

Episode 93: Promote or give a pay raise?

Sometimes you can choose whether to raise someone's pay or promote him or her. Of course you can do both at the same time – but they have different roles.

1. The difference

As an employee, I would really like you to give me both but they have different roles.

On the whole, you have to learn to compensate for performance - you should pay someone for the work they do.

If they do good work pay them a bonus. If they don't, then don't!

Conversely, you should promote someone on his or her potential.

If you think they could do a bigger role, give them that opportunity.

So the basic rule is - compensate for performance and promote for potential.

2. Why it matters?

Sometimes you will of course promote someone and give him or her a pay rise but typically a promotion comes with a raise.

Some promotions even come with new compensation packages – like shares.

Problems arise when people are out of budget and still want to reward people.

They then start to think about using a promotion as a reward tool.

They say, I can't give you much money but here is a promotion to the next level.

Never give someone a promotion instead of a pay raise.

Firstly, it breaks the rule of 'promote for potential', but more importantly it sets a precedent you cannot maintain.

We all want to keep the best people but we can't make them all senior executives.

3. Getting rewards right

So what happens when you want to reward people and you're out of budget?

If you got the right budget, it might mean you paid someone else too much.

Over paying the wrong people will always come back and bite you.

If you got the wrong budget then you need to fight it.

Other things to try are: overtime, days off or one-time awards.

As we have said before, public recognition is also a powerful tool.

So while it's always good to say thank you, you can't put it in the bank.

Bottom line: When you are lazy and use the wrong tool, you might get the job done but you'll always have to go back and correct your workmanship later.

