Calculator](#)