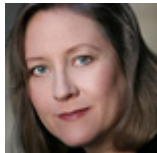


Promoting Employees without Increasing Pay

Beware of the risks involved in payless promotions, particularly when moving a salaried worker into an hourly position or vice-versa

By [Karen E. Klein](#)



What risks do small business owners run when promoting employees but not giving them raises? —L.C., La Canada, Calif.

Such a practice likely lowers morale and engenders resentment among employees who are asked to do more, or to take on more responsibility, for the same pay. You could also run into legal trouble if you're promoting someone with no pay raise and they're moving from an hourly position—where they are entitled to overtime pay—to a supervisory or management level where they get an annual salary. In most companies, a move up the ladder into management includes a pay raise, both to compensate for the added responsibility and to make up for the loss of overtime that might have been incurred when the employee clocked on and off the job.

David Barron, a labor and employment attorney at [Cozen O'Connor](#) in Houston, says he began seeing small business clients promoting employees but asking them to forgo raises in 2008. “It started when small businesses were looking for ways to cut costs and it never really has gone away,” he says.

It is now causing some of them problems in the form of wage-and-hour lawsuits that are “hitting small business owners hard,” he says. “If you promote from an hourly job into a supervisory, that new job should be exempt [from overtime]. But if you don't set it up correctly, it can cause trouble, especially if you have some supervisors who are exempt and others who are non-exempt because they never got raises and classification changes.”

Particularly if you are asking an employee to cross the line from a non-management role to a management role, you should ideally make a clean break in their employment status and change their classification and how they are paid, he says. “Say you have a secretary who becomes an office manager. The old office manager was salaried, but you move up the secretary and don't give

her a raise. Now you have an hourly person doing a management job—do you pay her overtime? Particularly for people on the lower rungs of management who don't really get official promotions, it gets very confused.”

HOW TO ANNOY EVERYONE

Not only might be the former secretary resent doing a management job without the salary and classification, other company managers may become perturbed if they see the new office manager getting overtime when they do not, Barron says.

It's less problematic if you ask someone already in management to move up, say, to an executive role. “You try to sell this and persuade the employee that you want them to take on more responsibility, but you can't immediately afford to pay them more,” Barron says. “Where you need to be careful here is with gender issues. You don't want the first female executive vice-president to not get a raise when her peers are all making a lot more. The same logic would apply to minority employees.”

It's also easier if you're asking an hourly employee to move into another hourly job. “This just comes down to asking someone to do different tasks and they decide whether they want to do it or not. It could be a morale problem and a retention issue. If you don't pay your people fairly, you won't keep them very long,” Barron says.

If your company is in a tough spot financially, as so many small businesses still are, you might consider making no-raise promotions temporary and then revisit them at some future date, say six months. But unless you are certain the company will be able to institute pay raises at that time, don't make any promises—particularly not in writing.

Karen E. Klein is a Los Angeles-based writer who covers entrepreneurship and small-business issues.