MARKET PRICING

METHODS TO THE MADNESS

WorldatWork

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WorldatWork is the world's leading not-for-profit professional association dedicated to knowledge leadership in compensation, benefits and total rewards. Founded in 1955, WorldatWork focuses on disciplines associated with attracting, retaining and motivating employees. In addition to providing professional affiliation, WorldatWork offers highly acclaimed certification (CCP®, CBPTM and GRP®) and education programs, the monthly workspan® magazine, online information resources, surveys, publications, conferences, research and networking opportunities.

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Introduction

Are you tired of pulling out your hair trying to figure out the going market rate for jobs that will attract the critical talent your organization needs in these changing times? Is your head spinning with salary survey data? Are your eyes bleary from reading complicated formulas? Have you chewed your fingernails down to the cuticles laboring over pay grades and ranges? Finally, does your photo appear next to the phrase "analysis paralysis" in mental health journals?

If you answered "yes" to any of these questions, you can sit back and relax while you're guided through the steps necessary to conduct market pricing in a competitive environment. Although market pricing may seem like a daunting challenge, this guidebook distills the abundance of information into simple, easy-to-follow steps.

Of course, compensation wasn't always as maddening as it is today. A single owner or operator bore sole responsibility for an employee's pay in the early 1900s. Times really have changed since those early days. Managing compensation has made a dramatic metamorphosis in the past century — laws regulate it, departments analyze it and numerous surveys disseminate information about it. Today, organizations must monitor the market continually to make sure they are paying their employees competitively to keep their best and brightest on board.

Organizations should keep in mind, though, that compensation is only one core component of total rewards, which are "all of the tools available to the employer that may be used to attract, retain and motivate employees." Benefits and the work experience are the other two core components. The organization's total rewards strategy will include base pay program objectives as part of its overall rewards picture. Chapter 1 explains the WorldatWork total rewards approach in greater detail.

What Is Market Pricing?

Being aware of prevailing wage rates in the external marketplace is critical to an organization's success. Employers need to keep a watchful eye on fluctuating pay rates and market price their jobs to maintain competitiveness. Market pricing is defined as the process of analyzing external salary survey data to establish the worth of jobs, as represented by the data, based upon the "scope" of the job (company size, industry type, geography, etc.). Market pricing has become the most common method of valuing jobs. More than 80 percent of companies use market pricing as their primary job evaluation method, surveys show.

In this method, job rates are set based on the organization's best estimate of the typical wage rates in the external marketplace for that job. Job descriptions are used to match appropriate jobs. Market data are analyzed and benchmark jobs are arranged into a job worth hierarchy. Jobs with no market data are slotted using relative worth.

With so many salary surveys available, where does one begin sorting through the maze of data to arrive at competitive market rates? Where can employers find sound, unbiased data that correspond to the jobs they need to market price? How should an organization communicate its pay program to employees? These seemingly never-ending questions can make a compensation analyst's head spin.

The successful execution of pay programs calls for a delicate balance between often-competing objectives, such as the desire to attract and retain the best-qualified employees versus competitive constraints on labor costs. Organizations need to weigh the cost of the compensation program against other factors, such as being less competitive in the labor market to improve operating margins.

This guidebook provides valuable tools and information about market pricing from start to finish. Readers will learn pertinent terminology; get an inside look at collecting, analyzing and interpreting market data; and, finally, learn how to apply their new-found knowledge in hands-on exercises. Insightful examples, the WorldatWork salary survey guidelines, case studies and a glossary of terms round out this unique learning experience.

For additional insights into market pricing, WorldatWork offers the following courses to augment this guidebook: C1: Regulatory Environments for Compensation Programs; C2: Job Analysis, Documentation and Evaluation; C4: Base Pay Management; and T3: Quantitative Methods. Supplementary reading materials include the following WorldatWork Building Blocks booklets: *Building Pay Structures: An Approach to Establishing the Foundation for a Compensation Program; Mastering Marketing Data: An Approach to Analyzing and Applying Salary Survey Information*; *Measuring the Marketplace: An Approach to Designing and Conducting a Salary Survey*; *Determining Compensation Costs: An Approach to Estimating and Analyzing Expense*; and *Communicating Compensation Programs: An Approach to Providing Information to Employees*. Other excellent resources are the WorldatWork *Total Salary Increase Budget Survey* and the *Salary Survey Guidebook*, which provides a list of survey sources.

1

Tying Compensation to the Total Rewards Model

Before diving head first into a seemingly bottomless sea of survey data and formulas related to market pricing that could make even the most competent compensation professional's head swim, it's important to understand how compensation has evolved over time.

Throughout history, employers have been challenged with attracting, retaining and motivating employees. From the simple barter systems of yesteryear to the complex incentive formulas of today, the organizational mantra to employees has been the same: "Provide productivity and results to our enterprise and we will provide you with something of value." This value comes in the forms of compensation, benefits and the work experience.

In their simplest forms, compensation and benefits have involved cash or commodities — and that still holds true to a large degree today. The employment contract between employer and employee, whether implied or explicit, dictates the rewards for goods and services provided.

A Historical Snapshot

In the earliest years that the fields of compensation and benefits were recognized as professions, calculating pay rates was based largely on formulas that served an organization's entire employee population. Salary structures were just that — rigid and highly controlled parameters — and benefits programs were designed as a one-size-fits-all answer to a homogenous work force.

Beginning in the 1970s and continuing today, organizations have recognized that strategically designed compensation and benefits programs can give them an edge in a rapidly changing environment in response to:

- Global economic development and the emergence of multinational firms
- Changing values and expectations of the new generation work force
- A much more competitive business environment

- Diversification of the work force to include workers who didn't fit the sole bread winner, head-of-household model of the 1950s and 1960s
- New government mandates related to employee compensation and benefits
- Reengineering, downsizing, "right sizing," etc., and the resulting effects on job content that blur competitive job pricing
- Rapidly rising benefits costs prompting redesign of programs to reduce costs while responding to diverse employee requirements
- The changing role of HR as a strategic partner in achieving business goals.

Suddenly, the relatively simple compensation and benefits programs of the past require consideration of their strategic impact and relationship to one another. Integration is a key, and compensation and benefits professionals have emerged as critical strategic partners in their organizations' leadership.

Throughout the past decade, the profession has continued to mature. Increasingly, it has become clear that the battle for talent involves much more than highly effective, strategically designed compensation and benefits programs. While these programs remain critical, the most successful companies have realized that they must take a much broader look at the factors involved in attraction, retention and motivation. And they must deploy all of the factors — including compensation and benefits — to their strategic advantage in a "total rewards" package.

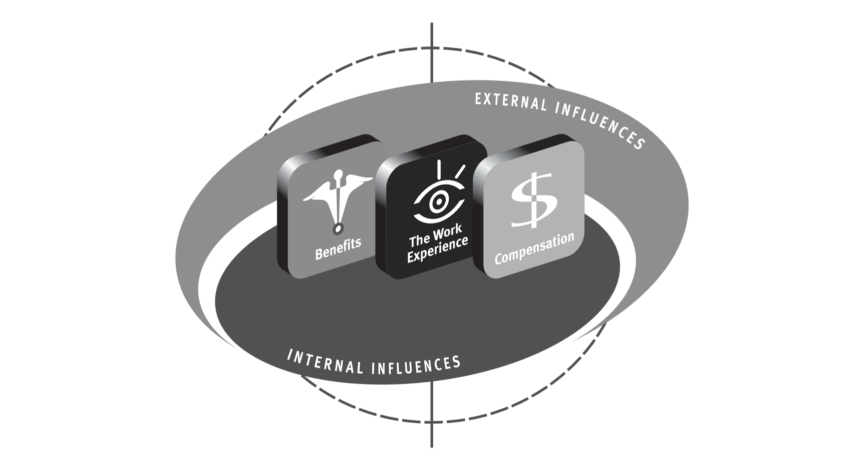
A New Premise: Total Rewards

Before addressing the actual market pricing process, it's important to understand the WorldatWork total rewards philosophy and its impact on compensation. Total rewards are simple in concept and, at best, complex in execution. Yet, organizations that understand the concept as it affects their industry and competitive environment — and deploy critical factors to their strategic advantage — will be the clear winners in the battle for talent.

Total rewards has three main components:

- Compensation
- Benefits
- The Work Experience.

FIGURE : **THE TOTAL REWARDS MODEL**



Compensation and benefits are the two core components of total rewards that address extrinsic financial needs. In every organization, there is some overlap of these components; the degree of overlap depends on organizational culture and program design. Each area has a distinct and unique body of knowledge. Individually and collectively, these components can offer tremendous strategic advantage and impact.

The third and overlapping component of total rewards is "the work experience." Whereas compensation and benefits have clearly defined bodies of knowledge that are maintained by well-established professions, the work experience is intrinsic in nature and includes the many elements of rewards that are important to employees and employers today but often are less tangible. They overlap, relate to and sometimes integrate with compensation and benefits.

While they always have existed in organizations, these elements traditionally have not received attention as important components of the entire attract-retain-motivate proposition. Yet, recent research consistently demonstrates that employees place high value on matters related to the total experience of working.

The five key components of the work experience are:

- **Acknowledgment, appreciation and recognition**, such as service, spot and achievement awards; feedback; and other initiatives that achieve the desired result of fulfillment in employees. These awards usually are noncash in nature.
- **Balance of work/life**, such as family programs, financial/health counseling programs, convenience services, employee activities, non-traditional work arrangements and other factors that contribute to a perceived higher quality of life while at work and not at work
- **Culture**, such as leadership, diversity, opportunity for innovation, degree of employee communications, and organizational formality
- **Development**, such as learning opportunities, coaching, mentoring, feedback, career advancement and education opportunities
- **Environment**, such as the job (content, variety, context, tools, clear line of sight, stretch yet attainable objectives), the place (the physical work environment) and the company (products, markets, organizational stature and success — the opportunity to work for a reputable company).

Each of these elements of "the work experience" must be taken into consideration as part of the reasons why employees would want to work for an organization, why they would want to stay and what will energize them to perform at their best. It's a matter of moving from employment to engagement.

Collective Impact of the Components

The components are not exclusive. They overlap, put pressures on one another, work synergistically with one another and sometimes integrate.

Together, they help drive organizational performance, both intrinsically and extrinsically. Their collective impact can vary dramatically, especially in today's competitive and quick-changing environment.

For instance, an organization's heavy emphasis on cash compensation — at the expense of benefits and "work experience" elements — in an industry that attracts workers who place more value on flexible working arrangements and nontraditional approaches could impede that organization's success. An organization's lack of appropriately prioritized work experience elements could result in total rewards dollars and other initiatives losing their impact for large segments of the work force.

Gaining a competitive edge involves selecting and arranging the elements in a way that capitalizes on the organization's uniqueness. While the design of most compensation and benefits programs can be replicated, the proprietary value of your organization's total rewards approach comes from the work experience elements you select and how they interact with compensation, benefits and the complete total rewards model. A classic example is Southwest Airlines, an organization whose unique culture gives it a competitive edge.

Overlaying Factors

Overlaying the total rewards model are two key factors:

- **Internal influences:** Your core ideology, funds available, internal organizational culture and its desired behaviors, business strategies and competitive environment — what makes your organization "tick" and behave the way it does
- **External influences:** The economy, business environment in general, government mandates, labor pool and other forces largely beyond your organization's control.

While there are common influences for all businesses and within certain sectors of the economy, each organization has unique circumstances that will influence its total rewards decisions. This is your organization's focal point of strategic advantage.

Deploying Total Rewards

First, identify the unique external and internal influences for your organization.

Second, inventory all the possible individual elements of compensation, benefits and the work experience and weigh the importance of each relative to the influences identified above.

Third, assess the total rewards mix of your current organization, both in terms of dollars and people dedicated to these today.

Fourth, listen to your employees and employment candidates regarding the relative importance of various rewards elements.

Fifth, map the interrelationships of the components as you consider individual programs in each area and the total rewards package that will be the unique competitive advantage for your organization. Take into consideration your intended strategy compared to where you are today.

Finally, create the "mix" of the components that most effectively ensures the behaviors and culture to achieve your ultimate business strategy.

The total rewards model takes on many shapes and sizes. In the WorldatWork core model, each component can play a bigger or smaller role in the entire package and can relate to the other components in different ways. What makes the integration of these distinct elements challenging is that employees will have a different sense of what the total package should be, based on their life experience and their current stage in life.

What's the picture of your organization? Is there a heavy concentration on cash compensation, benefits and few components of the work experience? Equal emphasis on compensation and benefits, along with some other components? Heavy concentration on the work experience, with less emphasis on compensation and benefits? Only you can provide the best solution for your organization and its current business strategy.

The focus of this book is to help you address the compensation aspect of your total rewards package in order to calculate pay rates that align with the organization's compensation philosophy and support its attraction and retention programs.

2

Compensation Philosophy: A Reason for the Rhyme

All companies have a compensation philosophy, which encompasses the principles that guide the design, implementation and administration of the organization's compensation program. Most organizations have created a written policy to help guide their programs and educate their employees.

This philosophy ensures that the compensation program supports the organization's mission, goals and business objectives. It provides direction for tactical compensation decisions by defining a link between day-to-day compensation decisions and the business. Consequently, the compensation philosophy must be evaluated continually in light of changes in a company's mission, environment, culture and strategy.

Getting back to basics will help practitioners understand the market pricing process and provide a springboard for the formulas and examples provided in later chapters of this book. In simplest terms, compensation can be defined as cash or cash equivalents provided by an employer to an employee for services rendered. It can be composed of the different elements of pay (e.g., base pay, variable pay, incentives, equity, etc.) that an employer offers an employee in return for his or her services.

Whether they are profit-generating businesses, not-for-profit associations or governmental bodies, employers use their compensation programs as a tool to attract, retain and motivate employees to help the organization achieve its objectives. A written compensation philosophy should specify whom the organization defines as competition for people, skills, products and services, and how the organization positions itself relative to an appropriate labor market. Compensation can be affected by availability of needed talent; location and demographics; competitive wages and rewards; industry competitors (labor, products and services); collective bargaining agreements; and legal and regulatory requirements (wage and hour laws, government mandates, governing bodies, etc.).

Effective compensation design begins with a carefully deliberated compensation policy that takes into consideration a company's mission, environment, culture and strategy. The answers to the following questions will determine your organization's compensation philosophy:

- How is the organization going to pay its employees?
- How do you set the base pay for employees — by internal value? By the job?
- Will rewards be based on individual or group performance?
- Will targeted total cash be based primarily on the labor market?
- Should any element be based on loyalty or longevity?
- Will pay be based on a combination of these considerations?

Organizations must be both willing and able to pay wages at particular levels. The labor market tells the organization what others are doing, but the ultimate determinants of what the organization will do are based on its ability and willingness to pay. The willingness to pay competitive market rates usually is based on the organization's acceptance of the fact that cash compensation is critical to attract and retain the desired quality of employees requisite to support the company's business strategy. Ability to pay (affordability) may be based on the organization's growth strategy, revenue and other expenses, as well as the desire to stay competitive in its marketplace.

Hot Skills and Critical Talent

Amid rapid changes in the labor market, companies must keep close watch on how competitors are paying their employees and, in particular, hot skills and critical talent. Hot skills employees, such as knowledge workers and those with certain IT skills, are in high demand. Pay continues to escalate, while organizations continue to struggle in attracting and retaining these employees.

As demand for specialized workers increases, some organizations are redesigning their pay and total rewards programs to attract and retain these valuable employees. Hot skills are critical to organizations and, as long as they are in short supply and high demand, they will continue to drive up pay for those in-demand workers who possess those special skills.

Periodically, a shortage of "critical talent" also rises and falls in other industries, such as nursing, engineering and skilled trades. For example, exploration geologists and geophysicists were treated like royalty during the first energy crisis. And pay rates for nurses increased dramatically during a "critical shortage" in the mid-1990s and are projected to do so again. The auto industry also faced a potentially devastating shortage of talent worldwide in the late 1990s.

To attract the critical talent and hot skills, companies must make key pay decisions. As employers succumb to the demands of hot skill employees, internal pay equity is falling by the wayside. Recent surveys indicate that some skills command a premium of more than 20 percent relative to other skills that would otherwise be judged as comparable.

Will employers pay these special employees comparatively higher than other jobs within the organization? What is the organization willing to do for them? What are the possible ramifications for others? As a result of high turnover of valuable workers, organizations are examining their pay and rewards strategies and making decisions about which employees should receive special treatment to encourage them to stay. These decisions, in part, will be based on the organization's overall compensation philosophy. However, significant changes in the market may necessitate a review of current philosophy.

Market Position

Compensation philosophies vary widely among organizations. One company may choose to be a pay leader and hire the most qualified talent and pay those employees higher than the market average. Another organization may choose to hire less experienced applicants and pay less than market pay levels because the organization will provide training. Some companies may emphasize base pay, while others focus on incentives and variable pay. These pay decisions are intended to support the organization's overall strategy.

What is your organization's desired market position? Does it intend to be a high, low or average payer? In some cases, it makes sense for an organization to be a high payer; in others, it does not. One company may intend to attract and retain the best employees by being the highest paying firm in its industry or geographic location. Another company may intend to attract and retain qualified people by paying wages that are competitive with those paid by all other firms in the industry.

Relative to the market, there are three basic strategies as illustrated in the following examples: lag the market, lead the market and lead-lag the market. *Each example assumes a competitive market increase of 4 percent for the year, and all examples are based on a calendar year.*

Lag the market. This strategy dictates that the company will consciously set its pay equal to current market levels at the beginning of the year. The organization understands it will be behind or "lagging" the market as the year goes by since the 4 percent increase will not be implemented until the end of the plan year. In this example, the company would adjust its salary structure to a competitive level as of January 1, disregarding the anticipated 4 percent market adjustments during the 12 months the salary structure is in place.

Lead the market. Using this strategy, the company has decided to outpace the marketplace. Pay is set not at current market levels (aged to the implementation date of the structure), but at anticipated market levels (aged to the end of the structure at 12 months). The company starts the year ahead of the competition and remains there until the end of the year. In this example, the company would adjust its salary structure on January 1, including the anticipated 4 percent market rate increase.

Lead-lag. As the name suggests, this strategy is a combination of the lead and lag market strategies. In this case, an organization leads the market in the first part of the year, is even in the middle of the year, and then lags the market the latter part of the year. To accomplish this, the company would adjust its pay structure by one-half (2 percent) of the anticipated market rate increase. The result is that the company's salary structure is above market at the beginning of the year, at market mid-year, and lagging the market (by 2 percent) by the end of the year.

Many companies emphasize total rewards, stating that the total value they provide is equal to or better than other companies in the market, even though their salaries alone may not be. For example, new companies may offer generous stock options and relatively low salaries, since they have a lot of stock and not much money. Another company may not be able to pay premium wages but provides other work/life benefits or a generous pension plan. It should be stressed, however, that base pay usually is an employee's primary concern. Good base pay decisions also help organizations achieve many goals, including internal and external equity, external competitiveness, increased productivity, compliance with laws and regulations, and administrative efficiency.

Before You Begin …

Before determining its compensation program, the organization needs to make decisions regarding a variety of policy issues. The following checklist will assist the compensation professional in leaving no stone unturned.

How should the organization's pay levels relate to the market? Should they:

- Lead the market?
- Follow the market?
- Lag behind the market?

Is the organization willing to pay for:

- Job content?
- Seniority?
- Performance?
- Skills?
- Education?
- Cost of living?
- A combination of the above?

Internal and External Equity

Equity refers to employees' perceptions of fairness and consistency. Each day, employees make decisions to increase or decrease their contributions to the organization and whether to stay or leave, based on their views relating to the fairness of the total work situation (compensation, benefits and the work experience).

Internal equity is what drives an employer to establish pay rates that correspond to each job's relative value in the organization. In this book, it refers to the pay relationships among jobs or skill levels. Because employees often compare their pay to the pay received by other employees in the organization, it involves establishing equal rates of pay for jobs of equal worth and acceptable pay differentials for jobs of unequal worth.

To establish relative internal job worth, it is necessary to identify, collect and analyze critical data about the job. Critical data fall into two categories: nature of work and level of work. Nature of work encompasses duties and responsibilities. Level of work encompasses skill, effort, responsibility and working conditions.

Jobs requiring higher skill levels or having more responsibility are perceived as more valuable than jobs requiring lower skills or less responsibility. For example, it would be perceived as inequitable to pay a computer programmer less than a data entry clerk.

External equity is the measure of the organization's pay levels compared to that of its labor competitors. It implies that the employer pays wages that correspond to prevailing, external market rates as determined by market pricing. External equity is achieved when employees believe their compensation is equal to what they would receive if they worked in a similar job at another company in the same or similar industry. Employees tend to make external equity comparisons within their own geographic area. For example, an accounting clerk in a large metropolitan area likely would not be paid the same as an accounting clerk in a rural community.

Organizations may emphasize either internal equity or external competitiveness, but they should blend and balance the two to meet their overall pay objectives. To achieve these objectives, organizations need to consider the market pay rate for benchmark jobs. Paying below the market may put the company at risk of losing valuable employees and having to spend even more to find and retain their replacements. If the company pays above market, there should be a corresponding gain in productivity and revenue to offset higher pay levels.

Equal Pay Act

The Equal Pay Act is an amendment to the Fair Standards Labor Act of 1938 (FLSA) that prohibits gender-related pay differentials on jobs that are substantially equal in terms of skill, effort, responsibility and working conditions, and that are performed in the same location. Exceptions occur when such differentials are the result of bona fide seniority, merit- or production-based systems, or any other pay-related factor other than gender.

3

Where Do You Begin?

To maintain a competitive edge, organizations should make pay adjustments according to job market fluctuations. So, where should the compensation professional begin? First, the organization's pay structure should be examined. Salary structures are the foundation of most employee compensation programs. They represent job hierarchies and pay ranges within an organization. The salary structure may be expressed in terms of job grades, job points, pay lines or any combination of these. These structures reflect the internal job value hierarchies and external job value relativity.

It is understood that the greater the relative worth of the job — as determined by job content and labor market analysis — the higher its pay grade and range. Pay grades and ranges are determined by market rates for comparable jobs (external competitiveness), in conjunction with management's judgment about the relative worth of the job's content (internal equity).

The process of developing a pay structure involves the following steps:

- Job analysis
- Job documentation
- Job evaluation
- Collecting and analyzing labor market data
- Establishing pay rates or ranges.

Job Analysis

Job analysis is a systematic process for obtaining important and relevant information about the duties and responsibilities that make up the job content. For compensation purposes, this includes clarifying the nature of the job, including tasks and responsibilities, as well as the level of work being performed. This also may include specific skill or knowledge levels required to perform all aspects of the job at a competent level. The first step is to determine what information needs to be collected. Data should include the extent and types of knowledge, skill, mental and physical effort, and responsibility required for the work to be performed.

The Many Uses of Job Analysis

- Document work methods and process for training purposes.
- Provide a basis for performance appraisal based on job-related standards.
- Identify job families, career paths and succession planning.
- Identify qualifications required to perform work for purposes of job posting, recruiting and candidate selection.
- Provide a basis for legal and regulatory compliance.
- Determine if a job should continue to exist in its present form.
- Develop a job worth hierarchy.
- Identify organization design elements and success in planning processes.
- Reveal why one job may be more valuable than another in the market.

Job Documentation and Job Descriptions

Job descriptions are narrative statements of the nature and level of work being performed by persons occupying a job, along with specific duties, responsibilities and specifications necessary to perform the job. Increasing legislation and employee litigation have made job documentation a must. Most formalized pay programs use written descriptions to document job content. A description should describe and focus on the job itself and not on any specific individual who might fill the position.

From a market-pricing standpoint, job documentation is needed to evaluate the content of a job in relation to other jobs in the marketplace. Documentation also is needed for the following HR administration purposes:

- Ensure that employees are assigned to appropriate jobs.
- Facilitate job-content evaluation.
- Facilitate salary-survey exchanges (if job matching).
- Explain and, when necessary, defend certain pay-program decisions to employees and others.
- Assist in attraction and selection efforts.

- Establish performance standards.
- Facilitate organizational design.
- Assist in establishing career paths.

Job Evaluation

Job evaluation is a formal, systematic process for determining the relative worth of a company's jobs. It is used to ensure that a company's compensation system is equitable. The job, not the employee, is evaluated and rated.

Two basic methodologies have been used in developing a job-worth hierarchy: one starting with and emphasizing market data; the other starting with and emphasizing job content. In both cases, job content is important — the difference is in the starting point. Each employer must determine which approach suits the organization's needs. To a great extent, this will be determined by the number of distinct jobs in the organization, and the necessary resources for the pay program's design, installation and maintenance. The nature of the labor market also is critical.

Benchmark Jobs

Market pricing begins with the selection of benchmark jobs, which serve as market anchor points. Although most pay programs recognize the market's role in ranking jobs, some existing formal systems use market rates as the primary basis for establishing job worth. Benchmark jobs are chosen, priced from survey data and assigned relative values based on market levels. All other jobs then are positioned in relation to these benchmarks. At least 50 percent of jobs should be benchmarked.

Benchmark jobs closely resemble other jobs performed in other organizations and/or across industries. Benchmark jobs should:

- Be well-represented positions in the marketplace
- Be important in the organization's internal hierarchy
- Represent many organizational levels or grades in the salary structure(s) utilized by the company

- Be matched to 70 percent or more of the duties found in the survey jobs
- Generally have multiple incumbents with the exception of managerial and executive-level positions within an organization.

Benchmark jobs also serve as internal anchor points for nonbenchmark jobs. For example, a bookkeeper and an administrative assistant assigned the same pay grade and salary range now become the anchor points for assigning other positions without market data matches. Assignments of nonbenchmarked jobs is called slotting because it involves comparing or evaluating the value of the job, not based on market factors or points, but on its relative worth compared to other jobs that were evaluated.

4

Survey Insanity: Collecting the Right Data without Going Crazy

Now that you've identified, analyzed, documented and evaluated the jobs that need to be market priced in your organization, it's time to collect market data for your selected benchmark jobs. The process of collecting this data is part of market pricing.

Many employers establish their job worth hierarchy primarily on the basis of external market data, such as salary levels paid by other employers for jobs similar to their own. To use market data properly to establish the job worth hierarchy, employers must identify the relevant markets and be able to collect external pay data on at least 50 percent of their organization's positions. All remaining jobs will then be slotted into the pay structure as appropriate.

The overall purpose for collecting market data is to make informed decisions about the organization's compensation program. These decisions involve pricing jobs, analyzing pay trends, identifying pay practices and establishing a job worth hierarchy. A variety of data collection methods and factors are available to help determine the method that should be used.

Caution: In gathering and analyzing salary survey data, a determination should be made as to whether jobs described in the survey are comparable to jobs in the organization. If so, it is valid to use the survey data. If job documentation is inaccurate, incomplete or outdated, invalid comparisons and decisions may result.

Decision Factors in Collecting Market Data

Organizations should take the following factors into consideration when deciding which data collection source to use:

- **Cost**. Is the survey cost reasonable for the number of positions for which you will be able to market price and the number of employees represented in the data? Do you have the budget for the survey?

- **Time**. If you are considering conducting your own survey or having a customized survey completed for you, how much lead-time do you need? How old are the data reported in the survey?
- **Reliability/accuracy**. Is the source of the data credible? Have the data been verified for accuracy? Is the sample size significant enough to accurately represent the marketplace?
- **Availability**. How easy are the data to access? How open was the survey for participation? Can you purchase the survey even if you didn't participate?
- **Confidentiality**. Is the information collected in the survey kept confidential?

Know the Market: Half the Battle

Knowing the organization's relevant labor market is key in selecting and participating in the right surveys. The relevant labor market can be defined in terms of "employee sources and destinations," which could be described as the markets from which the organization draws employees and the markets to which it loses employees. These markets can be defined in terms of industry, organization size and/or geographic location. The following figure lists types of labor markets that might be identified for three job groups in a pharmaceutical firm with annual sales of $2 billion.

FIGURE: SAMPLE LABOR MARKET — LARGE PHARMACEUTICAL FIRM

	Top Management	Administrative/ Professional	Clerical
Industry	■ General ■ Pharmaceutical	■ General ■ Pharmaceutical	■ General
Organization Size	■ $1-4 Billion	■ All Sizes	■ All Sizes
Geography	■ National	■ Regional ■ Local	■ Local

There are numerous valid and reliable methods of market pay data collection and analysis. Before collecting pay data, an organization should define its relevant labor market, which may consist of:

- Similar organizations in the local labor market (i.e., similar size or comparable industry)
- All employers in the local market
- Similar organizations in the regional or national market (i.e., similar size or comparable industry)
- All employers in the regional or national market.

Employers will want to use surveys that include data from competing organizations in the labor market. Therefore, this survey sample may vary widely between different groups of jobs. Typically, considerations include the geographic area, size of the organization (number of employees), revenue, industry and other factors deemed pertinent to the group being surveyed.

Gathering Valid Data

There is no exact market rate for any job. Compensation professionals must rely on market data to determine going market rates for jobs, but a plethora of available surveys can be mind-boggling. It's also a double-edged sword. On a positive note, there is an abundance of information from which to choose. Still, wide-scale availability can lead to careless survey selection and inappropriate data.

Factors, such as sample size, participant base, statistical analyses, survey methodology and job-matching procedures, impact the accuracy of the final market rate composite for a benchmark job. As a rule of thumb, salary information is expected to reflect the marketplace within plus or minus 10 percent. Consequently, a market index of 90 percent to 110 percent can be viewed as fully meeting competitive market pay levels.

In addition, availability of pay data on the Internet is growing. Employees with a roving eye are swayed easily by the extensive salary information that's available on Web sites devoted to listing salaries by job title and location. However, not all posted data are reliable or validated.

Before using this data, organizations need to ask:

- What is the targeted audience for the Web site?
- What is the data source?
- Are the data from employer-based surveys or from individuals who enter the site?
- How is the Web site maintained?

To ensure collection of the relevant data, organizations first should determine:

- What compensation data need to be collected?
- For what jobs are salary data needed?
- From which labor markets are survey data needed?
- Does the data focus exclusively on base pay or does it include target incentive pay?

An organization should conduct a needs assessment to reveal the type of surveys required for its job market pricing effort. This appraisal shows what data need to be in the surveys, which jobs need to be reported, and what industry and regional breakdowns are needed. Multiple surveys, when available, help cull all of the pertinent data and ensure a more accurate picture of the relevant labor market.

Data Sources

Purchase Published Surveys

There are thousands of published surveys available for purchase. The purchase price varies by survey source, survey scope, type of analysis and overall sophistication of the final product. Also, most survey providers give a substantial discount to survey participants. Employers will want to use surveys that include data from competing organizations in the labor market. Therefore, this survey sample may vary widely between different groups of jobs. Typically, considerations include the geographic area, size of organization, revenue, industry type and other factors deemed pertinent to the job group being surveyed.

Caution: *When using the same survey source from year to year, ensure that changes in the survey participant group do not unduly influence changes in market rates.*

Be aware that incumbent numbers may have a dramatic impact on the survey averages. A large employer who is hiring many people may report a lower average per job compared to last year because of new hires who are brought in at a lower rate than more senior incumbents. Conversely, a company downsizing may show higher pay rates year-over-year if layoffs tend to cull the less senior and lower-paid workers.

By carefully identifying the organization's needs and researching a wide variety of available surveys, you can accurately select the ones that will deliver the most relevant data to your company. The following information will be useful in your survey search.

Survey Content Checklist

Before purchasing a survey, ask the following questions:

- What information was collected? Is it consistent with your needs?
- What companies were surveyed? Do they match your needs?
- How much data are available for each job or role?
- Are the appropriate statistics reported? (For example: average, weighted average, median, percentiles, bonus/incentive, total compensation/ total cash.)
- What is the effective date of the data in the survey? Is it current enough for your needs? Can the data be aged easily?
- How expensive is the survey? Is there a price advantage for survey participants? Can nonparticipants purchase the survey?
- Has the survey been conducted by a reputable third-party survey provider? Does the survey have a history of providing credible information?
- Can the survey organization provide additional data analyses? Can you do additional analyses?
- In what form is information available (books, CD-ROM, Web site, etc.)?

Conduct Your Own Survey

After thorough investigation of the data collection alternatives, an organization may decide to conduct its own survey, ranging from formal and comprehensive to a quick, informal phone or fax survey for limited data. Conducting your own survey allows you to gather data that meet your specific needs. The company will have more control over the data collection and analysis if it conducts the survey itself, although it may be a time-consuming choice.

Compensation surveys can range from quick phone surveys covering readily available information to highly complex studies involving sensitive information and requiring sophisticated mathematical analysis. A survey can be conducted by the following methods:

- Telephone interviews
- A mailed questionnaire
- A personal visit to the company to be surveyed
- Any combination of the above.

Regardless of the method used to collect data, be specific and consistent about the information you are gathering. Make sure you're getting the same type of information from all participants: range, starting rate, number of incumbents in the job, etc.

The cost of gathering data is important and must be taken into consideration. Parameters should outline time constraints, reliability of the data, the need to control the quality of the data collected and the necessity to keep the data confidential. Data access is another consideration. Many companies choose to only provide survey data through a third party (versus another employer) for a number of valid business reasons.

The third party can be a professional association, graduate students from a local university or a consultant — anyone who is knowledgeable about survey methodology and research. In many cases, participants in a survey sponsored by an individual company pay nothing to receive a copy of the survey results. The advantage of using a third party is the company can target its competitors and may receive a higher participation rate due to third-party confidentiality. A third party also is an integral part of the "antitrust safety zone."

Antitrust Safety Zone

Exxon, nursing groups in Utah and Connecticut and the Federal Reserve Bank of Boston have been accused of price fixing salaries based upon surveys they have devised. Both the Department of Justice (DOJ) and the Federal Trade Commission (FTC) have established some basic steps to follow to ensure you are not impeding the free market for labor through survey design. These steps are called the antitrust safety zone:

- An independent third party (consultant, academic institution, government agency or trade association) should manage the survey. The DOJ and the FTC allow some exchange of information without a third party, depending upon the use and the anti-competitive effect. *When conducting your own survey, it is always recommended to seek legal counsel.*

Tread with Caution — Beware of Antitrust Implications

The Sherman Antitrust Act of 1890 originally was established to ensure competition and eliminate monopolies. So, what does this have to do with compensation surveys?

It has been determined through the courts, the Department of Justice (DOJ) and the Federal Trade Commission (FTC) that conducting your own surveys could be deemed anti-competitive price fixing when the element of collusion to "fix the cost of labor" is present. Included in the elements of collusion are the current average pay rates deemed to be historical data combined with merit budget estimates (deemed to be projective of the future).

- Data provided by survey participants must be more than three months old.
- Use at least five survey participants, with no individual participant's data representing more than 25 percent weighted basis of a given statistic.
- The results must be reported so recipients cannot determine specific participant data.

Free Sources

Many consulting organizations have Web sites containing sample survey data. Before using such data, you should be sure the information is current and includes adequate descriptions on the benchmark jobs. The Bureau of Labor Statistics (BLS) offers free downloadable information on salaries and wages. The home page address is www.bls.gov.

Collecting public information (e.g., proxy statements) is another reliable source of free information.

Capturing Competitive Market Data for High-Demand Jobs

In light of the shortcomings of traditional surveys, how do you measure the market for high-demand, hot skills jobs? Remember, hot skills are needed in the market, but are in short supply and in high demand; for example: nurses, engineers, IT, etc. Some techniques include:

- Shift the focus from the more broadly defined job role to individual employees with specific skills (e.g., SAP application developer) needed to do the work.
- Create high-technology skill and skill-level definitions.
- Define base skills and capture compensation data on them to serve as a reference point for determining the premium for high-technology skills.

- Capture a richer array of survey data by blending data to get a "feel" for the job.
- Conduct the survey more frequently than once a year. Some skills are in high demand and the market will adjust rapidly.

Companies are finding market data useful in determining appropriate pay ranges for their employees, and also for valuing worker's knowledge and skills acquisition. Like base pay, the market value for skill-based pay is driven by supply-and-demand economics. However, unlike salaries, skill-based pay tends to fluctuate more dramatically from quarter to quarter in reaction to the market.

5

Crunching Numbers

Now that the survey data have been selected, it is time for data analysis. Interpreting published survey data is complicated by the fact that survey administrators can choose different approaches to collecting and displaying survey results. The challenges are in making sound decisions about the data that need to be extracted from a particular source and interpreting these data appropriately when they are analyzed across several sources. Although numbers and formulas can seem intimidating, "easy does it" is the rule of thumb with this simplified process.

Survey data analysis is not a science. It's more of an art. The key to successfully interpreting data is to understand how statistics are computed in any given survey and blend that information into your own organization's compensation philosophy. If this information is not documented in the survey report, contact the survey publisher to verify computations.

Several issues should be considered when analyzing survey data:

- Options for measuring central tendency
- Percentiles
- Aging data
- Weighting market data across survey sources.

Options for Measuring Central Tendency

What's the best measure of a job's going market rate? Most surveys provide multiple measures of central tendency, or the measure of the "center" of all data collected for the data set. The common measures of central tendency are *median* (exact middle point in the data), *mean* (average) and *mode* (the most frequently occurring single data point in the data set). In most surveys, the common measures of central tendency are reported as the *unweighted average*, the *weighted average* and the *median*. The best one to use depends on the information being sought.

- *Unweighted average* gives equal weight to every organization represented in the data. It answers the question: "On average, what are companies paying for this job?"

FIGURE: UNWEIGHTED AVERAGE BY NUMBER OF SURVEYS			
Survey	No. of Companies Represented	No. of Employees Represented	Base Salaries Reported
1	56	60	$47,500
2	47	55	$53,100
3	33	35	$55,400
			Total: $156,000
			Average: $52,000 ($156,000/3)

- *Weighted average* gives equal weight to every salary represented in the data. It answers the question: "On average, what are incumbents in this job paid?" You can weight by number of companies (n = 136), or number of employees (n = 150).

FIGURE: WEIGHTING BY NUMBER OF EMPLOYEES				
Survey	No. of Companies Represented	No. of Employees Represented	Base Salaries Reported	Weighted Average of Base Salaries Reported
1	56	60	$47,500	$2,850,000
2	47	55	$53,100	$2,920,500
3	33	35	$55,400	$1,939,000
Totals:		150		$7,709,500
			Weighted Average:	$51,397 ($7,709,500/150)

- *Median* identifies the middle rate in the data set. It answers the question: "What is the exact middle salary in a set of ranked salaries?" For example, if the data set contains the ranked salaries of 51 accountants, the middle salary would be the 26th ranked salary since there are exactly 25 salaries ranked below it and 25 salaries ranked above it. In the example above, the median salary is $53,100.

A large difference between mean and median statistics can be the result of a sample that is skewed high or low by a few unusual cases. Means, or averages, can be affected dramatically by such skewing; medians are less susceptible to data extremes. Which statistics to use is still a matter of choice. However, unless you have a high degree of confidence in the sampling representation and the data analyses, the median is likely the best estimate of the "typical" pay for the job.

Percentiles

Surveys also may provide information in the form of a percentile, which defines the value below which a given percentage of data fall. For example, if a salary survey shows $60,000 as the value at the 90th percentile, then 90 percent of survey respondents pay below $60,000 and 10 percent of survey respondents pay above $60,000. The 10th, 25th, 75th and 90th percentiles are the most often reported. The data point at the 50th percentile also is the median of the data set. Percentiles may be important to an organization whose philosophy is to pay above market or track market leaders.

Aging Data to a Common Point in Time

It is important to age published survey data to one common point in time so that accurate and consistent market comparisons can be made between surveys. You can combine data from multiple surveys to reflect a common point in time by determining the annual aging factor.

Important considerations in selecting an annual aging factor and the date to which you want to age the data include:

- Compensation levels increase at different rates in the marketplace. For example, the rate of increase in executive pay generally exceeds the rate of increase in nonexempt pay on an average annual basis. Consequently, you should research market movement based on considerations such as:
  - Job level: nonexempt, exempt or executive
  - Industry type: health care, finance, manufacturing, service, etc.
  - Geographic location: Southern, Eastern, Western, Central
  - Type of compensation: base salary or total compensation.
- To select an appropriate annual aging factor, you can review surveys that present data on projected annual-increase budgets, such as the *WorldatWork Total Salary Increase Budget Survey*. This approach assumes that actual pay in the labor market increases by the budgeted increase amount.
- The year-over-year increase in mean/median market rates within a single survey source often is reported in the survey's introduction or executive summary. This change in mean/median market rates is potentially one of the more accurate measures of market movements. However, the increases are historical rather than projected.
- To age data across two calendar years, you should develop a separate aging figure for each year, and then combine the two percentages.
- The lead, lag or lead-lag structure policy will determine to what point in time you should trend your survey data for purposes of establishing competitive pay structure midpoints. For example, if your fiscal year is January through December and your policy is lead-lag, you will trend all data to July 1.

The following example applies the annual aging factor to estimate current compensation levels. The survey data is as of January 1 and will be brought to current compensation level as of September 1. The annual aging factor is 4 percent based on salary increase trends.

Number of Months to Age/12 months $\times$ Annual Aging Factor = Survey Aging Factor 8/12 $\times$ 4% = 2.7% Survey Aging Factor
For each salary or pay rate, multiply survey data by 1+ the Survey Aging Factor to bring data to September 1. Survey data $\times$ (1 + .027) = Survey Data aged to September 1

(**Note**: Adding "1" to the aging factor allows you to incorporate wages into the equation.)

Weighting Market Data Across Survey Sources

A decision regarding weighting survey data across survey sources will be a function of a number of criteria, including:

- **Compensation strategy**. You will more heavily weight surveys in your industry if you have established a strategy that defines your competitive labor market as industry-specific.
- **Quality of surveys**. The statistical analyses provided — participant base and number of cases (employees or companies) per job, among other factors — contribute to the perceived quality of a survey. Based on judgments about this quality, some surveys will receive more weight than others. For example, if one of your sources is an in-house survey, you may choose to weight this source more heavily than sources obtained externally.
- **Quality of job match**. Certain job matches are more appropriate than others based on job content, and market data can be weighted accordingly. This job-specific weighting factor can supplement or override previously established survey source weights. To generate an objective weighting factor at the job level, the number of cases can be used to weight the raw data. Surveys that most accurately capture your labor market and best reflect your jobs' contents — and provide accurate and appropriate statistical analysis — are those to which you will give the most weight.

Each survey is assigned a weighting factor (in this case, a proportion of 100 percent). The survey market rates then are multiplied by this weight, and the sum of the products yields the market rate composite.

Developing a Market Rate Composite

Combining the two concepts of aging and weighting survey data, one can develop common-date market rate composites per job as shown in the following figure. The market rate composite, or market average salary, represents the average salary paid in the labor market.

The assumptions for the calculations are:

- The company's salary-structure policy is lead-lag, and the fiscal year is January to December.
- The anticipated market movement for exempt jobs is 4.6 percent for 2001 and 3.9 percent for 2002; for executive jobs (including controller), the percentage is 4.7 percent for 2001 and 4.0 percent for 2002. Keep in mind some general observations regarding the types of computations shown here:
  - In developing market rate composites, it is preferable to have three or four survey sources.
  - The use of aging factors for different years becomes more important as the estimated market movement becomes more dramatic — for instance, a shift from 4 percent to 7 percent.

In this example, Survey No. 2 is weighted at 40 percent in all composites, indicating that it is judged to be of high quality and relevance for all matches. Typically, there is a fair amount of similarity in the weighting of one survey compared to others — the quality of the statistical analyses and the participant base, for instance, are constant for the survey regardless of the job matched. The survey, therefore, would carry the same general weight for most matched jobs.

The example is restricted to developing one market rate composite (average base pay) for each job. However, based on your organization's compensation philosophy and market pricing strategy, you may compute

FIGURE: SAMPLE OF DEVELOPING MARKET RATE COMPOSITES

Job Title: Human Resources Representative

Survey	Effective Date of Survey Data	Survey & Match Quality	Original Market Rate	Total Aging Percent	Aged Market Rate	Weighting	Weighted Market Rate Composite
1	Sept. 2001	Medium	$39,393	3.51%	$40,776	20%	$8,155
2	Jan. 2002	High	$38,461	1.95%	$39,211	40%	$15,684
3	Aug. 2001	High	$35,947	3.91%	$37,353	40%	$14,941

Total Market Composite Rate (as of July 2002) = $38,780

Job Title: Controller

Survey	Effective Date of Survey Data	Survey & Match Quality	Original Market Rate	Total Aging Percent	Aged Market Rate	Weighting	Weighted Market Rate Composite
2	Jan. 2002	High	$74,997	2.00%	$76,497	40%	$30,599
4	Feb. 2002	Medium	$72,453	1.67%	$73,663	30%	$22,099
5	Oct. 2001	Medium	$70,197	3.20%	$72,443	30%	$21,733

Total Market Composite Rate (as of July 2002) = $74,431

Job Title: Registered Nurse

Survey	Effective Date of Survey Data	Survey & Match Quality	Original Market Rate	Total Aging Percent	Aged Market Rate	Weighting	Weighted Market Rate Composite
2	Jan. 2002	High	$45,630	1.95%	$46,520	40%	$18,608
6	Dec. 2001	Low	$45,443	2.34%	$46,506	10%	$4,651
7	July 2001	Medium	$45,018	4.29%	$46,949	25%	$11,737
8	Aug. 2001	Medium	$44,809	3.91%	$46,561	25%	$11,640

Total Market Composite Rate (as of July 2002) = $46,636 more than one such composite. For example, if your strategy is to track the market at total cash compensation as well as base salary, or at 75th percentile as well as mean/median, you would collect survey data and calculate market rate composites for each independently.

Gathering and Blending Data

Grab your calculator and follow this step-by-step process in the following two examples for market pricing a receptionist and a payroll manager. Even if you weren't a math whiz in school, you'll find it easy to crunch these numbers!

***Caution**: If a position is eligible for both base and incentive/variable pay, the data will be reported separately and combined as a total cash compensation amount. When you are surveying the market for a job that pays base salary and variable pay, aging is applied to base pay, not variable pay.*

Job Pricing Examples

Example 1: Receptionist

Job description: Answers inquiries and obtains information for general public, customers, visitors and other interested parties. Provides information regarding activities conducted at establishment, location of departments, offices and employees within organization. Includes switchboard operators and answering service.

Organization size: More than 1,000 employees
Location: Phoenix
Revenue: $50 million
Compensation strategy: Lag the market

Step-by-Step Process

1. Review the job description.
2. Select at least three surveys that contain the appropriate job description that matches the position to be priced. It is recommended to obtain the most current surveys possible. Use local survey information for the receptionist position, because the organization will not

transfer or look for candidates outside a small geographic radius or metropolitan area. Receptionist is not a hot skills job and, historically, there is no difficulty in filling the position.

3. Identify which measure of central tendency will be used: mean, median or weighted average.
4. Age market data to Jan. 1, 2002. Where do you find this information? How is data aged? According to the *WorldatWork Total Salary Increase Budget Survey*, the 2001 merit increase was 4.3 percent and the projected increase for 2002 is 3.7 percent. The cost-of-living adjustment for 2001 was 4.6 percent.
5. To age the data, use the following formula:

   (Number of months from survey effective date to aging point/12) × .043 =

   Refer to the figure on page 43. In this example, the aging point to lag the market is Jan. 1, 2002.

   Survey #1, effective date 11/1/01:
   (1/12) × .043 = .004% survey aging factor
   Survey #2, effective date 3/1/01:
   (9/12) × .043 = 3.2% survey aging factor
   Survey #3, effective date 1/1/01:
   (12/12) × .043 = 4.3% survey aging factor

6. Here are three options for determining the market composite rate for a receptionist job.

- Do a simple average of all salaries = $10.28

  ($10.03 + $10.34 + $10.26 + $9.78 + $10.18 + $10.09 + $11.29 = $71.97/7) = $10.28

- Omit the high ($11.29) and low ($9.78) amounts and average the remaining salaries = $10.18

  ($10.03 + $10.34 + $10.26 + $9.78 + $10.18 + $10.09 + $11.29 = $50.90/5) = $10.18

- Do a weighted average of all salaries = $10.20
  ** To calculate the weighted average for all salaries, multiply the aged survey data by the number of employees reported — add all those amounts together — divide by the total number of employees reported.*

  ($10.03 × 85) + ($10.34 × 215) + ($10.26 × 243) + ($ 9.78 × 79) + ($10.18 × 103) +
  ($10.09 × 196) + ($11.29 × 21) = $9,604.72/942 = $10.20

Title	#ees	# Cos.	Salary	Eff. Date	Aging Factor	Aged to 1/1/02	Scope
Survey #1							
Receptionist	85	22	$9.99	12/01/01	.004%	$10.03	Over 500
Receptionist	215	80	$10.30	12/01/01	.004%	$10.34	Nonmfg.
Receptionist	243	106	$10.22	12/01/01	.004%	$10.26	All orgs
Survey #2							
Switchboard operator	79	13	$9.48	4/01/01	3.2%	$9.78	Over 1,000
Switchboard operator	103	37	$9.86	4/01/01	3.2%	$10.18	Private in Maricopa County
Switchboard operator	103	37	$9.86	4/01/01	3.2%	$10.18	Private in Maricopa County
Switchboard operator	196	71	$9.78	4/01/01	3.2%	$10.09	All Arizona Employers
Survey #3							
Receptionist/ operator	21	12	$10.82	1/01/01	4.3%	$11.29	Phoenix Metro/ Mesa

Note: There is no definite answer as to which method is the best. It depends on how you choose to treat extremes in data, and whether your focus is on what companies are paying their employees or what the average employee is paid. No matter which method you choose, consistency is the key to figuring out a method to your own madness. It is recommended to use the same method to calculate pay rates for jobs in the same category.

Example 2: Payroll Manager

Job description: Supervises and coordinates the activities of staff engaged in the processing of financial records for payroll distribution. Directs and assists payroll workers in the completion of assignments. Oversees all processing, reconciliation, completion and filing of necessary paperwork related to 941, W-2, W-4, wage garnishments, etc.

Organization size: 18,000 employees
Location: Chicago
Revenue/assets: $35 billion
Compensation strategy: Lead/Lag Market

Step-by-Step Process

1. Review the job description.
2. Select at least three surveys that contain the appropriate job description that matches the position to be priced. It is recommended to obtain the most current surveys possible. For this job, use nationwide survey information because the organization may transfer or look for candidates out of state.
3. Age market data to July 1, 2002. Use the merit increase percentage or consult the *WorldatWork Total Salary Increase Budget Survey*, which is representative of a large group of employees. According to the *WorldatWork Total Salary Increase Budget Survey*, the 2001 merit increase for exempt employees was 4.6 percent and the projected increase for 2002 is 3.9 percent.
4. To age the data, use the following formula:

   [(Number of months from survey effective date to aging point/12) + 1 × .046] +
   [(Number of months from survey effective date to aging point/12) + 1 × .039]

   In this example, the aging point to lead-lag the market is July 1, 2002.

   For Survey #1, effective date 3/1/02:
   (4/12) × .039 = 1.3% survey aging factor
   For Survey #2, effective date 7/1/02:
   (6/12) × .046 + (6/12) × .039 + 2.3 + 1.9 = 4.25% survey aging factor
   For Survey #3, effective date 3/1/02:
   (4/12) × .039 = 1.3% Survey Aging Factor

   Note: When reviewing survey data for positions that typically have single incumbents (e.g., payroll manager), be aware of the discrepancies between the number of employees reported and the number of companies reported. A survey that reports more companies than employees may reflect an open position or the fact that some of the companies may have just added this position to their organization and have not yet filled it. For surveys reporting more employees than companies, this may be a case of a corporate office completing the information for multiple locations or subsidiaries,

Title	#ees	# Cos.	Salary	Eff. Date	Aging Factor	Aged to 7/1/02	Scope
Survey #1							
Payroll Manager	491	450	$64,000	3/1/02	1.3%	$64,832	Finance/Banking
Payroll Manager	31	26	$59,600	3/1/02	1.3%	$60,375	Finance/Banking $25 billion or more
Payroll Manager	36	35	$63,300	3/1/02	1.3%	$64,123	Chicago
Survey #2							
Payroll Manager	417	389	$60,000	7/1/01	4.25%	$62,550	All organizations
Payroll Manager	26	25	$57,000	7/1/01	4.25%	$59,423	Banking and finance - all orgs
Payroll Manager	24	24	$62,900	7/1/01	4.25%	$65,573	Chicago - all orgs
Survey #3							
Payroll Manager	55	55	$58,500	3/1/02	1.3%	$61,873	Banking - all orgs (Chicago)
Payroll Manager	107	107	$64,300	3/1/02	1.3%	$68,029	5,000 + employees - all orgs (Chicago)
Payroll Manager	41	41	$61,900	3/1/02	1.3%	$65,490	$5 billion + all orgs (Chicago)

or turnover, which resulted in multiple incumbents reported. In both instances, be aware that this could signal an issue relating to the way the data were collected, analyzed or reported.

5. Here are three options for determining the market average salary:

- Do a simple average of all salaries = $63,585

  ($64,832 + $60,375 + $64,123 + $62,550 + $59,423 + $65,573 + $61,873 + $68,029 + $65,490 = $572,268/9) = $63,585

- Omit the high ($68,029) and low ($59,428) amounts and average the remaining salaries = $63,545

  ($64,832 + $60,375 + $64,123 + $62,550 + $59,428 + $65,573 + $61,873 + $68,029 + $65,490 = $444,816/7) = $63,545

- Do a weighted average of all salaries = $63,992

** To calculate the weighted average for all salaries, multiply the aged survey data by the number of employees reported — add all those amounts together — divide by the total number of employees reported.*

($64,832 × 491) + (60,375 × 31) + ($64,123 × 36) + ($62,550 × 417) + ($59,423 × 26) + ($65,573 × 24) + ($61,873 × 55) + ($68,029 × 107) + ($65,490 × 41) = $78,581,873/1,228 = $63,991.75 (round up to $63,992)

Note: The method used will be a matter of choice. However, the method selected should be used consistently for all jobs being evaluated.

Developing a Market Index of Competitiveness

The market index will reflect market-pricing decisions already made in selecting appropriate surveys and survey statistics and in matching your jobs to survey jobs. How do you develop an analysis of your organization's overall pay competitiveness?

Use the following formula to calculate the market index of competitiveness:

Market Index = Company Average Salary ÷ Market Average Salary

For example, according to the figure below, Job D is the least competitively paid relative to the market. What else do you notice about company salary versus market salary? What is the overall market index?

Job	Market Average Salary	Company Average Salary	Market Index
A	1,300	1,400	1.08
B	1,430	1,450	1.01
C	1,570	1,500	0.96
D	1,730	1,600	0.93
	6,030	5,950	0.99

How do you know if jobs and incumbents are paid competitively? Answering these questions correctly requires thoughtful review and interpretation of the data in relation to these issues:

- **Nature of the job**. Some jobs serve as entry-level positions through which employees pass quickly. Thus, job tenure is short and turnover is high. If employees typically are hired at grade minimum or low in the range, the job will have a low market index — a situation that is both expected and acceptable, assuming you can attract adequate numbers of qualified candidates.
- **Type of job evaluation plan**. If the company uses a "market pricing and slotting" evaluation plan, a job with a high or low market index can be re-slotted into a different grade based on market pricing results. If, however, the company uses a quantitative evaluation system, such as job content or point factor method, a job with a very low or very high market index may have to be "green circled" or "red circled" to ensure the continued internal equity of all jobs. (See Chapter 6.)
- **Number of incumbents in the job**. It is more typical for a heavily populated job to have a normal distribution of pay and, therefore, to be paid closer to the market rate composite. Consequently, in a bank, a market index of 83 percent for a teller job will be of greater concern than the same index for a single-incumbent accounting manager job.
- **Individual incumbent characteristics**. Employee factors such as education, skill, ability, seniority and individual performance must be considered when interpreting the comparison of market rate composites with internal pay levels. It is acceptable and desirable to pay incumbents above or below market on the basis of individual characteristics.

6

A Smooth Implementation: How to Go with the Market Flow

The market has been your guide up to this point. Now that you understand the market pricing process, how does the external market impact your internal salary structure and actual pay rates for current employees? How do you assign an internal value to a position you have just priced in the market? What should you do if your company is not paying to market? There's no need to stress out— just go with the flow.

Market Adjustments

If you completed a market study for a position that already exists, you may recommend the position to be assigned to a different salary grade and/or recommend pay adjustments for current employees in the job. This action is called a market adjustment.

If a pay grade change is not recommended, you may suggest pay increases to employees who are not being paid close to or over the midpoint, or market rate, for the job. In this instance, the decision to provide pay increases will be based, in large part, on how difficult it is to fill the position, how important the position is to your business and your company's compensation philosophy.

In Chapter 5, you made the following determinations for the receptionist position: Your organization's market pricing procedure uses the weighted average when pricing jobs, so you priced the receptionist position at $10.20. It is an existing position that was re-evaluated due to a change in duties, including the use of a PBX switchboard for answering calls.

You have six employees currently working in the receptionist position. The position was assigned to a grade 5. Looking at your salary structure (see figure on page 51), there is no grade with a midpoint of exactly $10.20 — so, what do you do?

Grade 6, with a market rate of $10.20, is the salary grade with the midpoint closest to market. (Grade 6 is $.30 less than market; grade 7 is $.69

over the market rate.) The position is reassigned to Grade 6. How will it impact the six employees in the position?

	Minimum	Midpoint	Maximum
Grade 4:	$6.81	$8.17	$9.53
Grade 5:	$7.50	$9.00	$10.50
Grade 6:	$8.25	$9.90	$11.55
Grade 7:	$9.07	$10.89	$12.70
Grade 8:	$9.98	$11.98	$13.97

Employee	Rate	Compa-Ratio Old Grade	Compa-Ratio New Grade
A	$8.05	89%	below minimum
B	$8.15	91%	below minimum
C	$9.80	109%	99%
D	$10.05	112%	102%
E	$10.40	116%	105%
F	$10.75	over max	109%

Note: When the position has been market priced and assigned to a salary grade, it is then typical to use the midpoint as the market reference point and not the actual market price determined through your analysis (e.g., $9.90 is the competitive rate of pay versus the market priced rate of $10.20).

The following are some recommendations for this situation:

For Employees A and B who have a salary below the minimum of the new salary range

> **Below New Range**
>
> When an employee's salary is below the new range, the organization may select from a variety of methods to bring the salary within the new range. However, the amount of the increase will be affected by the amount by which the employee is below the minimum and the number and the size of increases it would take to get to the minimum.
>
> For example, if your organization has a policy limiting the amount of any one increase or the total annual increase in pay, it will be necessary to determine if one increase will close a large percent gap, or if two or more increases will be required.
>
> **Caution**: Although there is no federal law pertaining to the payment of employees below salary ranges, one must be cognizant of the employees below the range. Some organizations might have a policy stating that it is acceptable to have employees below the range; however, it is the organization's responsibility to ensure the policy is administered consistently and does not adversely affect any one employee or groups of employees.

Option 1:

Provide a market adjustment bringing their salaries to the minimum of the new range. Manage the adjustments for market competitiveness for these two employees and the other employees through the merit/pay-for-performance system. This approach assumes that the merit program allows for increases large enough to consider market movement and performance.

- The initial 12-month cost to bring Employee A's pay to minimum would be $416 (annualized amount of $.20 × 2,080 hours).
- The initial 12-month cost to bring Employee B's pay to the minimum would be $208 (annualized amount of $.10 × 2,080 hours).

During the normal merit/pay-for-performance cycle, all employees would be eligible for an increase with larger increases going to Employees A and B.

Option 2:

The second option for employees whose pay is below the minimum is to grant the market adjustment incrementally to spread out the cost over the first year. For example, grant 2.5 percent per quarter, or grant 5 percent immediately and 5 percent at the time of the merit increase. Using this method, assume that you want to move the salaries within the competitive range of pay ± 10 percent of midpoint within 12 months. (For sake of the example, increases will occur every four months.)

- Employee A will receive a 10 percent increase spread out over the next 12-month period ($8.05 current salary with 10 percent increase creates a new salary of $8.86 or a compa-ratio of 90 percent, which is in the competitive range of pay ± 10 percent of midpoint).
- Employee B will receive a 9 percent increase spread out over the next 12-month period ($8.15 current salary with 9 percent increase creates a new salary of $8.88 or a compa-ratio of 90 percent, which is in the competitive range of pay ± 10 percent of midpoint).
- This method should be considered for any of the following reasons:
  - The employee's skills or responsibilities have not immediately increased.
  - It spreads out the cost of the market adjustment.
  - It should be used for mediocre or poor performers to motivate performance improvement.

Option 3:

At the next review date, bring the employee's pay to minimum or implement the full planned increase, whichever is greater, in lieu of a merit increase. For this example, we will assume merit increases occur April 1 and the budgeted merit amount is 3.9 percent.

- Employee A would receive the full 3.9 percent increase, since it would only take 2.5 percent to bring the employee's salary to the minimum of the new salary range. The new salary for Employee B would be $8.36 and the first-year cost would be $489.76 [$8.05 × .039 × 2080 × 9/12].
- Employee B also would receive the full 3.9 percent increase since the amount needed to bring to minimum would be 1.25 percent. The new salary for Employee B would be $8.47 and the first-year cost would be $495.85. [$8.15 × .039 × 2080 × 9/12]

For Employees C, D, E and F who have a compa-ratio within ± 10 percent of midpoint:

At the next performance review date, award the market adjustment, bringing each employee's base pay to midpoint, as a percentage of base, and give the remaining amount as a lump-sum merit increase. This could be communicated to the employee as a "combined" increase and reinforces performance. This lump-sum merit increase acts as a cost-containment method for employers who do not want to increase long-term labor costs that compound over time. This concept is not extremely popular with employees who see other employees receiving increases to their base salary each year. Using the receptionist position, the cost would be as follows:

- **Employee C** — Provide a 1 percent merit increase to bring the base salary to $9.90 and pay a lump-sum amount of $591.14 (old rate $9.80 annualized {$20,384} × 2.9 percent {remaining merit 3.9 percent - 1 percent}).
- **Employees D and E** — Provide no merit increase since base salary is over midpoint and pay lump-sum amount of $815.26 to Employee D (pay rate of $10.05 annualized {$20,904} × 3.9 percent) and $843.65 to Employee E (pay rate of $10.40 annualized {$21,632} × 3.9 percent).
- **Employee F** — This employee's salary probably was red-circled since the amount exceeded the maximum of the salary range. For this

employee, you have the opportunity to provide an increase that may not have been available before, depending upon your compensation policies. The lump-sum amount for Employee F would be $872.04 (pay rate of $10.75 annualized {$22,360} × 3.9 percent).

For all employees (A, B, C, D, E, F) when the compensation philosophy is to pay competitively and keep employees "whole" when reassigning salary grades:

Grant the market adjustment immediately. Do this for hot skills and high-performing employees when cost is not an issue.

- **Employee A** — This employee had an 89 percent compa-ratio in the old grade, so to keep the employee "whole," take the new midpoint ($9.90 × 89 percent) to determine the new salary of $8.81.
- **Employee B** — This employee had a 91 percent compa-ratio in the old grade. The new rate of pay would be $9.01 ($9.90 × 91 percent).
- **Employee C** — This employee had a compa-ratio of over the mid-point or market rate. Keeping the employee "whole" would change the salary to $10.79 ($9.90 × 109 percent).
- **Employee D** — This employee had a compa-ratio of 112 percent, which would translate in the new salary grade to a salary of $11.09.
- **Employee E** — In the old salary range, this employee's pay was over the midpoint by 16 percent, creating the need for a salary of $11.48 in the new salary range.
- **Employee F** — This employee had a salary that was over the old range maximum with a compa-ratio of 119 percent. In the new salary range, the employee's salary would be calculated at $11.78. However, this is over the maximum of the new grade, so the employee's salary would be capped at a maximum of $11.55.

Green Means Go; Red Means Stop — Even in Compensation

Green-circle Rate

A green-circle rate is below the minimum of the range rate and usually occurs when the wage structure is changed upward and the employee was at the bottom of the salary range. To rectify this situation, the employer can raise the pay immediately or in a couple of steps. All green-circle rates should be examined for discrimination.

Red-circle Rate

A person paid above the maximum of the range for his or her job receives a red-circle rate. A red-circle rate is above the established range maximum assigned to the job grade. This situation is more difficult to deal with than a green-circle rate. Solutions vary from doing nothing to reducing the pay to the top of the range. Per company policy, an employee may not be eligible for further base pay increases until the range maximum surpasses the individual pay rate.

Market Blips — A Word of Caution

Typically, "blips," or unusual market swings, are associated with a hot skills job or a tight labor market in a specific location. They usually occur when the demand for a specific job increases due to an external event or, on a smaller scale, when an organization is new to the area and it pays above market to initially attract critical talent.

Beginning in the late 1990s, organizations paid computer programmers extra increases and perks to ensure the systems would have a smooth transition from 1999 to 2000. During this time, market wages for this hot skill began to climb. However, market wages are starting to stabilize after the transition. In this scenario, an organization that adjusted all of its salary grades upward to accommodate this blip for some specialized positions now is reassigning some employees into a lower grade. In some instances, the organization is red-circling employees who now are paid over the new range maximum.

Before reacting to a blip in the market for jobs that you have priced:

- Consider delaying a change in salary grade for the position and communicate to the hiring manager the ability to hire-in at midpoint of the range or above.
- Consider removing the range maximum for these hot skills positions that are difficult to recruit but whose wages are temporarily inflated.
- If you are beginning to see a trend in market data over time for a position that is not classified as hot skilled, review data over a three-year period to see if a grade movement is appropriate.

Get creative! If you're keeping a close watch on your compensation budget, you can add to the compensation of hot skills individuals without adding to their base salary with lump-sum merit increases, recruitment bonuses and retention bonuses.

7

The Bottom Line: Taking A Calm Approach to Program Costs

Compensation professionals need to understand how pay program design and administration methods affect program costs or budgets. The design of successful compensation and benefits programs calls for a delicate balance between often-competing objectives: Employers want to attract, retain and motivate the most qualified employees, while facing competitive constraints on labor costs. To accomplish these objectives successfully, employers need to weigh the cost of the compensation program against other factors, such as being less competitive in the labor market to improve operating margins.

Whether market pricing individual jobs based on a job evaluation process or conducting a market analysis of benchmark positions to determine salary structure and pay competitiveness, determining the compensation program's cost is an important part of the planning process.

Costing of compensation programs can be as simple or as sophisticated as you choose to make it. It is important, however, to identify both first-year costs and any ongoing costs associated with the program. In many industries, labor costs account for 50 percent of all operating costs. With typical merit and salary programs, costs are compounded since the base salary of the employee is not fixed but keeps growing over time with each new merit increase awarded. To determine the costs of compensation decisions, you will need specific information regarding three key elements:

- Size of the average increase if looking at structure adjustments and amounts of actual increases if looking at market adjustments
- Number of employees receiving increases (participation), including the length of time between increases (frequency)
- Timing of when the increases become effective (effective period).

There are three primary approaches to costing: all-at-once, phased-in and wait-and-see.

All-at-Once Approach

The simplest option is to increase pay to eligible employees who are paid below market by giving those employees a salary increase in an amount that will move them up to market rate. In doing so, the initial cost of the increase will be higher than other options, but each employee will immediately be paid at market rate. However, it will be important to work with your finance department to ensure that by doing this, you will not impact your company's profit margins significantly. Examples of this approach are shown on pages 65 and 66.

Phase-in Approach

Although giving all employees a salary increase at one time is fairly straightforward and easy to administer, not all organizations have the available funding to support this type of increase in the first year. A way to administer the same increase, but lower the first-year cost, is to phase in the increase throughout the first year. This is accomplished by staggering the increases over a period of several months (or longer) to lower the first-year costs. Examples of this approach are shown on pages 67 and 68.

Wait-and-See Approach

The wait-and-see approach is another way to address a group of employees paid below market rate. Occasionally, the demand for a job or group of jobs may increase. This increase could lead to a temporary higher market wage for this group of employees.

With the wait-and-see approach, the compensation professional will "wait and see" what the market does before any increases are given. By waiting a set period of time, the market wage may either stay at the new higher level or decrease to a previous level. If the market wage decreases to a previous level, then the wage increase witnessed was a temporary increase based on external or unusual market conditions. If the wage increases continue, then the compensation professional will follow one of the two previous methods (all-at-once or phased-in) to implement a salary increase.

If you notice that the market wages for a particular position have remained relatively flat for an extended period of time and then appear to spike, you may want to take a wait-and-see approach. However, be aware that the wait-and-see approach may cost you more than wages if the market is paying a premium for skills and your organization is not. Some of your employees may be lured away to the highest bidder, which could cause higher turnover in those hard-to-fill positions. Examples of this approach are shown on page 70.

The general costing formula enables modeling of various trade-offs among these three approaches. So, how do different types of pay adjustment approaches affect payroll costs in both the current year and future years?

The Costing Process

Before you begin the costing process, it is very important that there is a clear understanding of your organization's approach to implementing the program (i.e., all-at-once, phase-in, wait-and-see). Sometimes the potential cost may drive the approach for implementation. The following steps will walk you through the costing process:

Step One: Identify the portion of total payroll eligible, the number of employees receiving the increase, current pay rates and recommended rates. (For more precise costing, remember to account for differences in employment classification, such as full-time or part-time status, etc.) For purposes of the following examples, assume full-time employment working 2,080 hours per year.

Step Two: Determine the amount of increase to be calculated.

Step Three: Identify the timing of the increase (portion of year the increase is in effect or the effective period).

Step Four: Calculate current and future years' cost.

This costing approach can be used for both individual market adjustments and structure adjustments:

Scenario: In Chapter 6, the last example for implementing market adjustments (page 55) often is the most costly: *For all employees (A, B, C, D, E, F), the compensation philosophy is to pay competitively and keep employees "whole" when re-assigning salary grades.*

Follow these steps to see just how costly that approach would be for an organization:

Step One: Identify the portion of total payroll eligible, the number of employees receiving the increase, current pay rates and recommended rates. In the example given, all employees are eligible for the increase.

Step Two: Determine the amount of increase to be calculated. The amount of increase has been determined for each employee per Chapter 6, which is depicted in the figure at the top of page 64.

Step Three: Identify the timing of the increase (portion of year the increase is in effect or the effective period). In this example, the increase is being made immediately and October 1 is the desired implementation date. Therefore, the increase will be in effect for three months: October, November and December. This is 25 percent of the year, which is determined by taking 3 (three months)/12 (12 months in a year) = 25 percent.

Step Four: Calculate current and future years' cost: To calculate current/first year's cost, complete the following calculation for each employee:

Employee A:
New rate – Old rate = Increase
\$8.81 – \$8.05 = \$0.76

The amount of the increase (\$0.76) will be multiplied by 2,080 for the annual amount of increase and then multiplied by the effective period of 25 percent to obtain a first year's costs of \$395.20.

$\$0.76 \times 2{,}080 = \$1{,}580.80$
$\$1{,}580.80 \times .25 = \$395.20$

Follow the same steps for the remainder of the employees in the figure at the top of page 64.

COSTING FOR CURRENT/FIRST YEAR'S INCURRED COST

STEP 1			STEP 2			STEP 3		STEP 4
Eligible Employee	**Eligible Payroll**	**Old Rate**	**New Rate**	**Amount of Increase**	**Annual Increase**	**Effective Date**	**Percent of Year Effective**	**1st Year's Cost**
A	$16,744	$8.05	$8.81	$0.76	$1,580.80	01-Oct	25%	$395.20
B	$16,952	$8.15	$9.01	$0.86	$1,788.80	01-Oct	25%	$447.20
C	$20,384	$9.80	$10.79	$0.99	$2,059.20	01-Oct	25%	$514.80
D	$20,904	$10.05	$11.09	$1.04	$2,163.20	01-Oct	25%	$540.80
E	$21,632	$10.40	$11.48	$1.08	$2,246.40	01-Oct	25%	$561.60
F	$22,360	$10.75	$11.55	$0.80	$1,644.00	01-Oct	25%	$416.00
Total Eligible Payroll: **$118,976**					First year's cost: **$2,875.60**			

To annualize program cost, the percent of the year effective will need to be assumed for 100 percent or for all 12 months of the year. See figure below.

ANNUALIZED COSTS

Eligible Employee	**Eligible Payroll**	**Old Rate**	**New Rate**	**Amount of Increase**	**Effective Date**	**Percent of Year Effective**	**Annual Increase**
A	$16,744	$8.05	$8.81	$0.76	01-Jan	100%	$1,580.80
B	$16,952	$8.15	$9.01	$0.86	01-Jan	100%	$1,788.80
C	$20,384	$9.80	$10.79	$0.99	01-Jan	100%	$2,059.20
D	$20,904	$10.05	$11.09	$1.04	01-Jan	100%	$2,163.20
E	$21,632	$10.40	$11.48	$1.08	01-Jan	100%	$2,246.40
F	$22,360	$10.75	$11.55	$0.80	01-Jan	100%	$1,664.00
Total Eligible Payroll: **$118,976**					Annualized Cost: **$11,502.40**		
Total Payroll Cost: $118,976.00 + $11,502.40 = $130,478.40							

Costing Examples

There are many ways to calculate pay increases and determine the effects on the company's budget. The examples presented in this chapter for the all-at-once, phased-in and wait-and-see approaches represent the simplest ways to perform costing. When performing a costing analysis in your own company, keep in mind that the method you select should align with your organization's compensation philosophy and strategic business goals.

For simplicity's sake, the following examples use averages instead of actual pay increases.

All-at-Once Approach

Example 1

Your organization has 1,300 employees and a payroll of $45,500,000 (average of $35,000/employee). Your compensation analyst has completed the necessary market research and discovered that the organization has 523 employees being paid below market. Your company's philosophy is to pay market wages (or above) for all employees with satisfactory performance.

When you receive the detailed analysis, it appears that 25 percent (or 237 employees) are new hires and 20 percent (190 employees) have performance-related issues. You will need to increase the wages of the remaining 55 percent (523 employees) by approximately $1,500/year (on average) to get that group up to market.

In theory, by increasing (on average) 523 employees $1,500 a year, your additional first-year compensation cost will be $784,500 (523 employees multiplied by $1,500). So, to raise eligible employees to

(Continued from page 65.)

market wages, you would need to add an additional $784,500 to your payroll for the current and future years. Your new payroll will be $46,284,500 ($45,500,000 + $784,500). However, employee pay will be in line with your company's philosophy.

Example 2

Referring to the company in Example 1, it has been determined that 523 employees will need (on average) a 5 percent increase in pay to achieve market wages. When you receive the analysis, it appears (on average) the 523 employees earn $33,250 and the 5 percent increase will bring them to just under $35,000. For costing purposes, (on average) a 5 percent increase from $33,250 will net a $1,662.50 increase. Your additional payroll increase for the market adjustment would be $869,487.50 (523 employees multiplied by the $1,662.50 [5 percent] increase), for current and future years. Your new payroll will be $46,369,487.50 ($45,500,000 + $869,487.50), with all employees at market wages.

In reference to Examples 1 and 2 on pages 65 and 66, here's a summary of the all-at-once approach:

- An all-at-once increase of $1,500 to 523 employees will show a $784,500 increase in payroll.
- An all-at-once 5 percent increase to a 523-employee population averaging $33,250 in wages will show an $869,487.50 increase payroll.

Phase-in Salary Approach

Example 1

Using the same company as noted in the all-at-once method on page 65 ($45,500,000 payroll with 1,300 employees), analysis indicates that 523 employees are paid below market wages. They appear (on average) to be $1,500 below, but if you do a one-time market adjustment, your organization's payroll costs will increase $784,500 and you cannot justify that sort of an increase to senior management. Your company's philosophy is to pay at market, but you cannot afford the immediate increase to all 500-plus employees. What can you do?

In this instance, if you stagger the increase throughout the fiscal year, your overall payroll will not increase $784,500 for the first year. If you give eligible employees a $500 increase the first month of the fiscal year, then the increase will be $261,500 (523 employees multiplied by $500 increase multiplied by 12/12 months). Then, if you give eligible employees another $500 increase four months later, that increase will be $174,333.33 (523 employees multiplied by $500 increase multiplied by 8/12 months remaining). Lastly, if you give eligible employees the remaining $500 four months after the second increase, this increase will be $87,166.67 (523 employees multiplied by $500 increase multiplied by 4/12 months remaining). By the ninth month, all eligible employees have received the $1,500 increase to bring them to market. But your annualized cost increase will only be $523,000 ($261,500 + $174,333.33 + $87,166.67) or $261,500 less ($784,500 – $523,000) than if you would have given everyone the full increase at one time.

You should weigh the cost advantage with the potential increase in administration and communication costs. You also may encounter problems with perceived unfairness.

Example 2

This scenario also can be used with a percent increase. For explanation purposes, 5 percent will be broken into 2 percent, 1.5 percent and 1.5 percent, although, if you apply increases in that order, it will equal a little more than 5 percent due to rounding and compounding.

Using the same company as above, analysis indicates that the 523 employees will need (on average) a 5 percent increase in pay to achieve market rate. It appears (on average) that the 523 employees earn $33,250 and the 5 percent increase will bring them to just less than $35,000. However, your payroll budget cannot afford an $869,487.50 increase. Another option is to stagger the increase throughout the year. Your payroll will increase, but not to the tune of $869,487.50.

For the first increase, you give your employees 2 percent. The payroll increase for this 2 percent will equal $347,795 ($33,250 current average wage multiplied by a 2 percent increase multiplied by 523 employees multiplied by 12/12 months remaining). After the first increase (on average) your employees are earning $33,915. For the second increase, four months later, you will give your employees a 1.5 percent increase.

The cost of this increase is $177,375.45 ($33,915 × 1.5% × 523 × 8/12). After the second increase, the employee (on average) now is earning $34,423.73. For the final increase, four months later, the employees also will receive a 1.5 percent increase. The cost of this increase will be $90,018.04 ($34,423.73 × 1.5% × 523 × 4/12). The total recognized increase to payroll will be $615,188.49 ($347,795 + $177,375.45 + $90,018.04) or $254,299 ($869,487.50 – $615,188.49) less than if you had given a 5 percent increase to all employees at one time.

As indicated in Examples 1 and 2 for the phase-in-increase salary method, by staggering the increases throughout the year, the employees will receive the same amount of increase in fixed cost going forward after that fiscal year. However, the organization will recognize less of a first-year increase, and the full increase will be felt for the second fiscal year since increases to base salary are constant and compound with future increase amounts.

Here's a summary of the phase-in salary method:

- A phase-in increase of $1,500 as three payments of $500 to 523 employees in a nine-month span of time will result in a $523,000 increase in payroll.
- A phase-in salary increase of 5 percent as 2 percent, 1.5 percent and 1.5 percent to 523 employees in a nine-month span of time will result in a $615,188.49 increase in payroll.

PLEASE NOTE

In reference to the examples for the all-at-once approach and phase-in-salary approach:

- By moving from an all-at-once philosophy to a staggered philosophy with a straight dollar amount increase, the employer will save approximately $261,500 in the first-year payroll.
- By moving from an all-at-once philosophy to a staggered philosophy with a 5 percent increase, the employer will save approximately $254,299 in first-year payroll.

Wait-and-See Approach

Example 1

Company X has decided to move its headquarters from Albany, N.Y., to Phoenix, Ariz. Company X might relocate some of its staff in the move, but chances are that some employees would rather stay in Albany than relocate to Phoenix. Since Company X may lose some of its critical talent due to the move, it may offer a higher wage than other established companies in Phoenix in an attempt to fill open positions. This temporary market increase is based solely on Company X and usually will be only a blip on the market. In this scenario, an organization also could have taken a wait-and-see approach.

Example 2

You have noticed that a job changes market value by more than 5 percent from one year to the next. When using the wait-and-see approach, you may want to review prior year market data, possibly over a three- to four-year period, and average that data. By taking this approach, you should be able to smooth out any blips but still be close to market. When you have a group of employees that have a market wage spike, you would apply the same principal. However, you may want to establish a threshold and timeline to ensure review of the market data. For example, a group of employees has a 10 percent variance in market data from one year to the next. This 10 percent variance would cause you to look back two years plus the current year, average the data and see what the percent difference is. When doing the analysis, if you notice the data is below 10 percent variance, you may want to wait another year and review again.

8

Play it Cool: How to Stay in Regulatory Compliance

Over the years, employee compensation programs have become increasingly regulated and must comply with federal, state and local legislation. To develop and operate their compensation programs within legal guidelines, compensation professionals must stay up-to-date with respect to government regulations and their interpretation by the courts. The penalties to the employer for intentionally or unintentionally violating these statutes and regulations can be substantial, not only in financial costs, but also in terms of credibility with employees, customers and the general public. Therefore, it is imperative that before final pay adjustments are made, organizations need to make sure they are in compliance with local, state and federal laws.

But, there's no need to become a basket case about the numerous laws and regulations that affect compensation. Being watchful about the following landmark legislation will prevent the men in the clean white coats from coming to cart you away.

Davis-Bacon Act

Under the provisions of this act, passed in 1931, federal contractors and their subcontractors are to pay workers employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on similar projects. The Department of Labor maintains a very helpful Web site with more detailed information related to this act at www.dol.gov/dol/compliance/comp-dbra.htm.

Anti-Discrimination Laws

Equal Employment Opportunity

Organizations need to periodically review and analyze their compensation program for EEO compliance when making any pay adjustment to employees or groups of employees. Otherwise, pay adjustments granted to employees in one job may inadvertently benefit one class of employees over another.

Caution: *Subtle differences in pay among protected groups could escalate over time until they are no longer considered minor, thereby creating employee dissatisfaction and drawing the attention of various reviewing agencies.*

The federal government enacted statutes in the 1960s to ensure the fair treatment of specific segments of the population in regard to their rights as individuals and employees. The most important of these are the Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964.

Equal Pay Act of 1963

The Equal Pay Act (EPA) prohibits gender-based compensation discrimination. Specifically, the act prohibits an employer from discriminating "between employees on the basis of gender by paying wages to employees ... at a rate less than the rate at which he pays wages to employees of the opposite sex ... for equal work on jobs that require equal skill, effort and responsibility, and are performed under similar working conditions." The bottom line of the EPA for pay program design and administration is that if, on the average, men and women are paid different rates when they perform work that is substantially the same, these differences must be shown to be attributable to one of the "allowable differences."

Caution: *When adjusting pay for a male-dominated job, ensure that women in jobs that require equal skill, effort, responsibility and working conditions are not adversely affected. Market rates cannot result in discrimination in jobs dominated in a company by one gender. If you find in your analysis that the majority of employees in a job are in a protected class, you need to have a discussion with your EEOC officer regarding how to proceed.*

Title VII of the Civil Rights Act of 1964

This act prohibits discrimination by employers on the basis of race, color, religion, sex or national origin, in the hiring, firing, training, compensation or promotion of employees. The Civil Rights Act is enforced by the Equal Employment Opportunity Commission (EEOC), which was created by the act. All employers with 15 or more employees are covered.

The bottom line of Title VII for pay programs is that they should produce pay rates that treat all classes of employees similarly, and any differences should be attributable to job-related, defensible causes (seniority, performance, etc.). Therefore, if you are adjusting the pay of select individuals in a job, ensure that pay remains equitable across all classes of employees.

Age Discrimination in Employment Act of 1967

This Age Discrimination Employment Act (ADEA) protects workers aged 40 and over from employment discrimination. While it prohibits discrimination in employment, it has been applied to cases involving retirement, promotions and layoff policies. The act applies to employers of 20 or more persons, as well as to federal, state and local governments.

Case in Point:

You have a 1,000-employee manufacturing plant and 500 (50 percent) of your population is male and 500 (50 percent) is female; 500 of your employees are under 40 years of age (250 each male and female); and 500 of your employees are 40 years of age and over (250 each male and female).

It has been a slow year and you only have a limited budget for increases. You have decided to give a 5 percent increase to your top 100 performers, a 3 percent increase to the next 100 and a 2 percent increase to the following 100. Based upon your performance appraisal, 95 of the 100 top performers are males under 40 and the additional five are males over 40. Of the next 100 performers, 50 are males under 40; 20 are females under 40; 25 are males over 40; and five are females over 40. For the last 100, 90 are males under 40 and 10 are females under 40.

Percent of employees receiving increases:

Top Performers:

Male under 40 — 95 percent or 38 percent of total group population

Male over 40 — 5 percent or 2 percent of total group population

Female under 40 — 0 percent
Female over 40 — 0 percent

Next-tier performers:

Male under 40 — 50 percent or 20 percent of total group population
Male over 40 — 25 percent or 10 percent of total group population
Female under 40 — 20 percent or 8 percent of total group population
Female over 40 — 5 percent or 2 percent of total group population

Last-tier performers:

Male under 40 — 90 percent or 36 percent of total group population
Male over 40 — 0 percent
Female under 40 — 10 percent or 4 percent of total group population
Female over 40 — 0 percent

From this brief analysis, it appears that your system has an adverse impact on all females and males over 40. In this situation, you would want to do a deeper analysis to determine the cause of this effect and revise the appraisal system to reflect changes and eliminate the adverse impact.

Executive Order 11246

If your company is covered by Executive Order 11246, it is important to work with your compliance officer on market adjustment issues. According to this Presidential Order, signed by President Lyndon B. Johnson in 1965, companies holding federal contracts or subcontracts in excess of $10,000 cannot discriminate in their employment practices (which include pay practices) on the basis of race, color, religion, sex or national origin, and must take affirmative action to ensure their employment decisions are made in a nondiscriminatory manner. For service and supply contracts in excess of $50,000, contractors also must develop and implement written affirmative action plans that include goals and objectives of increasing minority and female participation in their work force.

Vocational Rehabilitation Act of 1973

This act covers persons employed by, or seeking employment from, federal departments and agencies or businesses performing federal contract work in excess of $2,500. Recipients of federal assistance also are protected from discrimination based on any mental or physical disability, which substantially limits one or more major life activities. Discrimination in employment is prohibited in all terms and conditions of employment, which includes compensation.

American Disabilities Act of 1990

Title I of the Americans with Disabilities Act of 1990 (ADA), which took effect July 26, 1992, prohibits private employers, state and local governments, employment agencies and labor unions from discriminating against qualified individuals with disabilities in job application procedures, hiring, firing, advancement, compensation, job training and other terms, conditions and privileges of employment. An individual with a disability is a person who:

- Has a physical or mental impairment that substantially limits one or more major life activities
- Has a record of such an impairment, or
- Is regarded as having such an impairment.

A qualified employee or applicant with a disability is an individual who, with or without reasonable accommodation, can perform the essential functions of the job in question. Reasonable accommodation may include, but is not limited to:

- Making existing facilities used by employees readily accessible to and usable by persons with disabilities
- Job restructuring, modifying work schedules, reassignment to a vacant position
- Acquiring or modifying equipment or devices; modifying examinations, training materials or policies; and providing qualified readers or interpreters.

An employer is required to make an accommodation to the known disability of a qualified applicant or employee if it would not impose an "undue hardship" on the operation of the employer's business. Undue hardship is defined as an action requiring significant difficulty or expense when considered in light of factors such as an employer's size, financial resources and the nature and structure of its operation.

An employer is not required to lower quality or production standards to make an accommodation, nor is an employer obligated to provide personal use items such as glasses or hearing aids.

In addition to the anti-discrimination laws listed in this chapter, many cities have passed living wage statutes prohibiting employers from paying below a specified wage level.

What Is a Living Wage?

A living wage is described as a wage sufficient to support a family of a certain size (usually a family of four) above the poverty level. The wage level is usually set by referencing the federal poverty guidelines for a family of four within a specific geographic area. Often, the living wage is set at a level that allows recipients to buy health insurance benefits, unless their employers already provide such benefits, and many are indexed annually for inflation.

Being cognizant of applicable laws and regulations will help prevent legal red tape and snafus that might arise otherwise, and keep the human resources professional cool and confident throughout the market pricing process.

9

Clear Communication: How to Keep Employees in the Loop

Pay delivers a strong message. No other area is more important to employees in their relationships with their companies. In fact, many studies have shown that pay consistently ranks as employees' No. 1 reason for staying with a company. Moreover, research also indicates that the most financially successful companies are more likely to communicate pay information to their employees, as well as provide training to first-line supervisors on pay communications.

Employees have a desire to know what methods are used to define and determine the value of jobs within their organization. In the context of this book, pay is calculated through market pricing according to the organization's compensation philosophy. Openly communicating pay policy and strategy helps build trust in the employer-employee relationship and breaks down any misconceptions about pay that may have arisen.

Why Is Communication Important?

Effective communication gives employees the information they need — when they need it — and provides the following benefits:

- It helps alleviate employee concerns regarding specific organizational issues (mergers/acquisitions/restructuring); decreased cash flow due to external forces; compensation issues (market pricing, pay actions); and total rewards issues (total rewards statements, competitive analysis).
- It promotes job satisfaction and increases morale by fully explaining the reasoning behind the actions and allowing employees to ask questions.
- It alleviates stress and anxiety in the changing work environment by opening the lines of communication with knowledgeable individuals who are able to answer employees' questions and concerns.
- It builds trust between the employer and employee.
- It enables employees to focus on their jobs by alleviating concerns and fears about pay matters.

Who Should Communicate the Message?

The person who communicates the pay information to employees should not be a fellow employee in the same department. The communicator should be chosen based upon the specific pay action and audience and could be any of the following individuals:

- Supervisor
- Department manager
- HR manager.

To relay pay messages to employees in a lasting manner, the supervisor is the most effective channel and should be at the center of the communications effort. Employees' perceptions about the organization's pay system are shaped through dialogue with their managers and via formal and informal communications programs.

Since ongoing communication with employees enhances the effectiveness and acceptance of the pay program and helps reduce misperceptions, it is critical that the communicator is equipped with the right information. "Train the trainer" sessions will help supervisors communicate the most accurate and up-to-date pay information to employees.

Managers can't afford to guess about competitive compensation in the marketplace. A ballpark answer is not good enough. They need to communicate precise answers to head off any employee concerns. If the compensation program is to contribute effectively to the overall employee relations program, employees in the organization must perceive that their level of total pay is fair and competitive. Although employees may argue for pay adjustments based on comparisons with only the highest-paying employers, they usually recognize that an employer responds to labor market averages. They will not become seriously dissatisfied unless they perceive their total compensation level as lower than that of a significant majority of employees performing similar jobs through the relevant labor market.

What Information Should Be Communicated?

The supervisor or manager should communicate pay adjustments simply and concisely from the employee perspective, while focusing on the main elements of the pay action, including:

- What is the reason for the pay action?
- How will the pay action be processed?
- When will the pay action become effective?
- Is the pay action a one-time adjustment?
- Will the pay action be in a lump sum or a periodic action?

Communication Challenges

A major part of every manager's or supervisor's job is answering questions about the compensation program. In today's competitive business environment, many companies have abandoned secrecy about their pay program in favor of openly conveying information to their employees. Increasingly, organizations are making public information about pay ranges and merit budgets.

For example: After performing a market pricing analysis for an accounting clerk position, it is decided there will be a pay adjustment. When communicating this information to employees who will be granted the increase, the manager or supervisor should be prepared to answer a variety of employee questions and observations, including:

- "Why can't I receive the full increase now?"
- "Why didn't I receive an increase when my co-worker, who has not been here as long I as have, received an adjustment?"
- "What do I need to do to get the increase?"

Being aware of potential questions and appropriate answers is key to effective communication. It is a good idea to brainstorm possible questions and answers with other supervisors, managers or HR professionals. In doing so, you will be able to anticipate problem areas and be prepared to address employees' questions and concerns. An open exchange of dialogue will enhance communication and understanding and reinforce employees' trust in the organization.

Communication Tips

The following guidelines will help companies communicate the pay program to employees:

- Convey a consistent message.
- Align communications with the corporate mission, vision, strategic business plans and organizational objectives.
- Maintain confidentiality and communicate the organization's sensitivity and policy on the issue.
- Encourage feedback by providing a way to receive employee feedback and questions.
- Demonstrate that you have followed up on the feedback.

Tying Communication to Administration

A compensation program is composed of many separate links that create one sinuous chain. For example, compensation professionals will need to communicate to human resources and HRIS about handling the paperwork and ensure that there is sufficient time for them to communicate the information. Everyone knows that the job's not done until the paperwork is finished. However, in the case of pay programs, that is never the case. Paperwork is an ongoing part of pay maintenance.

To keep the pay program running like a well-oiled machine, in light of continual changes within the organization and in the labor market, compensation professionals should follow these guidelines:

- Clearly stated objectives, policies and procedures should be established and communicated.
- Proper controls should be in place to ensure that policies and procedures are consistently applied.
- There should be adequate support for the compensation function, including sufficient staff and other resources, as well as top management buy-in to ensure the pay program is administered fairly.

- The compensation staff should properly perform administrative activities.
- The pay program should be audited regularly to ensure effectiveness and compliance.

So, there you have it. This guidebook has provided the information and tools you need to market price according to your organization's compensation philosophy in a streamlined, easy-to-follow process from beginning to end, while raising flags for areas of concern along the way. With this knowledge under your belt, the intimidation of information overload and complicated calculations is over and you're on your way to becoming a master of market pricing. To round out your learning experience, the Appendix contains two applicable case studies, the WorldatWork Salary Survey Guidelines, a glossary of terms and selected references.

Appendix

Case Study 1

Case Study 2

WorldatWork Salary Survey Guidelines

Glossary of Terms

Selected References

Case Study 1

Salary Surveys in Action

Who: Compass Co.

Problem: How to merge a newly acquired operation into an existing salary system when the jobs and ranges of the acquired company do not fit neatly into the parent's structure.

Challenge: How to adjust for differences between the two companies — one is unionized; one is not. One is located in a high cost-of-living area; one is heavily automated.

Solution: Worked with an outside research firm to field a blind salary survey of similar engineering firms while being careful to steer clear of antitrust problems.

Compass Co. manufactures precision measuring devices in the Midwest. The company is prospering. At the end of this past fiscal year, its sales had met projected increases of 4 percent while budgeted expenses held the line at the same level as the previous year. As the new year approached, Compass Co.'s management met to discuss an aggressive new business strategy.

All economic indicators were pointing upward, so the team decided it was time to grow the product line and expand the business. To do so, the company acquired an up-and-running facility that manufactured a similar product line but used entirely different technologies, applications and customers.

In fact, 70 percent of the newly acquired plant's output was sold to one company — a very large one. By contrast, the company's manufacturing base consisted of many small businesses for whom product was customized.

Obvious similarities existed in terms of the work force demographics as well as the knowledge, skills and abilities that were required. Production assembly consisted of building micro components, the design of which was supported by a cadre of high-level product design/manufacturing engineers.

Compensation Challenges

The company saw opportunities to blend the two operations while retaining the unique advantages of each one. Some economies of scale could be realized by merging administrative functions and the engineering department, though the technologies and customer applications were different. The ultimate goal was to grow the customer base — by offering high volume as well as customized products — and to become the largest manufacturer of precision-measuring devices used in navigation equipment, weather satellites and other high-end applications.

Compass Co. grappled with how to merge the two cultures, which were distinguished as follows:

- One was unionized; the other was not.
- One operated in a high cost-of-living area; the other did not.
- One production assembly operation was highly automated; the other was highly labor-intensive.
- One was a highly entrepreneurial, privately held corporation; the other had previously been a subsidiary of a very large, mature organization with firmly entrenched HR policies and procedures.

Compass Co. faced the challenge of setting up a new plant. An added problem was the need to attract competent middle managers to transition the operations while still manufacturing product for its high-volume customers. This was no easy task and contributed to a competitive bidding for talent that resulted in a very high wage structure. Other compensation issues related to the company's production line. The previous operation had been unionized.

Salary Surveys

Compass Co.'s management came to regard its much-needed survey as an inspection tool. In its simplest terms, a survey is an instrument that determines and defines the form, extent and position of something — in this case, a job description — by measuring and evaluating data. A salary survey includes all of the functions relevant to a job's worth. The goal of this undertaking was to benchmark selected salaries, and then slot the other jobs around these benchmarks to create an internally equitable salary structure. Slotting would be done by teams of managers familiar with jobs, using job-evaluation criteria.

To market price the benchmark positions, management uncovered several available resources:

- Professionally prepared salary surveys, which report data by categories (e.g., location, exempt versus nonexempt status, job families and industry)
- Industry group salary surveys, which report data by defined career groups within job families
- DOL salary surveys, which report data by level or career path and by using statistics
- Local chambers of commerce or other business association salary surveys, which report data by local demographic data.

Despite the availability of published salary surveys, Compass Co. found that what it really needed to know was: What were its direct competitors paying for similar engineering jobs? What was going on in the local labor market in the company across the street? For obvious reasons, this type of information is with direct competitors, particularly for management-level or specialty positions. However, their competitors want to have the same information and may be willing to share data when the survey instrument is appropriately designed.

Customized Salary Survey

The management team realized in the end that the most efficient way to obtain comparative information from its direct competitors was to design and conduct a customized salary survey. It turned to a third-party consultant to conduct the customized survey for three reasons:

- To avoid the perception of "fixing" salaries at artificial levels, in violation of antitrust laws — a risk inherent in using competitor-conducted surveys or in group "sit down" surveys (i.e., the parties exchange information directly)
- To protect the confidentiality of pay data
- To assure independent business analysis of the data and subsequent decision-making.

At first, Compass Co.'s management was concerned about the potential cost of using an independent consultant, but it found ways to reduce this cost. The steps it took included the following:

- Precisely identifying the companies and predetermining their willingness to participate in the survey
- Absorbing the additional cost of customizing each participant's report so that each participant would receive a comparison of his or her pay to the market. (This step increases participants' willingness to participate because it reduces their analysis time.)
- Designing the survey data collection instruction on both diskette and hard copy, which were then sent to the consultant to edit and distribute
- Thoroughly identifying the organizational and administrative non-pay issues to include in the survey and educating the consultant about them
- Researching and providing recent articles about the emerging technologies to clarify some of the background issues with which the company was dealing.

By taking these steps, Compass Co.'s management not only reduced the cost of conducting the salary survey, but also freed the consultant to focus on collecting, interpreting, analyzing and displaying the survey data in a time-efficient framework.

Effective Salary Survey Design

After much brainstorming, the management team defined five steps that it would undertake to design its salary survey. These steps included:

- Identifying the compensation issues of concern
- Selecting the appropriate labor market
- Designing the survey format
- Collecting company data
- Analyzing and presenting that data. How Compass Co. implemented these steps follows.

Compensation Issues

The first step in salary survey design is to determine which compensation issues are matters of concern and which are not. Like its competitors, Compass Co. was concerned about a number of compensation issues. First, it wanted to determine how much its competition was paying for particular positions or groups of positions (e.g., middle management). There had been some competitive bidding of middle managers during Compass Co.'s startup phase, and engineers were trained in different specialties. In addition, the company was interested in whether differences in engineering specialties could be identified. Management hoped to determine whether the market was paying a premium for some of the skills that should be reflected in its own pay practices.

Second, the survey design needed to address how existing pay and practices should stay current with the practices of Compass Co.'s competitors. A survey subcategory also needed to elicit strategies for keeping the entire pay strategy cost-effective and tied to employee performance. To this end, the survey needed to collect and analyze data on the following:

- Merit increase budgets
- Pay delivery strategies (e.g., base pay versus lump-sum bonuses and merit pay versus automatic pay raises)
- Shift differentials
- Overtime pay practices

- Pay administration pay practices (e.g., competency-based performance appraisal).

To be effective and easy to implement, the final survey design had to address these issues.

At a later time, management would need a survey instrument for salary planning, the third compensation issue salary surveys are designed to address. Compass Co. needed to determine how much it should adjust salary ranges in order to keep pay targets competitive. For this purpose, management wanted to use a broad-based survey and again had several choices available. Several months later, management decided to design one that attempted to collect survey data on jobs at every level in the organization.

Labor Market Issues

Identifying the labor market was the second step in the salary survey design. What Compass Co.'s management found was that selecting the appropriate labor market for the salary survey depended to a large degree on its areas of compensation concern. For example, comparing the pay of stockroom attendants in the Northeast against stockroom attendants in the South was not valid because of the different recruiting markets and pay structures in each area. However, comparing the pay of high-level acoustical engineers across different geographic locations was valid because businesses that specialize in this type of risk competed nationally against each other for similar talent.

The labor market parameters built into Compass Co.'s customized salary survey included surveying regional companies on their engineering compensation. The company felt that its recruiting market was confined to the region in which it operated because of the presence of numerous high-tech manufacturing operations. Compensation included not just base pay, bonus and salary range data, but also pay for education and training, travel reimbursement to attend industry meetings, career path counseling and broadbanding.

The company also was interested in compensation for 10 key middle management positions. For these positions, Compass Co. broadened to a national market and therefore included high-tech firms across the country. In the end, the final survey instrument included 20 positions and 30 firms.

Survey Format

The third step in salary survey design is to decide on a format. This decision is based on how the survey is to be used. Generally, salary surveys have two sections:

- A compensation section (e.g., the number of position incumbents — incumbents are the employees in the position reported by all companies, base pay, number of employees who are bonus-eligible; number of employees who receive bonuses, average bonus award; and salary range minimum, midpoint and maximum).
- An optional questionnaire section (e.g., general design issues, future plans, benefits programs and prevalence of certain practices).

Compass Co.'s management team decided to include both sections in its salary survey. Exhibit 1210-A on the following pages illustrates this typical salary survey format. And, as part of its up-front work to hold down the cost of the consultant, management took care to identify questions that would elicit the information that it needed.

It realized that it would be all too easy to make the faulty assumption that other companies had the same concerns and would understand the purposes behind the queries in its questionnaire. It realized that it had to take the time to write these questions objectively, with a clear picture of exactly what kind of information the survey respondents would include in their answers.

To provide flexibility in data analysis, the salary survey format was designed so that its data could be collected and analyzed according to certain criteria — in this case, the characteristics of the companies surveyed. Organizing the survey data this way is called segmenting or grouping data. The cover page for a survey that segments, or groups, data typically presents that data according to the following criteria:

- Scope of data (e.g., number of employees and gross revenues)
- Industry (e.g., financial services, manufacturing, insurance or gaming/hospitality)
- Geographic location (e.g., Northeast, Midwest, West or South).

EXHIBIT 1210-A : TYPICAL SALARY SURVEY

Company Data

1. General

Company Name ____________________

Address ____________________

City ____________ State ______ Zip ______

Survey completed by:

Name ____________ Mail Stop ____________

Phone Number ____________ Fax Number ____________

2. Scope

Gross Revenues $____________

Type of Industry (*check one*)

❑ Financial Services
❑ Insurance
❑ Manufacturing
❑ Trade Association
❑ Nonprofit
❑ Other, please specify

Number of Employees ____________

Note: Please be sure to report revenue figures and number of employees. In the final results, data will be aggregated into groupings based on this data.

EXHIBIT 1210-A : TYPICAL SALARY SURVEY (CONTINUED)

Salary structure/salary increase policies

1. Does your organization have a formal salary structure for exempt and nonexempt positions?

   ❑ Yes ❑ No

2. What was your company's latest structure adjustment?

   ________% Exempt

   ________% Nonexempt

3. Does your company have formal salary increase policies?

   ❑ Yes ❑ No

If yes, please provide the following salary increase % information:

Type of Increase	Exempt	Nonexempt
Merit		
COL		
General		
Promotion		
Total		

4. What is your company's competitive base pay positioning goal for exempt positions? (*check one*)

   ❑ Exceed the market (above average/median)
   ❑ Meet the market (at average/median)
   ❑ Lag the market (below average/median)

5. Does your company have an annual bonus/incentive plan?

   ❑ Yes ❑ No

6. What are the criteria for eligibility? (*check all that apply*)

   ❑ Salary grade level
   ❑ Salary
   ❑ Management position
   ❑ Company executive/officer
   ❑ Other, please specify ______________________________

Compass Co.'s ability to segment data this way greatly enhanced the salary survey's attractiveness to participating companies. The reasons are clear. For example, an insurance company in a metropolitan Midwest location may want to compare itself against companies similarly situated. A large-size company with many employees would be more likely to have a similar organizational structure and reporting relationships with other companies in its size group. Comparing companies within their size category enhances "apples to apples" position matching.

Another reason for grouping data is that the U.S. Department of Justice and the Federal Trade Commission have jointly issued guidelines for salary surveys. These guidelines provide some helpful rules of thumb for companies that have decided to retain consultants to conduct a customized survey, including:

- Data should be compiled and presented anonymously on an aggregated basis, rather than as individual company data points that are company-coded, to preserve anonymity.
- At least five survey participants should report data upon which each disseminated statistic is based.

A measure of protection is afforded to the survey sponsor if these guidelines are followed. Participating companies are less likely to identify individual company data, but, at the same time, they cannot analyze the data with respect to extreme high or low salaries that may skew the overall average. Grouping or segmenting of data based on selected criteria can provide "peg" points for analyzing the resulting data.

Collection of Data

The fourth step in salary survey design is the collection of salary data. Which method is used depends on the use of the survey, time considerations, urgency, budgets, available resources and contacts within the participating companies. Whichever method is used, data collection can be performed in a number of ways, including the following:

- Fax machine
- Telephone
- Mail
- Diskette
- Printed hard copy
- Personal company visit

While all these methods are valid, Compass Co. decided that conducting the survey by mail offered it some distinct advantages, including:

- Does not interrupt the responding staff member from his or her normal workday routine.
- Allows more thoughtful and complete responses to the compensation and questionnaire sections.

However, management knew full well the downside to using a mail survey: the tendency for it to fall into the pending file and be forgotten. To guard against this possibility, Compass Co.'s management built into the survey design (1) a deadline date, which was printed in boldface letters; and (2) a follow-up procedure, which meant that a telephone call would be made to check on the survey's whereabouts 10 working days after it was mailed.

Even though it decided against the other data collection methods, Compass Co. did its homework, studied its strategies and filed that information for possible future use. One important finding was that fax surveys needed to be short and concise. Like telephone surveys, they could be the vehicles of choice to obtain quick information on just a few job positions. They are less intrusive than telephone surveys and can be answered at a more convenient time. Personal on-site visits, where an HR manager or compensation professional actually visits with the participating organization, could ensure quality job matching, but this process is time-consuming and costly.

Analysis and Presentation of Data

The fifth and final step in salary survey design is the analysis and presentation of data. Compass Co.'s management understood that the most critical part of data analysis is to ensure that the numbers are reliable and valid. To make sure that they were, management conducted a careful job matching. Then it calculated various statistics, such as the mean, weighted average and percentile distributions of the data.

Like all salary surveys, Compass Co.'s survey displayed an average pay rate, either a simple average (mean or company's average), weighted average (i.e., incumbent average) or both. Compass Co.'s management team also discovered that some salary surveys also displayed percentiles, which it decided to include in its survey. Percentiles are derived from a rank ordering of data from highest to lowest, and they display certain "peg" points. Generally, data points represent the 25th, 50th or median and 75th percentiles; sometimes the 10th and 90th percentiles also may be shown. Percentiles are useful in illustrating the distribution of the data in the market and provide additional statistical analysis tolls beyond the mean and weighted average to evaluate and interpret the data.

Compass Co. found that a number of factors could skew its survey results. It built into its survey design protections against the following situations:

- Sometimes statistical analysis will reveal poor job matching — for example, where an extremely high or low salary is reported. In this case, Compass Co. reviewed the position match to determine whether an appropriate match has been made, despite the extreme pay reported.
- Other times the inclusion of a very high- or low-paying company can cause misinterpretations because that company also may have many incumbents. In this case, Compass Co. used percentiles in conjunction with simple and weighted averages to spot the skewing effect. For example, if a simple average and a median salary are similar but the weighted average is 10 percent to 15 percent higher, it can be assumed that one of the surveyed companies has many incumbents and pays above the survey group. When this situation

occurred, Compass Co.'s management decided that the consultant should use the mean or median as representative of market pay.

- Finally, the inclusion of a low-paying company may skew survey results if that company has a much larger population in the job position than the other company participants. Should this occur, Compass Co.'s management would need to adjust the survey data to account for and explain any resulting deviations.

Workplace Application

Now that all its up-front work was done, Compass Co. made some decisions about the salary survey's workplace application. If the survey elicited responses on the mean, weighted average and median pay, which one should be relied upon? Many analysts prefer the weighted average because it represents in the aggregate what all individuals are paid in their positions. In other words, the weighted average represents the "going rate" for pay. Percentiles often are used to evaluate salary grades or to establish market pay rate ranges for a particular position.

At Compass Co., management administers pay within these ranges, based on employee performance. The width of the percentile range may indicate several things, including:

- How varied the pay is in the market
- How valid the job matching is.

Exhibit C illustrates sample salary survey data for a director of manufacturing. It shows aggregated "cuts" of the data, based on Compass Co.'s staff size. Compass Co. decided not to use other "cuts," including region, revenues or type of organization.

EXHIBIT 1210-C : SALARY SURVEY DATA FOR A DIRECTOR OF MANUFACTURING

Company Staff Size Group

	Number of Companies	Number of Incumbents	Mean	Weighted Average	1st Quartile	Median	3rd Quartile
Group 1: >50							
Salary	4	9	$85.8	$85.0	$71.0	$88.0	$91.6
Bonus	3	8	$10.1	$9.5	$7.5	$8.3	$11.6
Total Cash	4	9	$93.4	$93.5	$79.0	$99.8	$102.2
Salary Range							
Minimum	4	9	$63.5	$63.8	$52.3	$67.7	$74.7
Midpoint	4	9	$86.2	$85.5	$70.1	$91.7	$99.2
Maximum	4	9	$109.0	$107.2	$87.9	$115.6	$119.1
Staff size (total company)			*79*	*84*	*64*	*69*	*120*
Average years of experience			*5 yrs*	*7 yrs*	*1 yr*	*6 yrs*	*10 yrs*
No. staff supervised by position			**	**	**	**	**
Long-term/short-term incentive:	*#LT1 eligible: 3*						
	#ST1 eligible: 9 ST1 par%: 7% ST1 max.%: 24%						
Group 2: 30-50							
Salary	3	6	$79.6	$79.3	$79.6	$80.4	$81.7
Bonus	2	4	$7.6	$7.6	**	$7.8	**
Total Cash	3	6	$83.8	$84.4	$81.9	$87.9	$88.5
Salary Range							
Minimum	3	6	$61.3	$60.2	$52.1	$55.5	$69.5
Midpoint	3	6	$80.5	$80.4	$73.0	$73.3	$89.6
Maximum	3	6	$99.7	$100.7	$93.9	$93.9	$111.12
Staff size (total company)			*40*	*41*	*40*	*40*	*46*
Average years of experience			*4 yrs*	*4 yrs*	**	*4 yrs*	**
No. staff supervised by position			**	**	**	**	**
Long-term/short-term incentive:	*#LT1 eligible:*						
	#ST1 eligible: 5 ST1 par%: 10% ST1 max.:% 15%						
Group 3: <30							
Salary			**	**	**	**	**
Bonus			**	**	**	**	**
Total Cash			**	**	**	**	**
Salary Range							
Minimum			**	**	**	**	**
Midpoint			**	**	**	**	**
Maximum			**	**	**	**	**

(Continued)

EXHIBIT 1210-C: SALARY SURVEY DATA FOR A DIRECTOR OF MANUFACTURING (CONTINUED)

Company Staff Size Group

	Number of Companies	Number of Incumbents	Mean	Weighted Average	1st Quartile	Median	3rd Quartile
Group 3: <30							
Staff size (total company)							
Average years of experience					**		**
No. staff supervised by position			**	**	**	**	**

Long-term/short-term incentive: #LT1 eligible:
*#ST1 eligible: ST1 par%:1** ST1 max.:% ***

	Number of Companies	Number of Incumbents	Mean	Weighted Average	1st Quartile	Median	3rd Quartile
All Respondents							
Salary	7	15	$83.1	$82.8	$75.3	$82.0	$89.2
Bonus	5	12	$9.1	$8.9	$7.3	$8.1	$9.1
Total Cash	7	15	$89.3	$89.9	$79.5	$88.3	$100.1
Salary Range							
Minimum	7	15	$62.5	$62.4	$52.2	$58.8	$73.0
Midpoint	7	15	$83.8	$83.5	$73.0	$83.0	$95.0
Maximum	7	15	$105.0	$104.6	$91.1	$112.0	$117.0
Staff size (total company)			*62*	*67*	*44*	*64*	*69*
Average years of experience			*5 yrs*	*6 yrs*	*2 yrs*	*5 yrs*	*8 yrs*
No. staff supervised by position			**	**	**	**	**

Long-term/short-term incentive: #LT1 eligible: 3
#ST1 eligible: 14 ST1 par%: 9% ST1 max.:% 21%

**denotes insufficient data

Case Study 2

Point Factor Analysis to Create Internal Equity and Market Competitiveness

Who: Youth Services

Problem: How to create from scratch a salary structure in an established nonprofit that will weight each job appropriately to ensure internal equity and market competitiveness.

Challenge: How to blend external benchmarking data with the agency's unique set of assumptions to establish new grades and midpoints that would be flexible and fair.

Solution: Using an external point factor system in conjunction with reliable market data, HR director developed a scatter gram chart that was used to set grade midpoints.

Youth Services is a small nonprofit with a five-year history. Originally the organization was a state youth council. Today it specializes in children and adolescents who have suffered from trauma or abuse and/or exhibit aggressive behavior.

The organization has two campuses that provide residential treatment for children aged 10 through 17. Youth Services receives funding from the state department of human resources, the state court system, the federal government and from private donations. Its mission is to help at-risk children reach their maximum potential.

Youth Services had a compensation structure that was neither promoting internal equity nor paying competitively with the market. Compensation among employees who had the same or similar jobs varied more than it should have.

Two years ago, a new executive director was hired. He began to put in some human resources policies to bring more structure to the organization. He requested human resources to create a salary structure that paid the organization's 160 full- and part-time employees competitively and was fair and equitable. The human resources director approached the problem by first choosing a point factor system to evaluate existing positions. This system created a compensation structure that valued jobs within the organization by measuring certain "factors" of existing positions. By using a point factor system, Youth Services was able to establish a hierarchy of jobs, or a grade scale, that could pay employees according to the demands of the job.

The point factor system had the advantage of providing some objective standards by which job responsibilities could be measured. This was especially attractive to this organization, since some major adjustments would need to be made to achieve internal equity. The HR director chose to use Salary Oracle, a compensation point factor tool created by Business and Legal Reports. Salary Oracle is an adaptation of a point factor system used by the federal government to classify its civilian work force. Salary Oracle assigns points for different levels of the following nine factors:

- Knowledge required by the position
- Supervisory controls
- Guidelines and judgment needed to apply them
- Complexity of tasks and processes
- Scope and effect
- Personal contacts with those not in the supervisory chain
- Purpose of contacts
- Physical demands
- Work environment.

For example, the most heavily weighted factor in this system is knowledge and skill, for which there are nine levels with possible scores ranging from 50 points (for the skills needed to perform routine, repetitive tasks) to 1,850 points (for the knowledge required to generate new theories in a scientific or technical field).

The human resources director, senior managers and supervisors at Youth Services campuses evaluated each job within the organization (both exempt and nonexempt) on nine factors and assigned the points as instructed by Salary Oracle. The payroll and benefits coordinator, for example, was assigned a composite score of 1,835 points (see Exhibit 1220-B). In this example, factor 1 was given a level 6 (of nine possible); this level represented knowledge of the principles, concepts and methodology of a professional or administrative occupation, supplemented by

EXHIBIT 1220-B : POINT LEVELS FOR A PAYROLL AND BENEFITS COORDINATOR

Factor #	Points	Level Assessed	Maximum Level	Attribute
1	950	6	9	Knowledge
2	275	3	5	Supervisory Control
3	125	2	5	Direction, Discretion
4	150	3	6	Complexity
5	150	3	6	Scope, Effect
6	60	3	4	Personal Contacts
7	120	3	4	Purpose of Contacts
8, 9	5	1	3	Physical Work, Environment
Total	1,835			

skill gained through job experience to permit independent performance of recurring assignments.

After all positions within Youth Services had been assigned points for each of the nine factors, and composite scores were obtained, these positions were grouped into eight exempt and nine nonexempt grades using a conversion table that translated the total number of points for the position into a grade (see Exhibit 1220-C and Exhibit 1220-D). At this point, Youth Services had a hierarchy of jobs that would then be matched against the market to determine salaries.

Next, the HR director obtained market data to help her compare the pay practices within her own organization with those of organizations that would have similar jobs. Exhibit 1220-E shows the surveys used. The

EXHIBIT 1220-C : EXEMPT POSITION STRUCTURE — 1998-1999

Grade	Positions
E8	Education Coordinator
E7	Clinical Services Coordinator; Nurse Manager — PRN
E6	Admissions Coordinator; Clinical Services Supervisor; Therapist Supervisor
E5	Family Therapist; Cottage Supervisor (Hudson)
E4	Activity Therapist; Cottage Supervisor (Bradfield, Butler, Chappel); Family Life Education Therapist; Experiential Therapist
E3	Cottage Supervisor (Illges, MTGH, and Owens); Assistant Cottage Supervisor; Clinical Services Worker; Clinical Therapist
E2	Food Service Supervisor
E1	

EXHIBIT 1220-D : NONEXEMPT POSITION STRUCTURE — 1998-1999

Grade	Positions
N9	Payroll/Benefits Coordinator
N8	Human Resource Coordinator — AESH; Administrative Assistant
N7	LPN — Facility Nurse; Activity Specialist — PRN; Financial Coordinator
N6	Group Leader III; Maintenance Supervisor; Human Resource Assistant — BC
N5	Case Manager — PRN; Experiential Therapy Associate; Experiential Therapy Associate — PRN; Substitute Teacher
N4	Administrative Specialist — AESH; Clinical Secretary — BTC; Maintenance Coordinator; Group Leader IIID
N3	Group Leader II; Group Leader Assistant; Group Leader Assistant — PRN; Receptionist/Secretary — BTC
N2	Food Service Employee; Food Service Employee — PRN; Teacher Assistant
N1	

survey data was aged by adding 4 percent per year up to the time at which the new system would be rolled out — July 1, 1998, the beginning of the organization's new fiscal year, as recommended by the state health services association.

Scattergrams

By sifting through the survey data, the HR director was able to identify benchmark job titles and extrapolate mean pay rates for these titles. In order to compare the data obtained from the surveys with the way Youth Services valued the jobs, the HR director created a scattergram. The total

EXHIBIT 1220-E : MARKET SURVEYS SOURCE INFORMATION

Source Name	Number of Participants	Date Conducted	Age to 7/1/98	Months to* Classifications Used
I. State Health Services	31	4/97	15 months (+5%)	Agency Budget of $5m for Executive Director only
II. Unknown	44 Total	10/96 (+6.6%)	29 months Experience, Budget, Full-Time Employees, Program Capacity, Service Location, District State	Education, Years, Years
III. Music Therapy Source Book	1,607 Individuals	1/97 (+6%)	18 Months	Emotionally Disturbed, Child/Adolescent Treatment Center, South eastern USA, Job Title of Activity Therapist, # of Years in Profession
IV. CWLA	383 CEOs for CEO & 328 Agencies	1/97	18 Months	Southern USA Region, Budget
V. Regional Society For Human Resource Management	32	4/97	15 Months (+5%)	Health Care, when available, # of employees
VI. State Department of Labor	6,658 Total	1/96	30 Months (+10%)	Health Services Industry, Economic Dev. Region (15 county area), and city Metropolitan Statistical Area (3 counties)

*Used 4 percent consistently as wage increase amount per 12-month period.

number of points assigned to each job during the point factor analysis of Youth Services jobs marked points along the bottom axis of the scatter gram. The survey dollar values for the mean of the jobs benchmarked were plotted along the vertical axis. Dots representing various benchmark jobs were plotted on the chart by finding the proper number of evaluation points along the bottom, which represented that job at Youth Services, and then moving up vertically to the appropriate survey mean wage data for that job. Each dot represented the relationship between what the company felt the job was worth after doing the point factor analysis and what a similar job was commanding in the marketplace. To find the average of all the data, a diagonal line was drawn through the scatter points beginning at the intersection of the x and y axis at the bottom left hand corner of the scatter gram. The line represented the average relationship between internal job worth as measured by the point factor analysis and external job worth as measured by labor market surveys. This is called the community wage curve.

After examining the survey data and the point factor analysis data, employees were grouped into eight exempt and nine nonexempt grades as shown in Exhibit 1220-G and Exhibit 1220-H. This information was combined with benchmark job titles and mean pay rates from survey data into a single chart.

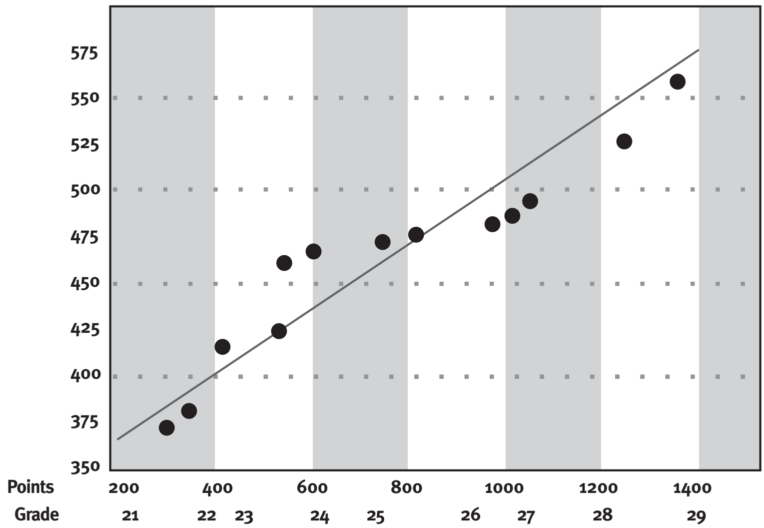
Next, the HR director drew a line horizontally at the point where each labor grade for the organization intersected the community wage curve. This defined the midpoint for each job grade — midway between the minimum and maximum for the grade.

Avoiding One-Size-Fits-All

The HR director then factored in the organization's unique assumptions. The organization knew that on its exempt scale it could pay the position of Education Coordinator, which was the only job that fell within the highest grade according to the point factor analysis, no more than a maximum of $53,000, and that it must pay a minimum of $36,000. This meant the range spread for the highest grade was 38 percent, the difference between the minimum and maximum.

Youth Services also knew that it did not want the minimum salary for the lowest grade to be less than $18,000. The midpoint of Grade E4 was

EXHIBIT 1220-F : SURVEY DOLLAR VALUES



anchored to the salary survey data by making the midpoint of the organization's grade the same as the midpoint of one of the benchmark jobs that fell within that grade reflected in the salary survey data. This job was one where Youth Services was experiencing high turnover, so the team wanted to be sure that it was competitive with the marketplace. This gave the HR director four hard numbers at various points of the salary structure with which to work.

Ranking Priorities

The HR director then discussed pay assumptions with the executive director and senior management team. Youth Services wanted internal equity to take precedence over market competitiveness. It wanted minimum rates within a grade use to reward entry-level employees who met the job requirements. Midpoints would correspond to successful job performance after three years, and maximums would reflect the maximum an employee could make in the grade. It was agreed that the salary data would be benchmarked against the market every year to remain competitive.

EXHIBIT 1220-G : YOUTH SERVICES INC. EXEMPT PAY STRUCTURE						
Job Grade	Minimum	Midpoint	Maximum	Market Midpoint	Midpoint-To-Mid-Differential for Twin Cedars Structure	Range Spread
E8	36,106	44,575	53,044	49,567	12%	38%
E7	32,437	39,799	47,162	39,669	12%	37%
E6	29,139	35,535	41,931	37,496	11%	36%
E5	26,651	32,304	37,957	29,605	11%	35%
E4	24,375	29,368	34,361	29,368	10%	34%
E3	22,070	26,431	30,792	26,659	10%	33%
E2	19,982	23,788	27,594	23,372	9%	32%
E1	18,292	21,647	25,002			31%

EXHIBIT 1220-H : YOUTH SERVICES INC. NONEXEMPT PAY STRUCTURE						
Job Grade	Minimum	Midpoint	Maximum	Market Midpoint	Midpoint-To-Mid-Differential for Twin Cedars Structure	Range Spread
N9	$11.78	$14.11	$16.44	$16.93	10%	33%
N8	$10.78	$12.83	$14.88	$13.64	10%	32%
N7	$9.85	$11.66	$13.47	$12.03	9%	31%
N6	$9.09	$10.69	$12.29	$10.97	9%	30%
N5	$8.39	$9.81	$11.23	$10.86	8%	29%
N4	$7.81	$9.08	$10.35	$9.60	8%	28%
N3	$7.27	$8.41	$9.55	$8.41	7%	27%
N2	$6.80	$7.82	$8.84	$7.63	7%	26%
N1	$6.36	$7.27	$8.18			25%

Next, the HR director had to decide the range spread within all grades but the top one, which already had a range spread of 38 percent. Typically, range spreads run anywhere from 30 percent to 50 percent, with the higher grades reflecting a greater spread. Since the top grade had a range spread of 38 percent, the grades below it logically would have smaller spreads. By decreasing the range spread one percentage point for every grade, the HR director was able to have spreads ranging from 31 percent to 38 percent from low to high grade levels. At the E4 grade level, where the midpoint was determined to be $28,368, and the range spread was 34 percent, it was then possible to calculate minimums and maximums.

The minimums, maximums and midpoints could be calculated for the rest of the grades by comparing them to survey data and naming the percentage difference between the midpoints of the different grades. Typically, in a salary scale midpoint differences range from 8 percent to 15 percent, with the smaller differences at the lower grades. By crunching numbers a few times, the HR director was able to come up with midpoint differences as shown in Exhibit 1220-G.

Once the midpoints were known, the minimums and maximums for every range also could be calculated. Exhibit 1220-H shows this same process for nonexempt workers.

Filling in the Holes

It was then possible to plot current employee salaries on a scatter gram similar to the one used to develop midpoints. For each employee, a dot was placed on a scatter gram that corresponded to the evaluation point score of the job being performed and the actual rate of pay received. These scores were then compared to the minimums and maximums set for the grade. Some employees fell below the minimums established for the grade, and others fell above the maximums.

Youth Services is using 4 percent annual increases to represent an increase for an employee that meets all expectations and 5 percent annual increases for excellent performance (exceeding all goals on the performance plan). Those employees who fell above the midpoint were given their 4 percent a year if they were satisfactory performers. Those who fell below the midpoint were given 4 percent for every year that they in the past had received a merit increase. For example, one woman who had been with the organization since 1992 had a current salary of $23,253 for grade E3 where the midpoint salary was determined to be $26,431. The pay raises she had received during the previous years were added to her salary to bring it to $29,140.

Results

Morale increased considerably after the salary design was instituted. First, those who received large raises were happy (while those who were above the midpoint did not suffer much). Second, it was now possible to explain and justify the salary structure to employees, and correct inequities within the system. Youth Services intends to benchmark against salary data annually to make sure it is competitive in the marketplace.

WorldatWork Salary Survey Guidelines

WorldatWork Salary Survey Guidelines

This WorldatWork statement is an effort to properly educate compensation and total rewards professionals and to support our position as the knowledge leader in total rewards issues and integrated solutions.

Information in this statement is not to be construed as legal advice concerning salary surveys. Please consult with legal counsel to answer specific questions.

Background

WorldatWork understands that various factors such as cost, time, reliability, confidentiality and availability affect your use and involvement in salary surveys. It is our intention here to communicate minimum standards for salary surveys and the use of data from them.

Why are salary surveys used?

- To price jobs and determine market positions
- Document budget and structure movement
- Gather data on policies and procedures
- Diagnose compensation problems
- Monitor internal equity
- Make informed decisions
- Defend current practices.

When it comes to survey data, practitioners should strive for accuracy and completeness first before easy access and convenience. It behooves you to have a high level of trust in data gathered and sources thereof.

The overall purpose for collecting market data is to make informed decisions about your organization's compensation program. Reasons to collect market data include:

- Pricing jobs
- Analyzing pay trends

- Identifying pay practices
- Establishing job worth hierarchies.

Stating this, you need to understand the importance of securing accurate survey data. Factors described later in this statement, such as sample size, participant base, statistical analyses, survey methodology, and job-matching procedures, impact the accuracy of your final market rate composites for benchmark jobs.

Various decision parameters come into play when addressing salary survey usage:

- Availability of published data
- Dollar and opportunity cost
- Time pressures
- In-house capabilities
- Reliability considerations
- Confidentiality considerations
- Perceived credibility

Once you decide your parameters, listed are methods to acquire market data:

- Purchase published surveys
- Participate in surveys
- Utilize third parties
- Design and conduct custom surveys
- Use a telephone informal network
- Acquire web-based data

Methodology

The methodology (body of practices, procedures and rules used by practitioners) in gathering, analyzing and computing salary data should be consistent in application. Credibility is a direct outcome to analysis and makes subsequent comparisons meaningful. In addition to a survey's methodology, participants, analyses and job descriptions should be well documented.

Be Mindful of Web-based and Alternative Sources

Availability of pay data on the Web is growing. Be wary of motives. You especially need to recognize and ask yourself the following questions:

- What is the site's targeted audience?
- Where is the data coming from? Is it self-reported or from employer-based surveys?
- Who is the customer — employer or employees?
- What is the purpose of the data site? Is it to build its database? Virtual storefronts and applicant referrals are at times set up for this various purpose.
- Who maintains the site?

Resellers are in the business of selling convenience of access to a number of alternative sources. Sources included are newspapers, job postings, other Web sites and public sources. Be cognizant of the potential resale of survey data by secondary parties. Parties not ascertaining proper authorization could be held liable of infringement on copyright law.

Survey Selection

Before even selecting surveys, make sure that you have management's support on utilizing survey data in the first place. If you don't have this up-front support, dedicated time and effort may go unappreciated.

Understanding your labor market is key to selecting and participating in surveys. Factors to draw upon include:

- Geographic location (local, regional, national, international)
- Industry
- Function
- Organization size
- Maturity level of comparator organizations

How many sources should you use? There are alternative viewpoints on this. Some prefer a single source. Some say more is better. More sources yield a larger database with more information. More sources aide in avoiding any particular bias. Also, more sources tend to yield a pattern or clustering of data. However, too many sources may "muddy the water" — the "right" number may depend on the position level in question.

To select the "right" survey source(s):

- Match to a correct labor market — for your organization and your job groups.
- Consider the survey participants and the number of incumbents reported.
- Consider the age of the survey.
- Consider your typical sample size for reported jobs.
- Consider your desired data analysis and data sorts.

It should be noted that well-respected, established surveys are conducted on regular intervals for data consistency and trending concerns. Reputable sources for actual and projected salary budget increases, merit budget increases and salary structure adjustments are well known. For most practitioners' needs, there is no need in trying to find alternative online site information. Contact WorldatWork for appropriate and recommended sources for these items. Sources included are newspapers, job postings, other Web sites and public sources. Be cognizant of the potential resale of survey data by secondary parties. Parties not ascertaining proper authorization could be held liable of infringement on copyright law.

Conduct a Custom Survey Yourself

There are various reasons to conduct a custom survey. Unique jobs may not be found in published surveys or you need to verify or supplement published data, to name a few.

If you conduct your own custom survey, keep these points in mind:

- Involve legal counsel in the planning stages.
- Don't use prospective information in your surveys — use data fixed at a date prior to the closing of your survey.

- Consider having qualified, third-party administrators conduct your surveys to avoid misuse of data while preserving reporting to participants.
- Many potential salary survey participants request assurances that other "like" companies also participate. Also, anonymity often is a survey option feature.

A basic premise of surveys is that historic data is collected. Detailed and pointed projections are risky because of the legal aspects of controlling future plans. The appearance of collusion to fix prices is a real threat — companies need to comply with antitrust laws.

Take time up front in planning and structuring your questionnaire to elicit desired information:

- General organizational information
- Compensation data
- Salary structure
- Wage policies
- Timeline information
- Benefits data
- Other

General Aspects of Salary Surveys

Listed below are details inherent to surveys:

- Individual company data should not be identified in survey reports. Displaying aggregate data is the norm.
- A reputable survey usually includes an executive summary that provides highlights followed by accompanying details.
- You should match your organization's benchmark jobs to surveys based on job content, job accountabilities and proper "leveling" described and internally correct. A good rule of thumb in using surveys is that a job "match" is 70 percent or more of the job content listed. A complete job description or at a minimum a capsule describing the matched data should be inherent to the survey.

Matching on title alone can be misleading. It is not typical that one benchmark job is matched to two different job titles in the same survey.

- Determining the accuracy of data reported in surveys is a process phase in and of itself.
- Surveys that specify how data should be reported keep potential "cleaning of the data" to a minimum. "Inappropriate" responses of survey input, like data reported that exceed range maximums or are lower than range minimums, affect results.
- Follow-up: Contacting companies that have not submitted data or to clarify inconsistencies is a crucial step to salary surveys.
- Scope job: Scope measures aide in data input decisions as well as data analysis.
- Surveys shouldn't ask for proprietary information; focus should be on readily available, nonsensitive measures. Common examples of scope measures include sales, assets and staff size.
- It is proper etiquette and a good business practice to provide participant reports in a timely manner to companies that provided usable data to respective surveys. In some instances, a survey fee may be charged as well.

Data Utilization

Many times we are interested in what is the most representative or expected value of a set of survey data. Although not all detailed definitions are listed below, please find pertinent measures accompanied by deduced standards that seasoned practitioners should follow.

Median: Describes the central tendency of the data to minimize the effect of extreme values. These extreme values affect the mean; they do not affect the median. The median answers the question: "What is the middle salary in a set of ranked salaries?"

Weighted mean (average): As far as salary surveys go, one argument for using a weighted mean is that it reflects equally the number of incumbents in a survey. If companies participating are truly representative of the market, then the data should reflect the market value of the job. The weighted mean answers the question: "On average, what are incumbents in a particular job paid?"

On the other hand, one argument for using the unweighted mean is that due to the sampling process, there may be a company with a large number of incumbent data that is not in the survey, and may not be on the same high or low side of the data that another company with a preponderance of the data may be. The unweighted mean answers the question: "On average, what are companies paying a particular job?"

Interesting to note, the market pay for any given position will rarely cluster closely around a middle point. Well-matched and solid surveys may show broad spreads between market highs and market lows. Don't be alarmed. Various reasons include the following:

- A company's pay philosophy
- The length of time incumbents have been in a job
- Variations in the responsibility level of a job.

Trimmed mean (average): This is the mean of the middle part of the data. It is typical for surveys to exclude extreme values, hence minimizing their impact on final data recommendations.

An example of a trimmed mean is excluding the data points with the highest and the lowest value and taking the mean of the remaining data points. Another example would be trimming the top 5 percent and the bottom 5 percent and taking the mean of the middle 90 percent of the data; or trimming the top 10 percent and the bottom 10 percent and taking the mean of the middle 80 percent of the data.

You should report the amount of trimming so those recipients of your analysis know, understand and can use the data properly. Analysis can be biased (an obvious ethical issue) if trimmed means are not calculated correctly. You can't trim just the high values or just the low values to sway the data in any certain fashion. This needs to be strictly adhered to.

Measures of variation can be presented in misleading fashions. A **range** is simply the difference between the high and low values of a data set. A main disadvantage is that it is based on only two data points, and further, on the two most extreme values of a data set. Hence, it is obviously very much impacted by extreme values. Further, it does not tell us anything about the dispersion of the data points that fall in between. For large data sets, ranges may not be adequate in indicating variability.

In calculating **standard deviations**, differentiating between "population" and "sample" needs to take place. For large data sets (number of data points greater than 30), the difference between the value of a population and a sample standard deviation is less than 2 percent, therefore negligible for most situations. However, for sources with limited data points, standard deviation data can be misleading if not calculated properly.

You may have heard compensation philosophies where a company is "… targeting salaries at the XXth percentile of industry pay." A percentile, as defined most widely by practitioners, is a value that a given percentage of the data is less than. For example, targeting salaries at the 60th percentile of industry pay, which means the value of salaries that 60 percent of the companies are less than. Be cautious in calculating percentiles. There should be a minimum number of data points to make sense as to give a degree of comfort with the stability of the percentile calculated. Also, different formulas can be used to calculate percentiles. We recommend calculating proportionally between data points. Some algorithms out there go halfway between data points, some take the upper point and some take the lower point.

Maturity curves. Salary data on a family of jobs is collected and plotted against years since first degree or experience or age. Some organizations use maturity curves for macro-budgeting purposes, which can be very useful. However, this term is being mentioned here in that there are dangers in using them for individual salary decisions. For instance, if you want to pay for job performance, nowhere on the curve is any information about the job — its content or level. Nor is there any information about performance on these curves. Further, making decisions based on years since first degree could lead to ADEA-protected class issues (40 years of age or older).

Compensation modeling applications can be found online. Here are a few "cautions" to keep in mind:

- Correlation and coefficient of determination measure the strength of linear relationships. In some instances, a straight-line model may not be appropriate. If a strong curvilinear relationship exists, the interpretation of r and r-square won't make too much sense.
- Correlation does not imply cause-and-effect relationships. In and of itself, correlation does not prove a thing. It is just a measure of how things just happen to go together.
- Do not use modeling that predicts too far away from the data points. The validity of any modeling is strongest within the range of the data points from which it is derived. If predicted values are too far away from the range of data points, it may not reflect a true situation. Where the data set represents a good model, a formula can be produced to predict pay levels for jobs at various points along a line of best fit.

Software exists to assist in survey analysis and data presentation. Compensation software, spreadsheets and statistical packages can greatly aid in generating data mentioned above.

Developing your Salary Recommendations

When analyzing salary surveys, an issue arises in aging (trending) data to a common point in time. An annual aging factor (rate at which market rates are increasing) needs to be determined and multiplied by the date-to-age data (number of months to age divided by 12 months).

This resulting numeric value is then multiplied by the respective survey data. To age data across two calendar years, develop separate aging factors for each year and then combine (compound) the two percentages.

Pointers in developing a "market consensus":

- Delete outlying data.
- Compute averages.
- Weight data appropriately.
- Observe central data tendencies.
- Don't be swayed by incumbent pay data.

Weighting market data across survey sources is a function of a number of criteria, including your compensation strategy, the perceived quality of each survey and the quality of job matches. You may want to give the most weight to those surveys that most accurately capture your labor market and best reflect your jobs' content.

If you do combine custom and published salary data, here are a few "weighting" options:

- Weight each source equally.
- Double-count the custom data.
- Weight custom data 50 percent.

In developing market rate composites, it is preferable to have three or four survey sources included in your analysis. Also, it is recommended that online salary sources, if used, should be weighted only in conjunction with other reputable sources, but not utilized as a sole source of market data.

Conclusion

Regarding minimum standards for salary surveys and the use of data from them, practitioners should strive for accuracy and completeness first before easy access and convenience. The more you know about survey information and respective sources, the more reliable the decisions you can make for your company.

Salary Survey Guidelines

Compensation packages have become a critical element for companies these days, with attraction and retention of top talent being one of the keys to success. Therefore, ensuring that a company's compensation packages are competitive enough to attract and retain key talent is critical to business success. This has increased the importance of acquiring accurate, timely salary data to aid in making the company's compensation packages competitive not only in their region, but also in their industry and the job categories to be filled.

WorldatWork recognizes the importance of acquiring the best data to use and has established the following set of guidelines to help determine survey data validity. With the growing availability of salary survey data now available on the Internet, validating data integrity is more important than ever before. Before selecting surveys to use, remember that survey data is important in establishing market comparison data, but surveys should by no means be the sole source used to determine pay ranges and compensation packages. Government labor statistics, SEC disclosure rule reporting of executive data, proxies, association resources and many other factors (i.e., your company's total rewards philosophy) can and should also be considered in establishing compensation packages.

Survey Selection:

1. *Make sure the survey(s) that are selected match the correct labor market and job category*. Companies need to be competitive in local, regional and national markets. Market factors include geographic location, industry, job function, maturity level of the organization and more. Make sure, also, that the survey data selected match the actual functions of jobs being evaluated, not just the job titles alone.
2. *Don't put all your eggs in one basket*. Determine how many sources are appropriate for establishing pay scales. Some companies prefer a single source, whereas others feel more is better for establishing a trend. Using more survey sources yields a larger database with more information and helps avoid any particular bias of a single source.

3. *Get the support of management*. Without first having management's support on utilizing survey data, dedicated time and effort may go unappreciated and may be overruled.
4. *Know why you are seeking survey information*. A thorough assessment of needs is imperative in guiding the selection of appropriate surveys. Determine what data is needed, what jobs need to be listed in the survey data and the appropriate labor markets to use in comparison (both geographically and by industry).
5. *Use reputable sources to find surveys*. There are companies that specialize in cataloguing salary survey sources and maintaining information about them. These are excellent sources to locate the right surveys for your organization.

Characteristics of a Good Survey

1. *Surveys used must have an adequate sample size*. The survey selected must have large enough sample sizes for the jobs being assessed to ensure the information is valid.
2. *No secrets here*. All valid and useful surveys readily identify the key elements of the survey, including effective date of the data, term definitions, clarity of statistics and position descriptions. All of these elements and a consistent reporting design are always inherent in reputable surveys. Aggregate or summarized data should be reported as well. In addition, data collection, screening and verification techniques should be identified to ensure the survey was properly conducted and reported.
3. *Survey sources and sample sources should always be identified*. Source information is an important part in the assessment and recommendation for compensation program changes. Reputable surveys are always open to revealing the source of their sample to show the data is both valid and accurate. Also, be cautious of reports presented by survey data aggregators — they may not identify sources of their data and may have a vested interest in how or even what information is reported.

4. *Be cautious when reviewing free, online survey information*. Numerous issues may affect the reliability and validity of the data reported. Foremost, a key concern is how data is collected and reported. Again, make sure you can verify the source of a survey's data.
5. *Make sure the data is timely and up-to-date*. This is especially important in the age of ever-advancing technology with new hot skill positions popping up every few months. Having the most up-to-date data is almost as important as having the most valid data.

Note: These guidelines represent widely accepted professional practices for anyone selecting and using salary surveys. WorldatWork cautions that there is a wide range of salary survey providers that publish data both in traditional printed reports and via the Internet. WorldatWork neither endorses specific surveys or survey providers nor attests to the quality of data provided.

WorldatWork has numerous resources to help HR professionals and others locate and evaluate salary survey information. For more information, please contact our Knowledge Services at 877/951-9191 or e-mail infocenter@worldatwork.org.

Glossary of Terms

Age Discrimination in Employment Act of 1967 (ADEA). Federal legislation that made employees between the ages of 40 and 65 a protected class. The 1978 amendments to this act raised the minimum age limit for mandatory retirement to 70 for most employees. Amendments in 1986 effectively ended mandatory retirement based solely on age and expanded benefits entitlement (in the Older Workers Protection Act) by restoring the equal benefit or equal cost requirement for age-based differences in employee benefits plans. A 1996 amendment allows an exemption based on public safety, allowing police and fire departments and airlines, for example, to establish maximum hiring and mandatory retirement ages.

Aging Data. See **Aging Survey Data**.

Aging Survey Data. The practice of increasing market survey data by an assumed percentage representative of wage movement to bring the data to a consistent point in time. This practice also is known as advancing or trending the data.

Americans with Disabilities Act of 1990 (ADA). A federal law that creates nondiscrimination protections for people with disabilities, similar to Title VII of the Civil Rights Act of 1964, which is extended to other minorities. Under the law, employers may not refuse to hire or promote a person because of a disability, and employers are required to make reasonable accommodations to allow people with disabilities to perform essential functions. Regulations are enforced by the Equal Employment Opportunity Commission.

Average. The sum of all values of a data set divided by the number of values in that set. Equivalent to the mean.

Award. An amount of cash, a prize, a symbol or an intangible reward given as a form of recognition. Awards can be in the form of money, prizes, plaques, travel and public commendations. The payouts of sales contests usually are called awards.

Base Pay. The fixed compensation paid to an employee for performing specific job responsibilities. It is typically paid as a salary, hourly or piece rate.

Benchmark Job. A job that is commonly found and defined and used to make pay comparisons, either within the organization or to comparable jobs outside the organization. Pay data for these jobs are readily available in published surveys. These are specific and realistic job specifications that relate to what, why and how work is performed on a specific job and, as such, are imposed on all employees equally and ensure all applicable legal and regulatory requirements are met.

Benefits. Programs that an employer uses to supplement the cash compensation an employee receives. Benefits include income protection programs such as publicly mandated and voluntary private income protection programs that often are provided through insurance, pay for time not worked and other employee perquisites. Benefits may be monetary (e.g., paid sick leave, bonuses, tuition reimbursement) or nonmonetary (e.g., flexible work schedules, parking facilities, discounts on products or services).

Bonus. An after-the-fact reward or payment based on the performance of an individual; a group of workers operating as a unit, a division or business unit; or an entire work force. Payments may be made in cash, shares, share options or other items of value. In the context of sales compensation, a defined, pre-established amount of money to be earned for achieving a specified performance goal. Planned bonus amounts commonly are expressed as a percent of the incumbent's base salary, salary range midpoint, percentage of target cash compensation or incentive compensation, or a defined dollar amount.

Budget. A financial plan for the allocation of money to pay for wages and indirect compensation for a covered group of employees over a specified period.

Bureau of Labor Statistics. A unit of the U.S. Department of Labor charged with collecting and reporting labor statistics, including area wage data, national pay data and industry surveys, such as the National Survey of Professional, Administrative, Technical and Clerical Pay (PATC), and other wage and benefits data.

Cash Compensation. The sum of all cash payments made to an individual for services (i.e., employment) during a given year.

Central Tendency. In statistics, some clustering around a central value in a distribution of data usually determined by one of the measures of location; i.e., mean, median or mode.

Collective Bargaining Agreements. Agreements between employee groups and employers detailing work conditions including working hours, vacation and holiday entitlements, termination of service provisions and sometimes benefit entitlements. These agreements may be specific to one company or industry or apply nationally.

Compensation. Cash provided by an employer to an employee for services rendered. Compensation is comprised of the elements of pay (e.g., base pay, variable pay, stock, etc.) that an employer offers an employee in return for his or her services.

Compensation Philosophy. The principles that guide design, implementation and administration of an organization's compensation program. The strategy ensures that a compensation program, consisting of both pay and benefits, supports an organization's mission, goals and business objectives. It also may specify what programs will be used and how they will be administered. The philosophy ensures that a compensation program supports an organization's culture. The policy ensures that a compensation program carries out the compensation strategy while supporting the compensation philosophy.

Compression. Pay differentials too small to be considered equitable. The term may apply to differences between (1) the pay of supervisors and subordinates, (2) the pay of experienced and newly hired personnel of the same job and (3) pay-range midpoints in successive job grades or related grades across pay structures.

Cost of Living. See **Cost-of-Living Adjustment**.

Cost-of-Living Adjustment. An across-the-board wage and salary increase or supplemental payment designed to bring pay in line with increases in the cost of living to maintain real purchasing power.

Department of Labor (DOL). A regulatory agency that administers and enforces several federal laws including the Equal Pay Act of 1963, Fair

Labor Standards Act of 1938 (FLSA), Employee Retirement Income Security Act of 1974 (ERISA) and Family and Medical Leave Act of 1993 (FMLA). Agencies under the DOL include the Bureau of Labor Statistics (BLS), Employment Standards Administration and the Pension and Welfare Benefits Administration (PWBA).

Downsizing. Reducing the size of the work force.

Effective Date. (1) The date on which a benefits plan or insurance policy goes into effect, and from which time coverage is provided. (2) The date on which increases in salary or pay rate go into effect.

Eligible Payroll. Determined by the sum of salaries and/or wages of those employees who are eligible to participate, including those who are eligible and receive no salary increase.

Equal Employment Opportunity Commission. A commission of the federal government charged with enforcing the provisions of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967 (ADEA), the Equal Pay Act of 1963, the Americans with Disabilities Act of 1990 (ADA) and other fair employment practices legislation.

Equal Pay Act of 1963. An amendment to the Fair Labor Standards Act of 1938 (FLSA) that prohibits gender-related pay differentials on jobs that are substantially equal in terms of skill, effort, responsibility and working conditions, and that are performed in the same location. Exceptions occur when such differentials are the result of bona fide seniority, merit- or production-based pay systems, or any other job-related factor other than gender.

Equity. Anything of value earned through the provision or investment of something of value. (1) In the case of compensation, an employee earns equity interest through the provision of labor on a job. Equity often is used as a fairness criterion (i.e., equal treatment) in compensation. People should be paid according to their contributions. (2) On an organization's balance sheet, equity represents the book value of the owners' stake in the firm.

Executive. While there is no absolute definition, an executive is considered to be anyone who has significant responsibility for the management of the organization or sub unit of the organization.

Exempt. See **Exempt Employees**.

Exempt Employees. Employees who are exempt from the Fair Labor Standards Act of 1938 (FLSA) minimum wage and overtime provisions due to the type of duties performed. Include executives, administrative employees, professional employees and those engaged in outside sales as defined by the FLSA.

External Equity. A measure of an organization's pay levels or bands or going market rates compared to that of its competitors. As a fairness criterion, external equity implies that the employer pays wages that correspond to prevailing, external market rates, as determined by market pricing.

Fair Labor Standards Act of 1938 (FLSA). A federal law governing minimum wage, overtime pay, child labor and record-keeping requirements.

Feedback. Information about the state or outcome of a system that can be used to modify or correct a system's operation. As the term usually is used with respect to compensation, it relates to the process in which information about the status of performance is given to employees by supervisors. Monetary rewards constitute powerful feedback to employees about their performance; nonmonetary feedback (e.g., praise from the boss) also can provide strong motivation. Performance appraisals are an example of a feedback mechanism.

Green Circle. See **Green-Circle Rate**.

Green-Circle Rate. A rate paid to an employee that is below the established pay range minimum for a specific job. Hence, the incumbent is usually eligible for larger or more frequent base salary increases until pay penetrates the range minimum.

Incentive. Any form of variable payment tied to performance. The payment may be a monetary award, such as cash or equity, or a non-monetary award, such as merchandise or travel. Incentives are contrasted with bonuses in that performance goals for incentives are predetermined. Commissions are forms of incentives generally based on sales goals, with cash payments making up a large portion of an individual's total compensation.

Job. The total collection of tasks, duties and responsibilities assigned to one or more individuals whose work has the same nature and level. Also called a position.

Job Analysis. The systematic, formal study of the duties and responsibilities that constitute job content. The process seeks to obtain important and relevant information about the nature and level of the work performed and the specifications required for an incumbent to perform the job at a competent level.

Job Description. A summary of the most important features of a job, including the general nature of the work performed (duties and responsibilities) and level (i.e., skill, effort, responsibility and working conditions) of the work performed. It typically includes job specifications that include employee characteristics required for competent performance of the job. The description should describe and focus on the job itself and not on any specific individual who might fill the position.

Job Documentation. Written information about job content typically resulting from job analysis efforts. Documentation includes, but is not limited to, job descriptions, completed questionnaires, interview notes, diaries or logs, and efficiency study reports.

Job Evaluation. A formal process used to create a job worth hierarchy within an organization. The two basic approaches are the market data approach and the job content approach.

Job Grade. One of the classes, levels or groups into which jobs of the same or similar value are grouped for compensation purposes. Usually, all jobs in a grade have the same pay range: minimum, midpoint and maximum. However, different jobs in the same pay grade may have different pay ranges, due to market conditions for some jobs.

Job Pricing. See **Market Pricing**.

Job Worth Hierarchy. The perceived internal value of jobs in relationship to each other within an organization. The job worth hierarchy forms the basis for grouping similar jobs together and establishing salary ranges.

Labor Market. A place where labor is exchanged for wages. These places are identified and defined by a combination of the following factors: (1) geography (i.e., local, regional, national, international); (2) industry; (3) education, experience and licensing or certification required; and (4) function or occupation.

Lead/Lag. See **Lead/Lag Structure Policy**.

Lead/Lag Structure Policy. A salary practice that is halfway between a lag and a lead policy. An organization's structure is set at the beginning of the plan year to its anticipation of the level the competition will reach by the middle of the plan year. It leads the market during the first six months, matches the competitive pay at the middle of the year and lags the market during the past six months. A variation of this process is the lag-lead structure, which is the opposite of the lead-lag policy.

Level of Work. Critical data about job content that reflects the job's skill, effort, responsibility and working conditions.

Living Wage. In union contract negotiation, a term that refers to a wage rate that allows an employee to maintain an acceptable standard of living.

Market Adjustment. The percentage increase to organization, group or individual pay that is necessary to adjust it to the estimated market level.

Market Index. An index computed by dividing the pay received by an individual by the market pay for that job. This figure can be computed for groups, departments and the entire organization. It is designed to provide a measure of how organizational pay compares to the market.

Market Index of Competitiveness. See **Market Index**.

Market Pricing. Relative to compensation, the technique of creating a job-worth hierarchy based on the going rate for benchmark jobs in the labor market(s) relevant to the organization. Under this method, job content is considered secondarily to ensure internal equity after a preliminary hierarchy is established based on market pay levels for benchmark jobs. All other jobs are slotted into the hierarchy based on whole job comparison.

Market Rate. The employer's best estimate of the wage rate that is prevailing in the external labor market for a given job or occupation.

Mean. A simple arithmetic average obtained by adding a set of numbers and then dividing the sum by the number of items in the set.

Median. The middle item in a set of ranked data points containing an odd number of items. When an even number of items are ranked, the average of the two middle items is the median.

Merit. See **Merit Increase**.

Merit Increase. An adjustment to an individual's base pay rate based on performance or some other individual measure.

Nature of Work. Critical data about a job that reflect the job's duties and responsibilities.

Nonexempt. See **Nonexempt Employees**.

Nonexempt Employees. Employees who are not exempt from the minimum wage and overtime pay provisions of the Fair Labor Standards Act of 1938 (FLSA).

Pay Line. See **Pay Policy Line**.

Pay Policy Line. The level at which the organization decides to set its pay against the external market. Usually the midpoint of the salary structure is set as an estimate of the market going rate.

Pay Grades. See **Salary Grades**.

Pay Philosophy. See **Compensation Philosophy**.

Pay Range. The range of pay rates, from minimum to maximum, established for a pay grade or class. Typically used to set individual employee pay rates.

Pay-Range Width. The width or spread of a pay range, measured by the ratio: width = (maximum pay × minimum pay)/ minimum pay.

Payroll Eligible. See **Eligible Payroll**.

Percentile. A measure of location in a distribution of numbers that defines the value below which a given percentage of the data fall. For example, the 90th percentile is the point below which 90 percent of the data fall.

Population. In statistics, the set of all elementary units of interest in a given situation.

Premium Pay. Extra pay, beyond the base wage rate, for work performed outside or beyond regularly scheduled work periods (e.g., Sundays, holidays, night shifts, etc.). Also may refer to extra pay for high-demand knowledge or skills.

Premium Wage. See **Premium Pay**.

Prevailing Wage Rates. The amount paid by other employers in the labor market for similar work. The Davis Bacon Act of 1931 requires most federal contractors in construction and related areas to pay the wage rates and fringe benefits prevailing in the area. The McNamara-O'Hara Service Contract Act of 1965 requires certain federal contractors who provide services to the federal government to pay area prevailing wage rates.

P**roxy Statements**. A document required by the Securities and Exchange Commission (SEC) for a publicly owned company that notifies shareholders of the company's annual or any special meeting, and that transmits information relevant to matters that will be voted upon by shareholders including election of officers. Also included is information about compensation of the company's highest-paid executive officers.

Range Spread. See **Pay-Range Width**.

Recognition. See **Recognition Program**.

Recognition Program. A policy of acknowledging employee contributions after the fact, possibly without predetermined goals or performance levels that the employee is expected to achieve. Examples include giving employees clocks or other gifts on milestone anniversaries, granting an extra personal day for perfect attendance or paying a one-time cash bonus for making a cost-saving suggestion. Also known as service awards.

Red Circle. See **Red Circle Rate**.

Red Circle Rate. An individual pay rate that is above the established range maximum assigned to the job grade. The employee usually is not eligible for further base pay increases until the range maximum surpasses the individual pay rate.

Responsibility. A duty or group of duties that describes the major purpose or reasons for the existence of a job.

Rewards. See **Rewards System**.

Rewards System. An organization's choice of cash and noncash motivational elements and the mix of its total rewards program that is used to support its business strategy.

Right-sizing. The practice of eliminating nonessential and/or redundant positions to reduce the work force to the smallest possible size without adversely affecting normal operations. Residual employees are those who remain after this process and whose duties may change and/or increase significantly.

Salary Grades. A group of jobs of the same or similar value, used for compensation purposes. All jobs in a salary grade have the same salary range: minimum, midpoint and maximum.

Salary Structure. The hierarchy of job grades and pay ranges established within an organization. The salary structure may be expressed in terms of job grades, job-evaluation points or policy lines.

Salary Survey. See **Wage Survey**.

Seniority. Status determined by the length of time an employee has worked for a given employer, often as the basis for rights, privileges and benefits. The term also may be used to reflect time worked for a division, group or specific occupation. Union contracts often provide for multiple seniority calculations.

Sherman Antitrust Act of 1890. A federal law passed to protect the public from abuses of corporate monopolies. In 1908, the Supreme Court ruled that it applied to unions as well. Unions have invoked rights under the law to ensure competitive wage levels (i.e., to prevent employers from price fixing).

Skills. See **Skills Inventory**.

Skills Inventory. A planning tool that specifies all people currently employed by the organization and classifies them according to their skills, job assignments, age, sex and other factors relevant to human resource planning. The device is employed primarily as a way of classifying internal labor supplies for human resources planning.

Slotting. The act of placing a job into a job worth hierarchy established by some other job evaluation method. The method involves comparing the job to one or more jobs in an already established hierarchy. Consequently, it cannot be used as a stand-alone method.

Stock Option. A right to purchase company shares at a specified price during a specified period of time.

Strategy. The science or art of employing a careful plan to achieve a specified goal.

Target Cash Compensation (TCC). As it relates to sales compensation, the total cash compensation, including base salary and incentive compensation, available for achieving expected results.

Target Total Cash. See **Target Cash Compensation (TCC)**.

Title VII of the Civil Rights Act of 1964. Prohibits discrimination in all aspects of employment when that discrimination is based on race, color, religion, sex or national origin. It is unlawful for employers to segregate or classify employees based on the above so that they are adversely impacted. The act was amended in 1991 to clarify prior legislation and authorize compensatory and punitive damages and jury trials in Title VII cases in which plaintiffs allege and prove intentional illegal discrimination.

Total Rewards. All of the tools available to the employer that may be used to attract, retain and motivate employees. Total rewards include everything the employee perceives to be of value resulting from the employment relationship.

Unweighted Average. See **Unweighted Mean**.

Unweighted Mean. A simple arithmetic average of individual means.

Variable Pay. Compensation that is contingent on discretion, performance or results achieved. It may be referred to as pay at risk.

Vocational Rehabilitation Act of 1973. Section 503 of this act is intended to promote job access for qualified individuals with disabilities. All employers with contracts or grants from the federal government in excess of $10,000 must take affirmative action or positive measures to employ qualified individuals with disabilities. Those employers with contracts of $50,000 or more who employ 50 or more people must take affirmative action as well. Any pay differentials between disabled employees and other employees with similar jobs are subject to Office of Federal Contract Compliance Programs scrutiny, and they must be justified on the basis of differential output or seniority.

Wage Rate. The money rate, expressed in dollars and cents, paid to an employee per hour.

Wage Survey. A survey of a labor market to determine the going rates for benchmark jobs.

Weighted Average. See **Weighted Mean**.

Weighted Mean. An average of means calculated by weighting each individual mean according to the number of data points that made up that individual mean.

The Work Experience. Elements of rewards that are important to employees but may be less tangible than compensation or benefits. It includes acknowledgement or recognition of effort/performance, balance of work/life issues, cultural issues, development opportunities and environmental factors.

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Selected References

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WorldatWork Total Salary Increase Budget Survey

Calculate This!

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Communicating Compensation Programs: An Approach to Providing Information to Employees

Determining Compensation Costs: An Approach to Estimating and Analyzing Expense

Mastering Marketing Data: An Approach to Analyzing and Applying Salary Survey Information

Measuring the Marketplace: An Approach to Designing and Conducting a Salary Survey

Related Courses

C1: Regulatory Environments for Compensation Programs

C2: Job Analysis, Design, Documentation and Evaluation

C4: Base Pay Management

T3: Quantitative Methods

WorldatWork Web Site

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www.bls.gov

Employment Cost Index
www.bls.gov/ncs/ect/home.htm

National Compensation Survey
www.bls.gov/ncs/ocs/home/htm

Occupational Outlook Handbook (OOH)
www.bls.gov/oco/home.htm

Point Factor System
www.bls.gov/ncs/ocs/sp/ncbr0004.pdf

Bureau of National Affairs, Compensation and Benefits Library
www.bna.com

Department of Labor
www.dol.gov

HR Guide
www.hr-guide.com

HR Village
www.hrvillage.com

Institute of Management & Administration (IOMA)
www.ioma.com

Job Analysis.network
www.job-analysis.net/

Job Genie
www.stepfour.com/jobs

Office of Personnel Management (Federal Classification System)
www.opm.gov/fedclass/index.htm

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www.onetcenter.com

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www.workforce.com