

Compensation 101

Understanding the basics

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Overview

- Total rewards
- Goals and strategy
- Pay Grades and Ranges
 - Internal value
 - External market
- Compa-ratios and range penetration
- Implementing Pay increases
- Communicating pay

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Total Rewards

Goal

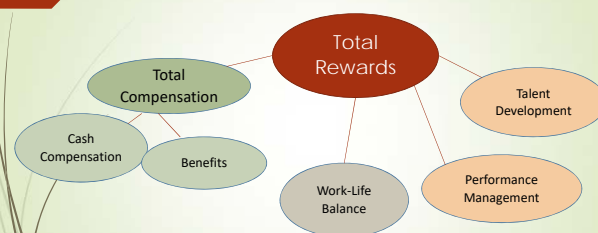
"An effective total rewards strategy produces a workforce that has the right people in the right jobs who are motivated and engaged to do the right things – and feel loyal to the organization and its success."

–Worldatwork.org

- Pay matters
- But it's not all about pay

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Adapted from WorldatWork

Perspectives on forms of pay

- Compare *today's initial* offers to consideration of *future* bonuses, merit increases, and promotions
- "Relational" returns from work have a substantial effect on employees' behavior
- Network of returns
 - if bonuses,
 - development opportunities, and
 - promotions

.....all work together

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- "You have to get rewarded in the soul and the wallet. The money isn't enough, but a plaque isn't enough either . . . you have to give both"

■ Jack Welch, former CEO of GE

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Compensation system goals

- Reinforce your organization's values
- Reward employees fairly
 - Fairness is subjective
- Efficiency: balancing labor costs with compensation goals
 - pay, but don't overpay
- Legal compliance

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What does your reward structure say about your organization?

- Communicating company values
 - Do you value teamwork?
 - Individual effort?
 - Customer service?
 - Community engagement?
 - Work life balance
- Do your policies and actions support those values?

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Signaling

- Employers should deliberately design pay levels and mix as part of a strategy that signals to both prospective and current employees the desired kinds of behaviors.
- Example: Policy of paying below the market for base pay yet offering generous bonuses or training opportunities



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What do you want reward?

- Design your Compensation strategy to support your organizational goals.
- How can compensation help us gain a competitive advantage?
- Only 37% of companies have a pay strategy according to *Payscale*.

Business Strategy

Talent Strategy

Compensation Strategy

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Pay Grades & Ranges: starting with the end in mind

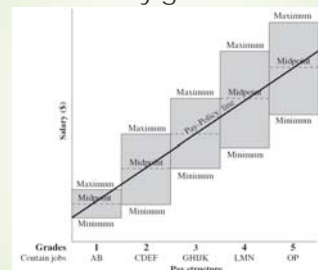
- Having pay grades & ranges simplifies your pay structure and helps communicate pay more clearly
 - You don't want 1000 different job titles each with it's own pay range
- So ... how do we get to these pay grades & ranges

According to *payscale.com*, 22% of companies have NO compensation structure.

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Illustration: Pay grades and ranges



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Illustration: Pay grades and ranges

Job	Grade	Pay Range		
		Min	Midpoint	Max
Cook	1	\$ 22,000	\$ 27,000	\$ 32,000
Records Clerk	1	\$ 22,000	\$ 27,000	\$ 32,000
OR Scheduler	1	\$ 22,000	\$ 27,000	\$ 32,000
HVAC Technician	2	\$ 40,000	\$ 50,000	\$ 60,000
Housekeep Supervis	2	\$ 40,000	\$ 50,000	\$ 60,000
Ultrasound Tech	3	\$ 45,000	\$ 57,500	\$ 70,000
Histotechnologist	3	\$ 45,000	\$ 57,500	\$ 70,000
Sr Social Worker	4	\$ 68,000	\$ 80,000	\$ 95,000
Nurse Mgr	4	\$ 68,000	\$ 80,000	\$ 95,000

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Pay grades

- A **pay grade** is a grouping of different jobs that are considered substantially equal for pay purposes.
 - Usually based on points or classes
- These groupings of a wide variety of jobs or classes similar in work difficulty and complexity requirements but *possibly having nothing else in common*.
 - Grades enhance an organization's ability to move people among jobs within a grade with no change in pay.

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Determining Pay Grades

- The objective is for all the jobs that are *similar for pay purposes* to be placed within the same grade.
- Jobs with similar level of responsibility and value to the organization are grouped together in a grade
- It reflects the internal worth of the job to the organization

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Internal value of the work performed

- In order to know if jobs can be grouped into the same pay grade:
 - Become an expert on the jobs within your organization
 - Evaluate the knowledge, skills and ability (KSA) required of each job or job category.
 - Look for similarities. Create a grouping system for jobs that are similar.
 - Document the decisions you made

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Pay Grades have ranges

- Each **pay grade** (groupings of jobs) has a set **pay range** (high to low) and all jobs in a grade are paid within that range.
 - Ranges control the pay. Employees should not be paid more than the top of the range.

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Pay Ranges

- **Pay Ranges** refer to how much the organization will pay for jobs in that grade
- Each pay grade will have associated with it a pay range consisting of a **midpoint** and
 - a specified **minimum** -- least \$ co. will pay for that job.
 - and **maximum** -- the most \$ co. will pay for that job.

It's the value of the job, not the value of the person.

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External market competitiveness

- How competitively do you want to pay?
 - Match the market? Lead the market?
- Ranges are built around the market value for the job
 - Average Market pay is reflected in the midpoint of the range

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Competitive Labor markets

- Companies operate in many different labor markets
- Getting the 'right' compensation data depends on the Relevant Labor Market for your company & the jobs you have
- Think about where you compete for talent – organization type, company size, geography, and/or industry.

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Relevant Labor Market

Consider:

1) Where do you search for people with the skills you need?

- for some jobs labor market is local
 - clerical help, cashiers
- for others it's regional
 - skilled technicians, accountants
- may be national
 - VP manufacturing

2) Product/service market competitors

- Hospitals vs manufacturing

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Market data

In order to get good market data....

- Pay for pay survey data from reputable vendors.
 - Don't rely on a quick search on pay websites
 - Pay data can be found for specific industries
- Don't Fall Victim to the Title Trap
 - Jobs with the same titles might have vastly different job duties and responsibilities

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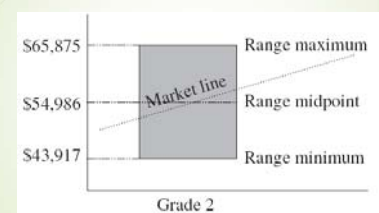
Constructing Ranges: Establishing Midpoint, Minimum, and Maximum

- Midpoints correspond to the *competitive pay policy*
- Midpoints are the "control point" of the range
- The midpoint represents base pay for a *seasoned employee*
- Minimums and maximums are set after you set the midpoint -- with help from the market data you gathered.

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Range Midpoint, Minimum, and Maximum



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Pay Range

- Not all of employees will reach the top of the pay range.
- A difficult concept to explain to employees and managers

Pay Maximum	
4th Quartile	Highest salary level • extensive experience • performance consistently rated "outstanding"
3rd Quartile	Experienced employees • consistently "exceeds expectations"
Midpoint 50th Percentile	Experienced, fully qualified employee • Fully proficient skill level • Performance is consistently "successful" and frequently "exceeds expectations"
2nd Quartile	Intermediate Level – Gaining experience, skill and proficiency • Consistent "successful" performance
1st Quartile	Entry Level employees; new to the job and on a learning curve • Minimal experience • Able to perform basic duties and responsibilities
Pay Minimum	

Market Level

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Employee's position in the pay range

- Where in the range is Carmen Sandiego?



- Two ways of talking about where someone's pay falls.
 - compa ratio
 - market penetration.

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Compa-ratio

- Compa ratios compare actual pay rates to the midpoint

$$\text{Compa ratio} = \frac{\text{base pay}}{\text{midpoint}}$$

- If you are on target it will be =1 (or 100%)
 - if at .95.just a bit below

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Compa-ratios

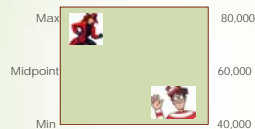
- Compa-ratios can be computed for
 - All the positions in a grade
 - Organization as a whole
 OR
 - For an individual employee

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Compa-ratio for individual employee

- Where in the range is Carmen Sandiego? Where's Waldo?



- Carmen may be high performer with lots of experience so she gets paid more than the midpoint. Her compa-ratio would be over 1.
- Where's Waldo? He might be making less than the midpoint because he's relatively new.

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Range penetration

- Another way to look at the same thing is to consider the entire range (minimum to maximum) and see how far an employee has progressed in that range.
 - If Carmen is paid \$70,000 and the range is 40,000-80,000, then she has penetrated the range 75%

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Implementing pay increases

- Ideally a solid performing seasoned employee should maintain his/her relative position in the range.
- Across the board, or 'average' merit, raises typically keep employees in line with market data
- Some top performers may receive smaller raises if they are already near the top of the range

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Designing Merit Guidelines

Four Questions . . .

- 1 What should the poorest performer be paid as an increase?
- 2 How much should average performers be paid as an increase?
- 3 How much should top performers be paid?
- 4 What should be the size of the percentage increase differential between different levels of performance?

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Communicating pay

- Pay is a tool for managers to talk with employees about development
- Provides room to reward employees based on performance, experience, etc.
- Let employees know that pay decisions are fact-based

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Payscale's "Transparency spectrum"



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Questions?

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