

# How to Establish a Simple Salary Structure

(And Why it's Important!)

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SUPPORTING THE PEOPLE SIDE OF BUSINESS®

# On Our Plate for Today

- Review the 'litigious side' of compensation by identifying ways to uncover and identify inequities that could lead to discrimination claims
- Take away a method to take simple look at your organization
  - What you're doing today
  - What is the impact on the organization
  - How to fix the problems before they arise

# Thoughts on Comp

- Comp Stuff – not ‘rocket surgery’
- Not inherently stressful – but top /down communication makes the difference
- Be pleased with 2-3 key findings
- Involve everyone you can in the process
  - Ensure fairness and validity
  - Make it a competitive advantage

# Salary Structures

- Two basic types:
  - Market-based (External)
  - Equity-based (Internal)
- Market-based – what external sources tell us about the competition
- **Equity-based** – what our internal practices tell us about the way we really do business

# Salary Structures

- Our focus - Internal Equity-based structure
- Not for the timid
- Don't do this unless your organization has agility – there could be legal implications to your findings
- What to do if you have “red circle” or “green circle” employees

# Some Stats

- Pay increases for 2011 likely to be less than 2.4% - up from 1.3% in 2010
- 96% of all employees think they are under-paid
- 20% of employees make 80% of total comp
- There was a 44% hike in FLSA lawsuits during the recession, outnumbering all other employment-law cases
- 73.5% of all statistics are made up 😊

# Seven Deadly Sins (of HR)

- Religion
- Race
- Color
- National Origin
- Gender
- Age
- Disability

# Employment Law

- Title VII of the Civil Rights Act of 1964
  - Religion
  - Race
  - Color
  - Gender
  - National Origin
- Age Discrimination in Employment Act of 1967 (ADEA)
- Americans with Disabilities Act 1990 (ADA)

# Why Salary Rates Vary

- Unique talents or skills
- Education
- Training
- Certifications
- Longevity
- Performance and contribution to the bottom line

# Internal Equity Structure

- Create grades based on employees' level of responsibility – not jobs or titles
- Groups employees who have similar knowledge, skills and abilities into levels
- Use “broad” ranges with latitude for development and growth
- Recognizes and rewards performance

# Internal Equity Structure

## Our Case Study:

- Fictitious Insurance Company, Inc.
- In business for 20 years selling P&C insurance to marinas and high-end boat owners
- Started by the CEO and his admin assist
- 26 employees – some fully tenured, 3 are business development on full commission

# Internal Equity Structure

## The Process Outlined

1. Start with basic employee census data

Raw Data

# Internal Equity Structure

## The Process Outlined

2. Identify direct reports and establish management/supervisory lines

Org Chart

# Internal Equity Structure

## The Process Outlined

### 3. Calculate:

- Current Age
- Years of Service
- Manager/Supervisor Status
- Number of Direct Reports for each Mgr/Super
- Total Base Compensation – Annualized

Master

# Internal Equity Structure

## The Process Outlined

4. Sort by Position Title and look for anomalies

**STOP**

Position

# Internal Equity Structure

## The Process Outlined

### 5. Further sort by FLSA type

FLSA

# Internal Equity Structure

## The Process Outlined

6. How should these be changed?

FLSA (2)

# Internal Equity Structure

## The Process Outlined

7. Audit complete? Make changes and notify affected employees

FLSA (3)

# Internal Equity Structure

## The Process Outlined

### 8. Sort by EEOC, look at demographics

- Race
- Gender

How many other way can you think of to slice and dice this information?

EEOC

# Internal Equity Structure

## The Process Outlined

9. Sort by Sex within FLSA, look at demographics
  - Male/Female
  - Exempt/Nonexempt

Paycheck Fairness Act (PFA) will make it easier for employees to establish gender-based wage discrimination when it's passed (possibly this year)

- Employer must show decision on pay not based on gender
- Is job related

Gender

# Internal Equity Structure

## **Male–Female income disparity**

Also referred to as a "gender gap, for 2009, the U.S. Labor Department reported women's median wages to be 79.9% of men's. This statistic does not take into account differences in experience, skill, occupation, or hours worked, other than meeting requirement for "full time" work.

Gender

# Internal Equity Structure

## The Process Outlined

### 10. Age?

Age

# Internal Equity Structure

## The Process Outlined

### 11. Management?

Management

# Internal Equity Structure

## The Process Outlined

### 12. Sort by Base Comp

Management

# Salary Structures

Jobs are typically placed into structures using three different approaches. Each approach has advantages and disadvantages

- **Traditional Grades** – Hierarchical focused. Can be barrier to development
- **Broad Bands** – Decreases traditional promotional opportunities
- **Level Grades** – Hybrid approach that can be both market-based and equity-based, is easy to administer and supports performance management

# Level Grades

Range Spread 70% - 140%

Midpoint Distance 15% - 50%

- Broader than Traditional Grades
- Narrower than Broad Bands

# Level Grades

## Advantages

- Shift away from midpoint to a “Target Zone”
- Fewer grades as more jobs grouped into the same grade
- Job midpoints typically fall near the middle of the grade
- Offers more flexibility for managers to reward individual performance

# Level Grades

## Advantages (cont'd)

- Supports a strong performance management system as progression to top third can be reserved for top performers
- Meets expectations as employees remain primarily within the middle third “Target Zone”
- Less precision – more flexibility
- Progression to top third of range can be limited to top performers

# Level Grades

Recognize the employee's contribution and performance through

- **Scope** – range of areas or number of employees affected by decisions made by an employee in the job
- **Independence** – ability of an employee to make decisions without receiving approval from a higher-level position

# Level Grades

## The “Leveling” Process

- Promotes manager/employee dialog
- Creates a “road map” for performance growth
- Exposes internal equity issues
- Validates contributions if combined with peer review or 360° evaluations

# Level Grade Definitions

## Basic Exempt Level Grades

- **EX - Executive Level**
- **ES - Senior Management Level**
- **EM - Management Level**
- **EP - Professional Level**
- **EA - Administrative Level**
- **SL - Sales Level**

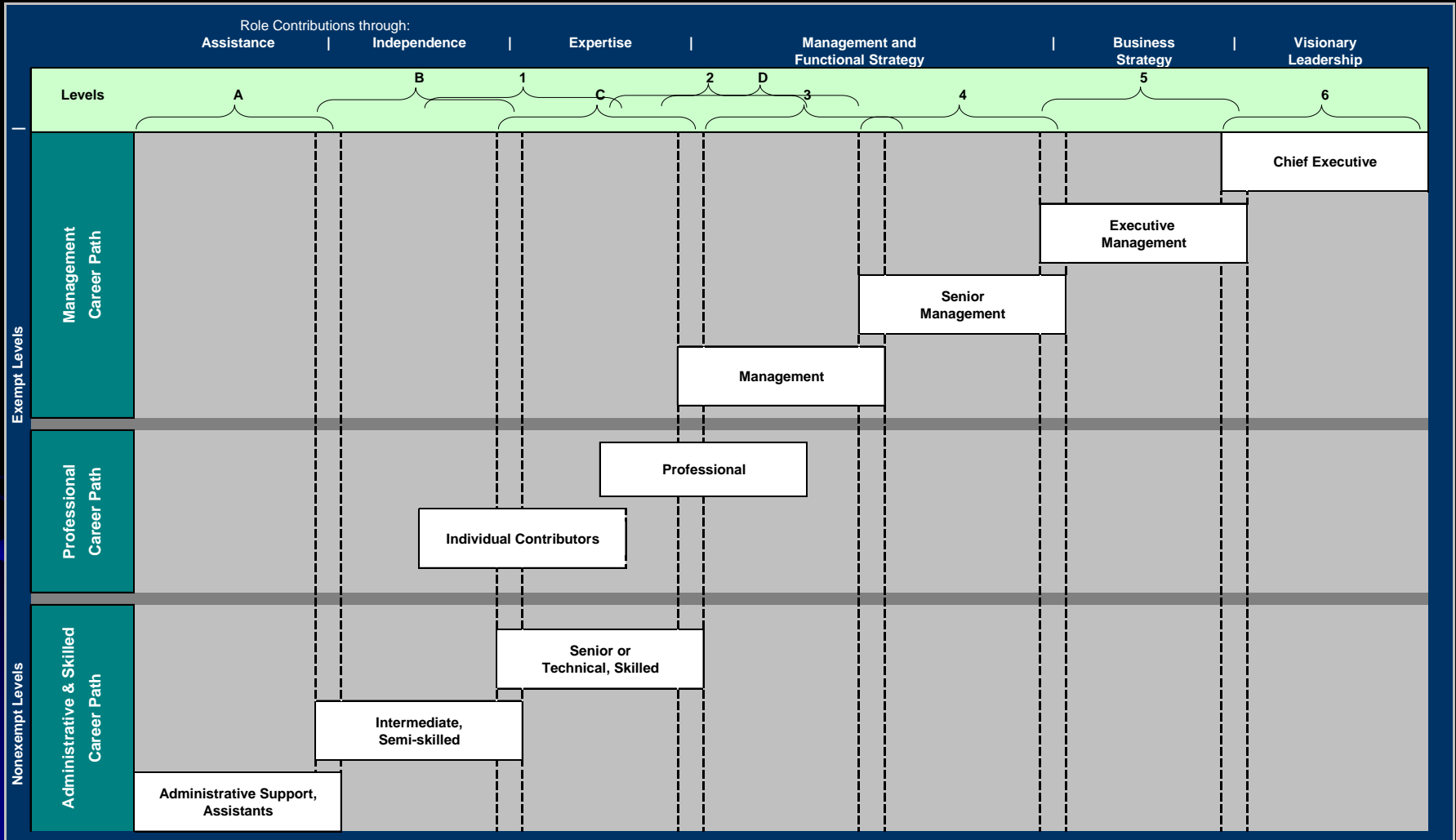
# Level Grade Definitions

## Basic Nonexempt Level Grades

- **NS - Nonexempt Senior or Technical Level**
- **NI - Nonexempt Intermediate Level**
- **NE - Nonexempt Entry Level**

**Let's take a closer look...**

# Level Grades Illustrated



# Level Grade Definitions

## Exempt Levels

- **EX - Executive Level** – Creates vision and business strategy for the entire organization (in all but large organizations, this level is reserved for the CEO or President).
- **ES - Senior Management Level** – Establishes broad plans and formulates policies that impact major functional areas or divisions.

# Level Grade Definitions

## Exempt Levels (con't)

- **EM - Management Level** – Manages departments, processes and/or people to carry out strategy.
- **EP - Professional Level** – Operates as a subject matter expert (non-management) using advanced knowledge and education.

# Level Grade Definitions

## Exempt Levels (con't)

- **EA - Administrative Level** – Provides support to the organization through non-clerical roles as an individual contributor.
- **SL - Sales Level** – Develops business and has a variable pay mix of at least 50%

# Level Grade Definitions

## Nonexempt Levels

- **NS - Nonexempt Senior or Technical Level** – Operates with substantial latitude for un-reviewed actions or decisions with little or no supervision.
- **NI - Nonexempt Intermediate Level** – Uses established procedures and works under limited supervision conferring with supervisor on unusual matters.

# Level Grade Definitions

## Nonexempt Levels (con't)

- **NE - Nonexempt Entry Level** – Uses established procedures and works under immediate supervision while performing tasks or assignments.

Depending on the size and complexity of the organization, other factors including knowledge and experience should be developed to further filter and define Level Grades.

# Internal Equity Structure

## The Process Outlined

13. Invert the spreadsheet sorting Total Base Comp in descending order and create a simple graph to get a bird's eye view of the groups

(We don't create the salary structure from this, but it gives us an idea of how many levels we're likely to end up with)

## Regression Analysis

# Internal Equity Structure

## The Process Outlined

14. Involve managers in the process of “leveling” their own direct reports

Level

# Internal Equity Structure

## The Leveling (and training) Process

- Start by training managers and supervisors in the **Seven Deadly Sins of HR** and how the process works.
- Then, train managers that it takes hard reflection to honestly review and report their employee's performance honestly.
- Finish with an exercise that will have them "Level" their employees while you have them.

# Internal Equity Structure

## The Process Outlined

15. Sort by assigned Level and calculate the midpoint for each Level Grade

(A simple average is sufficient, but feel free to do Weighted Averages, Standard Deviation, etc. if you're really bored at this point!)

Midpoint

# Internal Equity Structure

## The Process Outlined

16. Calculate the Compa Ratio for each employee and note anyone who falls below .70 (green circle) or above 1.40 (red circle)

(Total Base Comp divided by Level Grade Midpoint)

Compa

# Internal Equity Structure

## The Process Outlined

17. Transfer the Midpoints to a Salary Structure Wizard\* to plot the Level Grade minimum, maximum and “Target Zone”

(Available upon request from your local compensation professional) 😊

## Structure

# Internal Equity Structure

## The Process Outlined

18. Add the Target Zone low and high points to the spreadsheet and determine if employees fall in, above or below.

Analyze all finds and make appropriate recommendations to your management team.

Zone

# Internal Equity Structure

## The Process Outlined

That's it! How simple was that?

# At the End of the Day

- The Internal Equity Salary Structure process demonstrates and codifies that the organization values the people who add value
- It aids you in defending your pay practices
- Don't overlook the value of combining this work with a market-based salary structure – critical to attracting and retaining top performers
- Past recovery periods have produced a flurry of “catch-up” salary adjustment activity
- Bottom line, make sure that everyone's getting paid for the work they're doing.

# References

Before we take too much credit, almost everything in this presentation that isn't law or stuff we made up is the forward-thinking of one or more of these fine organizations:

- [WorldatWork.com](http://WorldatWork.com)
- [HRExecutive.com](http://HRExecutive.com)
- [SHRM.org](http://SHRM.org)
- [Salary.com](http://Salary.com)
- [DOL.gov](http://DOL.gov)
- [PayScale.com](http://PayScale.com)
- [TowersWatson.com](http://TowersWatson.com)
- [HayGroup.com](http://HayGroup.com)
- [Google.com](http://Google.com)
- [BuckConsultants.com](http://BuckConsultants.com)

# Thank you!

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# Resources – Using Salary Survey Data

## **Selecting and Using Compensation Surveys**

[http://www.shrm.org/hrdisciplines/compensation/Articles/Pages/CMS\\_001702.aspx](http://www.shrm.org/hrdisciplines/compensation/Articles/Pages/CMS_001702.aspx)

## **Compensation Surveys Offer a Strategic Edge**

<http://www.shrm.org/hrdisciplines/compensation/Articles/Pages/SurveysOfferaStrategicEdge.aspx>

## **Compensation 2010: Answers to Tough Planning Questions – Sept 2009**

<http://www.shrm.org/hrdisciplines/compensation/Articles/Pages/CompPlanning.aspx>

## **Video: Boost Comp Survey Quality – Aug 2009**

[http://www.shrm.org/multimedia/video/vid\\_archive/Pages/090812\\_manoli2.aspx](http://www.shrm.org/multimedia/video/vid_archive/Pages/090812_manoli2.aspx)

## **Salaries in Site**

<http://www.shrm.org/Publications/hrmagazine/EditorialContent/0501/Pages/0501wellner.aspx>

## **Salaries as a Percentage of Operating Expenses**

<http://www.shrm.org/Research/Articles/Articles/Pages/MetricoftheMonthSalariesasPercentageofOperatingExpense.aspx>

## **Introduction to Market Pricing**

[http://www.shrm.org/Research/Articles/Articles/Pages/CMS\\_000054.aspx](http://www.shrm.org/Research/Articles/Articles/Pages/CMS_000054.aspx)

## **Wage Surveys Done Right**

<http://www.laborlawyers.com/showarticle.aspx?Type=1119&ArticleType=-1&NewsletterType=3391&Show=9189>

## **Job Pricing**

[http://compensation.blr.com/comp\\_docs/153387\\_66.pdf](http://compensation.blr.com/comp_docs/153387_66.pdf)

## **Bureau of Labor Statistics: Guide for Evaluating Your Firm's Jobs and Pay**

<http://www.bls.gov/ncs/ocs/sp/ncbr0004.pdf>

## **Surfing for Salaries**

<http://midcareer.monster.com/articles/businesslife/salaries/>

## **Evaluating the Salary Information You've Found**

<http://www.rileyguide.com/saleval.html>