



From Data to Strategy to Communication

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Overview

- Gathering competitive data
 - Survey sources
 - Benchmarking fundamentals
 - Data scope
 - Aging
 - Calculating composites
- Interpreting market data
- Analyzing market trends
- Leveraging market data to develop pay strategies
- Compensation structure design
- Crafting messages around pay
- Communication strategies

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Gathering and Using Market Data

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The Rules



- **Sherman Antitrust Act**
 - Intended to promote a competitive business environment
 - Prohibits price fixing
 - Restricts exchange of compensation information
- **Survey Safe Harbor Guidelines**
 - Published by neutral third party
 - Composite statistics
 - » No incumbent or organization specific data
 - » Minimum five (5) reporting organizations
 - » No single organization comprises more than 25% of sample
 - Data at least three (3) months old
 - Pay practice information also subject to compliance

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Market Pricing



- **Why collect market data?**
 - Analyze pay competitiveness by gathering information on the going rate for benchmark jobs
 - Identify pay trends by watching movement of salaries
 - Examine competitive pay practices
- **What is a benchmark job?**
 - Standard job used to make pay comparisons
 - Jobs easily defined and found in other organizations
 - At least 50% of jobs benchmarked when using market pricing to build a pay structure
 - Job is appropriate for benchmark analysis if 70% of job content is similar to market job description
- **Accurate and current job descriptions critical to valid market pricing**

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Types of Market Data



- **Preferred**
 - Salary and wage surveys
 - » Published
 - Consulting firms
 - Survey houses
 - Professional organizations
 - » Custom
 - Compensation planning surveys
 - Outsourced pricing products
- **Not Recommended**
 - Public sources
 - Anecdotes and observations
 - Market intelligence (legal risk)

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Salary Surveys



- Conducted by professional organizations, consulting firms, and survey publishers
- Each survey provides a job list with descriptions
- Facilities submit anonymous salary data by incumbent or position
- Data is aggregated to develop market reference points
- Range data may also be collected
- Pay practices questionnaire
 - Facility information
 - Expected and actual pay adjustments
 - Premium pay
- Most surveys conducted annually

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Survey Participation



- Participate in surveys used to market price jobs
- Market data is currency
 - Strengthen the marketplace
 - Diligent submissions are critical
- Assign to team member that can be effective
 - Working knowledge of compensation program
 - Understanding of organizational structure
- Leverage compensation solutions
 - Survey participation tools
 - Save reports for annual submission

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Survey Selection



- Anti-trust compliance
- Content
 - Data points
 - Relevant participant sample
- Methodology
 - Self-reported vs. company submission
 - Incumbent versus organizational weighting
 - Percentiles
- Competing factors
 - Precision
 - Data stability
 - Affordability

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Data Scope



- Market price using data that reflects the labor market for each position
- Surveys offer different cuts of data
 - Geography
 - Size
 - Industry
- Establish pricing conventions
 - Line-of-business
 - Job family
 - Organizational level
- Be consistent to enhance credibility

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Aging Data



- Salary surveys request data effective on a specified date (e.g., January 1, 2014)
- Participants estimate pay at that time
- For market pricing, all survey data is aged to the same effective date using a factor established from market trends
- Example:
 - Median pay, effective January 1, 2014 = \$20.00
 - Annual aging factor = 3.0%
 - Age to July 1, 2014:
 - » $\$20.00 * 1 + ((.03/12) * 6)$
 - » $\$20.00 * 1.015$
 - » Median pay, effective July 1, 2014 = \$20.30
- Note elapsed time from data reporting to market pricing

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Market Composites



- Select survey sources (2-3 per job recommended)
- Each survey is weighted equally
- Premiums and discounts to reflect differences from survey job description
 - Can be a source of debate
 - Use sparingly and with consistent methodology
- Calculate composite market data by quartile
 - Base Salary
 - Total Cash Compensation (TCC = Base Salary + Annual Incentive)
 - Total Direct Compensation (TDC = Base Salary + Annual Incentive + Long Term Incentive)
- Composite forms basis for target rate of pay

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Recommended Practices



- Sources and matches
 - 2-3 survey sources recommended
 - Match jobs using job descriptions rather than just title
 - Use one data cut per survey match
- Frequency
 - Update market pricing each year
 - Audit matches when new survey data is added
- Linking
 - Used when pay for a job is correlated directly to another job
 - Example: Assistant Controller tied to Controller data with 15% discount

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Non-benchmark Jobs



- Jobs for which a market composite cannot be determined are considered non-benchmark
 - Unique blend of duties
 - Organizational level
 - Survey data not available using established methodology
- Target pay based on internal comparison
 - Strategic Impact
 - Job family
 - Organizational level

Providing no data is better than providing bad data.

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Human Resources Role



- Collaborate with managers and leadership team
- Maintain current job descriptions
- Validate market matches for benchmark jobs
- Consider internal equity
- Establish target pay for role (versus incumbent or candidate)

Price jobs, not incumbents...

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Converting Data to Strategy



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Pay Strategies



Lag

- Set control points below market median/average
- Leverage large labor pool

Match

- Set midpoints at market target
- Most Common

Lead

- Set control points above market median/average
- Deployed for key positions

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Interpreting Market Data



- **Reliability**
 - Compare composites across sources for consistency
 - Examine sample size
 - Hourly vs. annual data points
- **Versatility**
 - Career progression
 - Variation across organizations
- **Relevance**
 - Target pay rate for common roles
 - Balance with internal factors for leadership roles
 - » Strategic impact
 - » Organizational design

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Analyze Market Trends



- Data reported in compensation planning surveys
 - Actual and projected salary budgets
 - Structure movement
 - Cut by geography, employee/job groups, industry
- Year-over-year change in market targets
 - Examine trended data for each benchmark job
 - Balance with overall budget movement
 - Example on following slide

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Sample Market Trend Analysis



Position	2011 Market Median	2012 Market Median	2013 Market Median	2014 Market Median	2011-12 % Change	2012-13 % Change	2013-14 % Change	Average Annual Movement
	\$14.30	\$14.93	\$14.92	\$15.63	4.4%	-0.1%	4.8%	3.1%
	\$16.47	\$16.65	\$17.66	\$17.75	1.1%	6.1%	0.5%	2.6%
	\$11.69	\$11.97	\$13.12	\$12.20	2.0%	6.6%	-2.8%	0.5%
	\$14.62	\$14.27	\$13.98	\$14.55	-2.4%	-2.0%	4.1%	-0.2%
	\$12.54	\$13.36	\$13.48	\$14.32	6.7%	0.8%	6.2%	4.7%
	\$13.54	\$16.29	\$15.63		8.2%	-1.8%		3.1%
	\$13.86	\$13.95	\$14.22	\$14.40	0.5%	4.0%	-0.9%	1.2%
	\$25.05	\$25.78	\$25.77	\$26.04	2.9%	0.0%	1.0%	1.3%
	\$13.00	\$11.71	\$10.22	\$12.38	-3.9%	-4.7%	7.1%	-0.6%
	\$21.49	\$22.71	\$23.11	\$24.40	5.6%	1.8%	5.6%	4.5%
	\$14.36	\$15.15	\$15.69	\$16.06	5.5%	3.5%	2.4%	4.0%
	\$10.41	\$10.39	\$10.94	\$11.12	-0.1%	5.2%	1.6%	2.3%
	\$17.89	\$19.72	\$19.71	\$20.37	10.2%	0.0%	4.4%	5.0%
	\$10.97	\$10.89	\$11.40	\$11.27	-0.8%	6.3%	-2.8%	0.9%
	\$20.42	\$22.79	\$24.11	\$29.09	5.2%	1.1%	3.5%	3.4%
	\$22.63	\$22.50	\$22.37	\$22.57	-0.6%	-0.5%	0.9%	-0.1%

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Salary/Pay Structures



- A series of pay ranges or grades, each with a minimum and maximum pay rate
- Jobs grouped together in ranges that represent similar internal and external worth
- Organization may elect to have more than one structure
 - Usually in response to differentiation among job groups
 - Based on function or job level
 - Allows flexibility in design and maintenance
- Appropriate range width critical to competitive hiring rates
- Recommended practice to update salary structures annually

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Pay Range/Grade



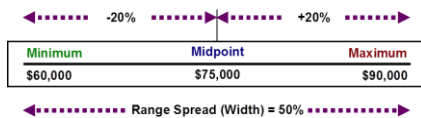
- Grades define a minimum pay value, a midpoint or market target rate, and a maximum pay value for each job
- Establishes value of a role and sets pay parameters
 - Hiring scale
 - Maximum rate
- Jobs assigned to pay grades based on
 - Available market data
 - Internal equity
 - Strategic impact
 - Reporting relationships
- Grade assignments validated annually

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Range Width/Spread



- The width of a pay range from minimum to maximum, expressed as a percentage $((\text{max} - \text{min}) / \text{min})$



- Range width is critical to establishing competitive pay rates at all experience levels
- Factors to consider when determining range spread
 - Tenure needed to reach full proficiency in role
 - Career trajectory or expected time in job

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Structure Maintenance



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Tactics



- **Salary Analysis**
 - Establish target pay line
 - Compare individual pay rates to target
 - Consider performance and potential
- **Pay adjustments**
 - Align with target line
 - Manage compression
 - Analyze at individual level
- **Hiring scales**
 - Calibrate hiring scale with pay range parameters and annual increase budget
 - Integrate human element (subjectivity, inter-rater reliability, etc.)

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Annual Increases



- **Limited budgets**
- **Prioritize key employee groups**
 - Top performers
 - Turnover risk
 - Critical roles
- **Recommended options**
 - Annual adjustments tied to performance ratings
 - Flat rate adjustments by job/pay grade
- **Not recommended**
 - Across the board increases as percentage of base rate
 - Base pay adjustments above grade max

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Merit Matrix



- Annual increase amount determined by performance rating and position in pay grade
- Addresses performance and turnover risk
- Increase amounts cannot be populated without calculating budget impact of performance rating distribution

Exceeds Expectations	4.00%	3.50%	3.00%	2.00% (hump sum)
Meets Expectations	2.50%	2.00%	1.75%	1.0% (hump sum)
Does Not Meet Expectations	0.00%	0.00%	0.00%	0.00%
	Bottom Third	Middle Third	Top Third	Over Max
	Range Positions			

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Compensation Communications

Key Audiences and Messages



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Audiences



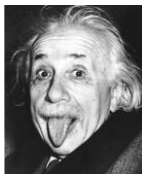
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Words of Wisdom



"Any intelligent fool can make things bigger and more complex. It takes a touch of genius and a lot of courage to move in the opposite direction."

-- Albert Einstein



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Compensation Philosophy



- A documented compensation philosophy provides a:
 - Framework for senior-level compensation decisions
 - “Blueprint” for Human Resources when developing specific pay programs
 - Strategy that can be clearly communicated to managers and employees
- Key elements of the Compensation Philosophy:
 - Definition of competitive market
 - Competitive positioning of compensation
 - Use of incentive compensation and bonus eligibility
 - Reward strategies for new hires and annual increases
 - Balance between internal equity and external competitiveness

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Understanding Pay



- Satisfaction with pay is positively correlated with understanding of pay
 - How is my compensation determined?
 - How can I make more money?
- Transparency versus information sharing
- Recommended talking points:
 - Range minimum, midpoint, and maximum
 - Justification for current position in range
 - Pay grade of internal roles incumbent considers for transfer/promotion

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Internal Equity



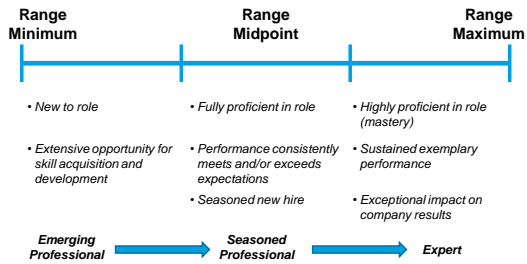
- Equity
 - Strive to pay commensurate with experience and performance at all points in a person's career
 - Variations will occur or multiple reasons
- Fairness
 - Direct conversation to equity
 - Focus on individual rather than comparison to others

“Fair is a place you go.”
– S. Coulter



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Pay Rate Within Grade



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Pay for Performance

- Articulate company philosophy on pay for performance
- Merit increases and variable pay
- Business case and mechanics for incentives
 - Company
 - Facility
 - Team
 - Individual
- Distribute plan documents in a timely fashion

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Common Questions

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Pay Below Market



Q: If pay is below the market rate for a position is the person being underpaid?

A: Not necessarily

- Why?
 - » Incumbent is an emerging professional
 - » Internal value of job or job mix differs from market
 - » Other internal/external factors
- The market value of the job may have grown faster than your salary structure adjustments; there may be an opportunity for a market adjustment.
- Employee can discuss concerns with his or her Manager
- Manager may follow up with Human Resources

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Pay Above Market



Q: If pay is above the market rate for a position is the person being overpaid?

A: Not necessarily

- Why?
 - » Incumbent is a seasoned professional or expert
 - » Outstanding performance
 - » Reduction in job scope
 - » Changes in labor market
- Pay should not exceed range maximum
 - » Employee may receive additional bonus pay
 - » Follow established Human Resources policy regarding pay at or above maximum

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Anecdotal Information



Q: My friend tells me that Company X down the street pays more - why is that?

A: That company has made a pay decision based on its compensation policy and that specific employee

- Incumbent pay within range depends on experience, proficiency, and performance
- Other companies may position pay above market median based on
 - » Work location or conditions
 - » Economic stability
 - » Company position in business life cycle
 - » Total rewards mix (pay, benefits, work life)

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Internal Equity



Q: How come another employee makes more than I do when I...(work harder, am smarter, put in more hours, am better educated, have more certifications, etc.)?

A: Pay rates are affected by a multitude of factors

- Knowledge of another's pay does not equal understanding of pay differences
- Employee can discuss concerns with his or her Manager
- Manager may follow up with Human Resources

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Online Compensation Information



Q: According to salary.com, my compensation is not market competitive. Why?

A: While online pay information is interesting and often directionally correct, it cannot make a precise estimate of individual pay

- Company has strategically selected surveys from which market rates are determined
- Incumbent pay within range depends on experience, proficiency, and performance
- Online data from job search firms or professional organizations is collected and reported differently than published salary surveys
 - » Self-reported vs. company-reported
 - » Geographic differential vs. actual local data
 - » Role ambiguity
 - » Free data is free for a reason!

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Call to Action



- Know your market data (sources, methodology)
- Understand data requests
 - Define audience that has access to data vs. composites
 - Manage information
- Let the data lead – avoid pricing to a desired outcome
- Treat market data as a tool, not a solution
 - Trust your structure
 - Center conversations around grade assignments
 - Steer away from debate over market data
- Diagnose root issues – is pay the real problem?
- Be consistent. Consistently.
 - Variation undermines credibility
 - Understanding drives satisfaction and engagement

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