

Building an Effective Base Compensation Plan

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Session Highlights and Learning Objectives

- Definitions
 - Base Compensation
 - Total Cash Compensation
 - Total Rewards
- Compensation Plans – Goals and Objectives
- Compensation Philosophy – What is Yours?
- Base Compensation Plan Components
 - External Market Comparison
 - Internal Equity

Session Highlights and Learning Objectives

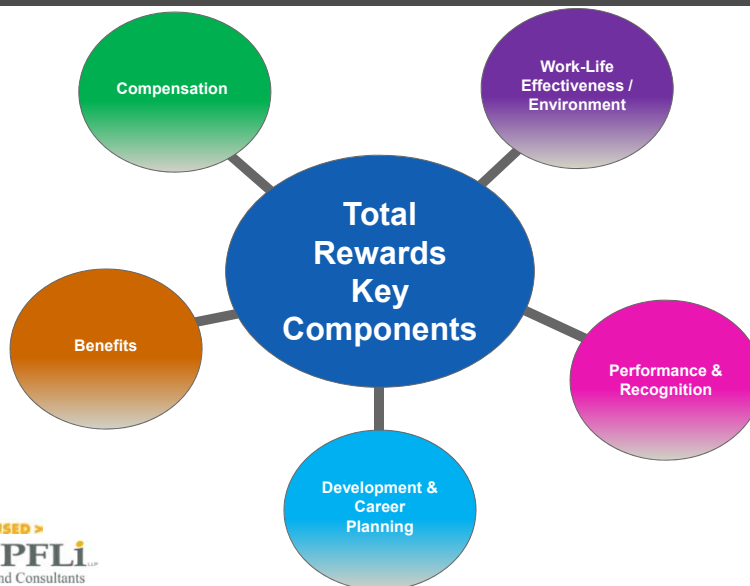
- Salary Structure Development
- Employee Impact Analysis
- Plan Administration
- Communicating the Plan

Definitions

- Base Compensation
- Total Cash Compensation
 - Base compensation
 - Incentives
- Total Compensation
 - Base compensation
 - Incentives
 - Benefits
- Total Rewards
 - Anything associated with the overall employment experience of the employee with your organization



Total Rewards Encompasses





Objectives of a Compensation Plan

<h3>Strategic alignment</h3> <ul style="list-style-type: none"> • Reflect organization's mission and values • Support personnel recruitment and selection strategies • Motivate employees to help achieve program and organizational goals 	<h3>Fair and equitable</h3> <ul style="list-style-type: none"> • Recognize the value each position brings to the organization • Pay salaries equitable for work being performed • Ensure equitable pay across departmental lines
<h3>Top talent</h3> <ul style="list-style-type: none"> • Attract and retain qualified employees • Ensure wages are comparable to similar work in organizations you compete with for employees 	<h3>Consistency and accountability</h3> <ul style="list-style-type: none"> • Increase understanding of pay administration • Minimize inconsistent administration of pay • Increase manager accountability

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Where to Start?

- Compensation Philosophy – Guides Decision Making
 - Aligns compensation with organization strategy and goals
 - Determine level of competitiveness
 - Lag, meet, or lead market
 - Identify the components of compensation
 - Base, incentives, benefits, perquisites
 - Decide how to reward performance
 - Base vs variable pay

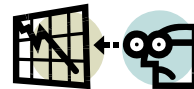
Compensation Philosophy

What do you value and reward?

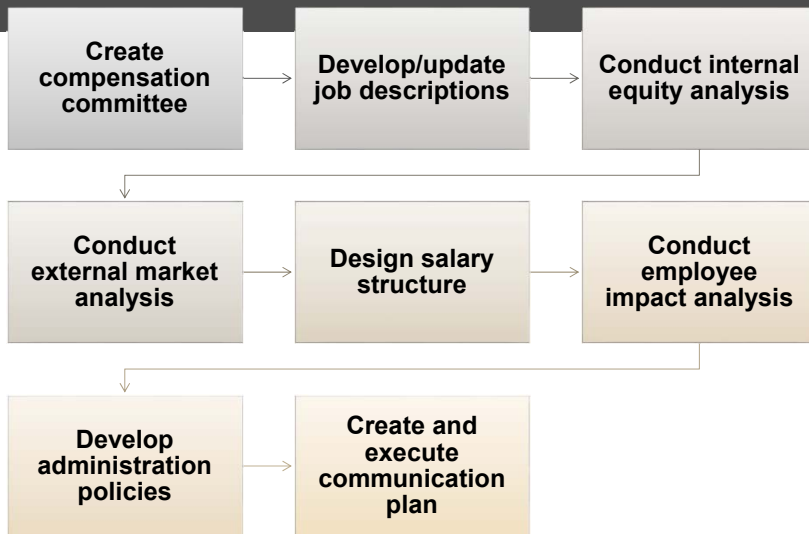


The Market Makes the Rules!

- What happens when you pay below market?
 - Under 95% of mid-point
- What happens when you pay at market?
 - 96% to 105% of mid-point
- What happens when you pay above market?
 - Over 106%



Compensation System



Compensation Committee

- Consists of:
 - Three or five members (odd)
 - Management personnel
 - Non-supervisory leaders
 - Cross-section of the organization
- Must make a long-term commitment to the committee and be willing to work together and make tough but fair decisions
- Evaluate jobs not people; no dollar amounts should be assigned to any position at this point in the process



Job Documentation/Descriptions

- Job descriptions are critical
- Can't reliably or accurately compare to salary survey descriptions without them
- We understand there are rarely "perfect" matches to salary survey data, but job descriptions give us the means to make reasonable estimates
- Update descriptions as the job changes, or as people change (especially single-incumbent jobs)
- Responsibility lies with each manager, with HR assisting and providing the consistent framework

Develop/Update Job Descriptions

Well-designed compensation systems begin with clear documentation of job accountabilities, responsibilities, and qualifications:

- Title
- Exemption status (FLSA considerations)
- Reporting relationships
- Position summary
- Primary accountabilities and responsibilities
- Secondary responsibilities
- Education, experience, and other requirements
- Working conditions
- Employment At-Will and ADA disclaimer



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Internal Equity Analysis

What

- Determines the relative value of each position to every other position within the organization on the basis of compensable factors

When

- Establishes a position's relative worth *within* the organization before or at the same time as the external analysis

Who

- Conducted by the compensation committee or an independent third party



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Internal Equity Analysis

The most common approach to evaluating positions is the:

Point Factor Evaluation Method



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Point Factor Evaluation Method

Breaks jobs down into identifiable compensable factors by assigning levels and points within the evaluation criteria

- Uniformity of evaluations
- Determines relative value of different positions
- Addresses comparable worth issues



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Point Factor Evaluation Method

Choose and define compensable factors:

Skills	Responsibilities	Effort	Job Conditions
<ul style="list-style-type: none"> Education Experience Complexity Initiative Ingenuity 	<ul style="list-style-type: none"> Contacts Process or Equipment Confidential information Safety of others Supervision of others 	<ul style="list-style-type: none"> Physical demands Mental or visual demands 	<ul style="list-style-type: none"> Working conditions Unavoidable hazards


Establish and define levels within factors


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Point Factor Evaluation Factors and Levels

Assign points to factors and levels

FACTORS	WEIGHT	LEVELS					Maximum
		1	2	3	4	5	
1. SKILLS		25.0%					
a. Education	10.0	20	40	60	80	100	100
b. Experience	15.0	30	60	90	120	150	150
2. RESPONSIBILITY		65.0%					
a. Administrative	15.0	30	60	90	120	150	150
b. Complexity/Decisions	15.0	30	60	90	120	150	150
c. Contacts	10.0	20	40	60	80	100	100
d. Equipment or Process	10.0	20	40	60	80	100	100
e. Confidential Information	5.0	10	20	30	40	50	50
f. Supervision of Others	10.0	20	40	60	80	100	100
3. EFFORT		10.0%					
a. Mental or Visual Demand	10.0	20	40	60	80	100	100
		100.0%	Total Points:				1,000


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Point Factor Evaluation Form

- Determine the appropriate level for each factor
- One factor at a time
- Make clear comments for reference
- Consistency is key
- Identify gaps or errors in job descriptions

*****Remember! Consider the job requirements only, not the job incumbent***



Example of a Factor Definition

SKILL DESCRIPTION EXAMPLE - EDUCATION

This factor considers the basic knowledge requirements in terms of formal education, information, and mental development necessary to perform a job satisfactorily. It includes knowledge of: steps, procedures, practices, rules, policies, theories, and concepts, as well as the ability to communicate, reason and problem solve. This knowledge can be acquired through formal schooling, independent study, short courses or on-the-job training, or it may be innate. Specialized technical training for licensing or certification is included. It is assumed that all jobs require basic skills in reading, writing, and arithmetic (add, subtract, multiply and divide, decimals and fractions).

Consider the job requirement knowledge only and not the education the employee may have acquired, or Organization hiring policies relative to educational level or that "educational requirements must reflect advancement potential." To assist in determining the requirements, the degrees are expressed in relation to formal education steps.

Level 1:

Requires the ability to understand and follow standard practices and instructions, keep routine records, operate an adding machine, office copier, use a computer terminal to obtain information; ability to check, proof, post and file; knowledge of standard practices and procedures including clerical routines. Equivalent to a high school diploma.

Level 2:

Requires the ability to read and understand written instructions, standard practices and procedures; some knowledge of a specialized field or process; intermediate skill in typing, transcribing, word processing, bookkeeping/accounting or office routines, data entry; ability to compose and/or edit standard business correspondence. Equivalent to a high school diploma plus additional training in a specialized or technical field.

Level 3:

Requires knowledge of a general or technical field such as accounting, computer operations, general laboratory procedures, advanced word processing or data base applications, administrative support, mechanics, plant maintenance, etc. Equivalent to two years of college or an associate degree.

Level 4:

Requires thorough knowledge or training in a profession, or in a specialized or technical field such as financial accounting, business administration or management, agricultural business, computer science/programming/MIS, marketing, engineering, plant management, chemical or biological sciences, etc. Equivalent to a bachelor's degree.

Level 5:

Requires a broad knowledge of an advanced and technically specialized field, formal research and schooling beyond the bachelor's level. Equivalent to a master's degree, special licensure, or certification (CPA, JD, etc.).



Point Factor Evaluation Sample Results

INTERNAL EQUITY ANALYSIS										
Job Title	Ed	Exp	Admin	Complex	Contacts	Process	Conf	Sup	Ment	TOTAL
Chief Executive Officer	80	120	120	120	100	100	50	100	100	890
Chief Financial Officer	80	120	120	120	100	100	50	80	100	870
Human Resources Director	80	120	120	120	100	80	50	80	80	830
Head Start Director	80	120	120	120	80	80	40	100	80	820
Chief Programs Officer	80	90	120	120	80	80	40	60	80	750
Information Systems Manager	80	90	90	120	80	100	50	40	100	750
Accounting Manager	100	90	90	120	60	80	50	40	80	710
Executive Administrative Assistant	60	90	90	120	80	80	40	40	80	680
Purchasing/Inventory Manager	60	90	90	120	60	80	30	40	80	650
Center Director	40	60	90	90	60	80	40	80	60	600
Health Services Coordinator	80	90	90	60	60	60	30	20	60	550
Network Administrator	40	90	90	90	40	60	30	20	80	540
Lead Teacher	40	60	90	90	40	40	40	30	60	490



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Table Activity

- How many of you conduct an internal equity analysis?
- How many of your think this is something you can do at your organization with success?



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Conduct an External Market Analysis

- An external equity analysis determines the market value of each position by comparing it to published compensation data and/or to customized survey results.
- Use the job description to match the survey job descriptions to each position's role and responsibility.
- Do not rely solely upon job title as role, responsibilities may vary.
- A reputable survey will have an adequate sample size and sound compensation survey methodology practices.



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What is External Market-Based?

- Compensation based on current market value conditions such as:
 - Competition
 - Supply and demand
 - Recruiting area
 - Budget size
 - Employee size
 - Industry



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Salary Survey Data

- Reliable sources – NOT self-reported or anecdotal information
- Match job descriptions, not titles!!
- Demographics – industry, geographic location, revenue size, sample size, etc.
- Statistics – median (50th percentile), how was data gathered – average of averages?
- Base, Incentive, Total Comp



Salary Structure

The external market analysis serves as the primary consideration for the development and placement of positions within the salary structure.

Sort positions by external market value and calculate a midpoint average for that particular group of positions.

This midpoint average will assist you in defining the pay groups throughout the salary structure.

Salary Structure

Begin with the top position

Subsequent ranges are developed based on remaining pay groups

Typically approximately 10% progressions between midpoints

Incorporate all positions into the salary structure

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Salary Structure

- Evaluate the preliminary salary structure to determine if the pay groups make sense within the organization.
- Consider the internal equity analysis to make any necessary adjustments.
 - Does the value of the position internally differ from the external market?
 - Is external market data unavailable given the uniqueness of the position?

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Salary Structure Sample

SAMPLE AGENCY Salary Structure

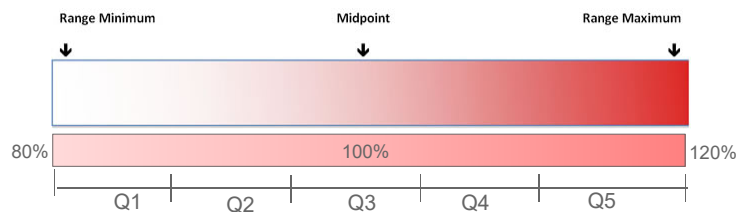
Pay Range	Job Title	Annual			Hourly		
		Min	Mid Point	Max	Min	Mid Point	Max
EXECUTIVE							
20	Chief Executive Officer	\$112,640	\$140,800	\$168,960	\$54.15	\$67.69	\$81.23
SENIOR MANAGEMENT							
19	Chief Financial Officer	\$83,200	(35% progression) \$104,000	\$124,800	\$40.00	\$50.00	\$60.00
18	Chief Programs Officer Human Resources Director	\$75,600	(10% progression) \$84,500	\$113,400	\$36.35	\$45.43	\$54.52
MANAGEMENT							
17	Head Start Director Information Systems Manager	\$68,720	(10% progression) \$85,900	\$103,080	\$33.04	\$41.30	\$49.56
16	Accounting Manager	\$62,480	(6% progression) \$78,100	\$93,720	\$30.04	\$37.55	\$45.06
15	OPEN		(10% progression) \$71,000				
14	Purchasing/Inventory Manager	\$51,600	(10% progression) \$64,500	\$77,400	\$24.81	\$31.01	\$37.21
13	Network Administrator	\$46,880	(10% progression) \$56,800	\$70,320	\$22.54	\$28.17	\$33.81



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Salary Range Administration Issues

- Minimum
- Minimum to Market Area
- Market Area
- Market Area to Maximum
- Over Maximum



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Employee Impact Analysis

Determine where current rates of pay fall in relationship to the newly established salary structure midpoints.

- Tool for fairness and equity
- Implementation, planning, and budgeting



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Employee Impact Analysis Sample

SAMPLE ORGANIZATION COMPARATIVE RATIO ANALYSIS

Pay Range	Employee Name	Job Title	Annual Salary	Salary (per hour)	Min	Mid Point	Max	Compa Ratio ^a	Comment	Financial Impact
EXECUTIVE										
20	Employee A	Chief Executive Officer	\$123,000	\$58.19	\$112,040	\$140,800	\$168,960	87%		
SENIOR MANAGEMENT										
19	Employee B	Chief Financial Officer	\$97,000	\$46.63	\$86,240	\$107,600	\$129,360	90%		
18	Employee C	Human Resources Director	\$71,000	\$34.13	\$78,880	\$98,000	\$118,320	72%	bring to minimum	\$7,880
	Employee D	Head Start Director	\$66,000	\$46.67	\$78,880	\$98,000	\$118,320	66%		
MANAGEMENT										
17	Employee E	Chief Programs Officer	\$85,000	\$40.87	\$71,680	\$80,600	\$107,820	65%		
16	Employee F	Accounting Manager	\$83,000	\$39.00	\$66,400	\$83,000	\$99,600	100%		
15	OPEN				\$56,800	\$71,000	\$85,200			
14	Employee G	Purchasing/Inventory Manager	\$70,000	\$37.68	\$51,600	\$64,600	\$77,400	125%	above maximum	
13	Employee H	Network Administrator	\$60,081	\$32.73	\$46,080	\$46,600	\$70,320	116%	approaching max	
STAFF										
12	Employee I	Executive Administrative Assistant	\$40,733	\$23.91	\$41,200	\$51,600	\$61,600	97%		

^aIndividuals falling below 80% are considered below minimum and individuals falling above 120% are considered above maximum.

below minimum <80%
 approaching maximum 80-116%
 at or above maximum >=120%

Financial Impact
 of Recommended
 Adjustments

\$7,880

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Plan Administration

- Outline plan goals and objectives
- Identify who has responsibility for which parts of the plan
- Describe how each step of the process occurs
- Include performance management process
- Outline link between performance goals and compensation
- Outline how pay adjustments will be handled
- Incorporate tools utilized

Compensation Administration Manual

- Compensation strategy
- Job documentation
- Job pricing and range structure
- Pay adjustments
 - New hires
 - Merit adjustments
 - Promotions
 - Administrative and equity adjustments
 - Job reclassification
 - Lateral transfers
 - Demotions
 - Exceptions
- Confidentiality



Pay Adjustment Types

- New hires
- Annual base pay adjustments
- Promotions
- Lateral transfers
- Demotions
- Market, equity, and administrative



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Pay Adjustments

- “Pay Adjustment” refers to the policies and procedures that support the administration of compensation within an assigned salary range and results in the delivery of actual compensation dollars to employees
- These are the guidelines and procedures intended to ensure that **budget, market value, and demonstrated individual performance** are the primary (though not exclusive) considerations when recommending wage adjustments
- Takes MANY forms



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Plan Maintenance

Maintain the equity and consistency of the plan as the organization and market changes.

Develop a plan to ensure, at a minimum, the following are addressed on a regular and ongoing basis:

- Keep job descriptions current
- Conduct internal equity analysis on new or revised job descriptions
- Review pay ranges on an annual basis
- Conduct a full review at least every three years
- Manage employees falling outside the established salary structure ranges

Communications Plan

- Keep it simple
- Compensation is an emotional topic
- Communicate why and how the compensation plan was developed
- Show employees you want to be fair and consistent in wage administration



Communicating Pay with Employees

Salary Conversation Template

1. Congratulations!
2. Your new salary is \$_____.
3. That's an increase of _____%.
4. Which puts you (or keeps you) in the _____ quintile for your salary grade with a compa ratio of _____%.
5. Keep up the great work (or...let's see improvement next time).



Questions



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