

“How Do I Ensure Competitive Base Salaries?”



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- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth
- “VisionLink” = rewards alignment between shareholders and employees

“Chasing” Competitive



What is Competitive Pay?

- Is there a “right” way to pay an individual?
- Who establishes the “right” way to pay?
- Does your company have the “right” to redefine that standard?



A Tale of Two Companies

Company A

- Large Manufacturing Company
- \$500 Million in annual revenues
- Workforce – Mostly blue collar technical positions
- Owner's primary goal: grow the business

Company B

- Small Web Based Technology Company
- \$10 Million in annual revenues
- Workforce – High performing, entrepreneurial college grads
- Owner's primary goal: control costs

A Tale of Two Companies

Assume that both companies were looking to hire a new staff accountant:

- **Would** they both offer the same base salary?
- **Should** they offer the same base salary?

Company A

- Large Manufacturing Company

Company B

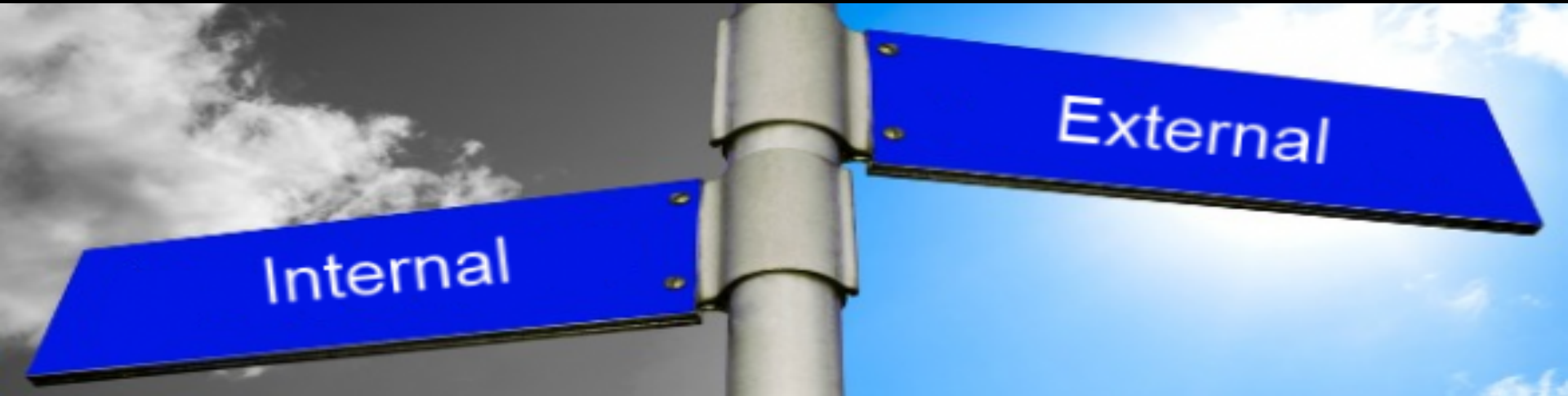
- Small Web Based Technology Company

Two factors determine Competitive Pay

- There isn't only one correct way to pay your employees
- Competitive pay is established by both internal (company specific) and external (market driven) factors



Internal vs. External Factors



Internal Factors

- Budget
- Past Precedent
- Total Rewards Mix

External Factors

- Scarcity/Supply & Demand
- Geographic Location
- Competition
- The Economy

The Key

The Key isn't necessarily trying to figure out the "Right" way everyone should be paying, but to establish the "Right" way to pay for you.



An Aligned Compensation Strategy

Salaries

- Competitive with market standards?
- In compliance with FLSA guidelines?
- Managed within a flexible but effective structure?

Performance Incentives

- Tied to productivity gains?
- Clear, achievable and meaningful?
- Self-financing?

Sales Incentives

- Challenging yet achievable?
- Reinforcing the right behaviors?
- Differentiating your offering?

Growth Incentives

- Linked to a compelling future?
- Supporting an ownership mentality?
- Securing premier talent?

Core Benefits

- Responsive to today's employee marketplace?
- Allocating resources where most needed?
- Evaluated to eliminate unnecessary expense?

Executive Benefits

- Flexible enough to address varying circumstances?
- Communicating a unique relationship?
- Reducing employee tax expense?

Qualified Retirement Plans

- Giving employees an opportunity to optimize retirement values?
- Operated with comprehensive fiduciary accountability?
- Avoiding conflicts and minimizing expenses?

Nonqualified Retirement Plans

- Optimizing tax-deferral opportunities?
- Aligning long-term interests of employees with shareholders?
- Structured to receive best possible P&L impact?



The Role of Salary

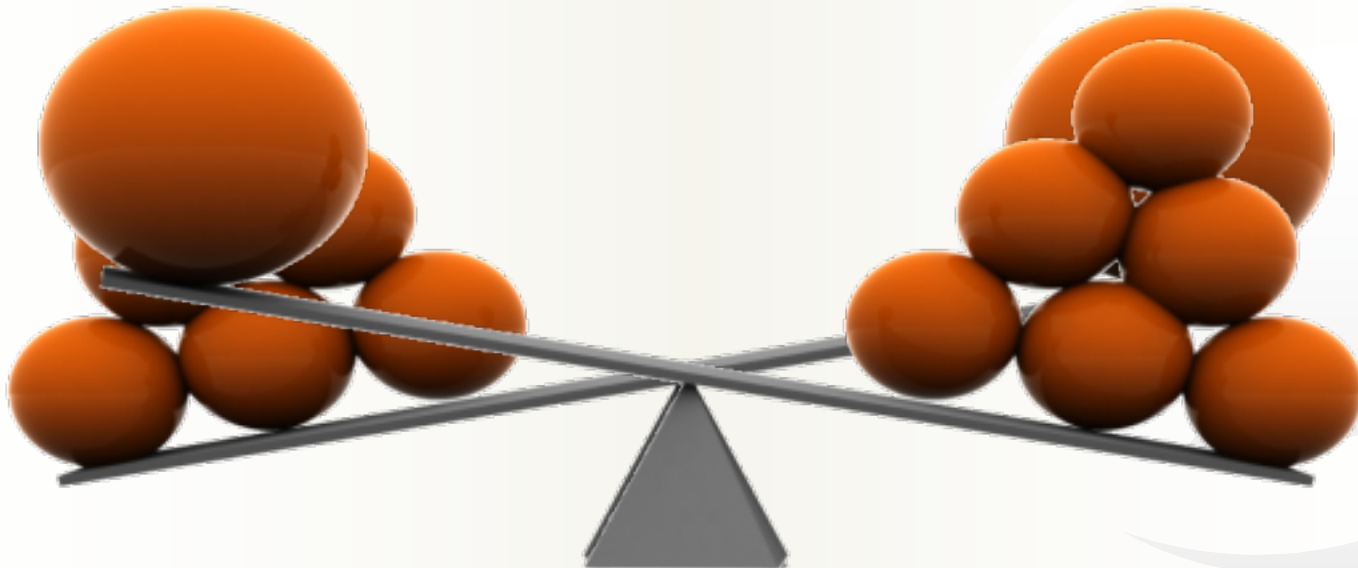
- Salary plays a critically important role in your total rewards allocation
 - Most obvious form of employee rewards
 - Provides immediate security for your employees
 - Can *sometimes* be used to reward for performance
- Probably one of the largest, if not the largest, expense of your organization



Salary Management

Poor salary management can be extremely expensive

- Underpaying positions can lead to high turnover and replacement costs
- Overpaying employees creates high levels of fixed costs that carry over year after year.



Salary Management

If salaries truly are one of the biggest expenses of any organization, why is it so often mismanaged?

What would your CEO think if he found out you were overpaying for office machinery?



What would your employees think if they knew you were intentionally underpaying them?

Salary Management

Proper salary management is a balancing act

Cost Conscientious

Competitive



Step 1 - Compensation Philosophy

- Every Company needs a defined and consistently applied Compensation Philosophy
- The Philosophy should be a “guiding star” for all pay decisions
- Your Compensation Philosophy will help to define “Competitive” for your Company.



Purpose of a Compensation Philosophy

- The Compensation Philosophy should be written down and shared with current and future employees
- It should cover all areas of pay (salaries, incentives, benefits, retirement, perquisites, etc)
- Make sure your philosophy creates a competitive “Total Rewards” package
- Some companies favor high salaries and low incentives while others prefer the opposite



Conservative Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Conservative	High	Low	Moderate	High	Moderate

Provides a high degree of employee security at the expense of variable pay

High base salaries and low incentives

Generally offers high level of core benefits

Cash friendly stable organization

Generally attractive to a younger employee population

Can inhibit the hiring of “high performers”

Rewards performance through merit/promotion

Retains executive leadership through moderate long-term awards

Variable Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Variable	Low	High	High	Moderate	Low

Provides a high degree of upside earning potential with higher level of risk

Base salaries at or below market

Rewards tied directly to business performance

Entrepreneurial mindset – less cash friendly

Attracts high performers, frightens risk averse

Rewards performance through incentive pay

Promotes high level of value sharing

Attracts entrepreneurial leadership through long-term awards

Moderate Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Provides a middle of the road approach to pay

Base salaries at market

Some upside incentive potential

Performance rewarded moderately

Attracts a diverse employee population

Rewards performance through multiple facets

Tries to provide a balanced approach without any distinguishing element of pay

Step 2 - Market Pay Assessment

- Once you define “Competitive” salaries for your company you then need to ensure that salaries are in line with your philosophy
- Most companies rely on external market intelligence to help put parameters around their salary philosophy

Position	Survey	Match	Market Data		
			25th	50th	75th
Junior Accountant	Towers Watson	Accountant 1	47.0	52.5	58.0
	Mercer	Accountant - Entry	50.1	52.5	55.3
	Radford	Accountant 1	55.4	59.1	63.8
	Salary.com	Accountant	40.7	44.3	46.5
	ERI	Accounting - Junior	50.2	54.6	61.3
	Kenexa	Accounting Associate	53.7	58.9	62.4
	BDG	Accountant I	44.2	50.1	54.3
	Pay Scale	Junior Accountant	42.7	46.8	49.0
	Robert Half	Accounting Level 1	51.3	56.0	59.5
	DOL	Accountant	47.3	51.8	55.4
Aggregate Benchmark			48.3	52.7	56.6

All data represented above is theoretical and only for illustration purposes

Market Pay Assessment

- Where can you find Market Data?
 - Consulting Houses (Mercer, Towers Watson, Radford, etc.)
 - Government Statistics (DOL)
 - Industry Association Surveys
 - Online Sources/Data Aggregators (ERI, PayScale.com, Salary.com, PayFactors)
- Use as many sources as you can afford/access
 - Data can vary significantly from source to source
 - Create an aggregate or composite look at the data

How to adjust data

- There is nothing magical, holy, or sacred about market data
 - It can be adjusted and weighted (within reason)
 - Rule of thumb: No more than 10-15%
- Create an Aggregate

Position	Survey	Match	Premium/ Discount	Weighting	Market Data		
					25th	50th	75th
Junior Accountant	Towers Watson	Accountant 1		10%	47.0	52.5	58.0
	Mercer	Accountant - Entry		20%	50.1	52.5	55.3
	Radford	Accountant I		5%	55.4	59.1	63.8
	ERI	Accountant (2 YOE)	15%	10%	46.8	50.9	53.5
	Salary.com	Accountant - Assoc		20%	50.2	54.6	61.3
	Kenexa	Accountant - Level 1	-5%	5%	56.0	48.5	53.2
	BDG	Accountant I		10%	44.2	50.1	54.3
	PayScale	Accountant - Assoc		5%	42.7	46.8	49.0
	Robert Half	Accountnat/Entry		10%	51.3	56.0	59.5
	DOL	Accountant		5%	47.3	51.8	55.4
Aggregate				100%	49.1	52.7	56.9

The Use of Percentiles

- What is a percentile?
- Percentile helps determine what percentage of a population falls beneath a certain value
- The 25th Percentile – the 75th percentile is typically seen as “market competitive”
- The 50th Percentile or Median represents the middle of the market



Apply Your Philosophy

- Obtaining Market Intelligence is only step 1
- Step 2 is to apply your philosophy to the data
- Recall our Pay Mixes (Conservative, Variable, Moderate)

Role	Market Source	Salary		
		25th	Median	75th
Accountant I	Towers Watson - Accountant I	38.1	42.1	43.2
	Mercer - Accountant Level I	35.5	37.4	39.8
	Pearl Meyer - Junior Accountant	40.1	44.2	47.4
	Radford - Accountant Entry	37.6	39.1	43.1
	Average	37.8	40.7	43.4

Conservative

Variable

Moderate

Step 3 - Create Pay Ranges

- Ideally, all positions should have a pay range based on external market data and the company's pay philosophy
- The combination of your pay ranges is typically known as a salary structure
- There are 4 unique types of salary structures
 - Pure Market Pricing
 - Traditional
 - Broadband
 - Hybrid

Pure Market Pricing Approach

Creates a fixed range of pay for positions based exclusively on market data. Rewards eligibility and targets are set at the position level.

Role	Market Source	Salary		
		25th	Median	75th
Accountant I	Towers Watson - Accountant I	38.1	42.1	43.2
	Mercer - Accountant Level I	35.5	37.4	39.8
	Pearl Meyer - Junior Accountant	40.1	44.2	47.4
	Radford - Accountant Entry	37.6	39.1	43.1
	Average	37.8	40.7	43.4

Role	Market Source	Salary		
		25th	Median	75th
Accountant II	Towers Watson - Accountant II	46.3	51.1	52.5
	Mercer - Accountant Level II	43.1	45.4	48.3
	Pearl Meyer - Accountant	48.7	53.7	57.6
	Radford - Accountant Intermediate	45.7	47.5	52.4
	Average	45.9	49.4	52.7

Role	Market Source	Salary		
		25th	Median	75th
Accountant Senior	Towers Watson - Accountant III	54.8	60.6	62.2
	Mercer - Accountant Senior	51.1	53.8	57.3
	Pearl Meyer - Accountant Senior	57.7	63.6	68.2
	Radford - Senior Accountant	54.1	56.3	62.0
	Average	54.4	58.6	62.4

Pros:

Highly accurate.
Works well in very small companies where positions are common.

Cons:

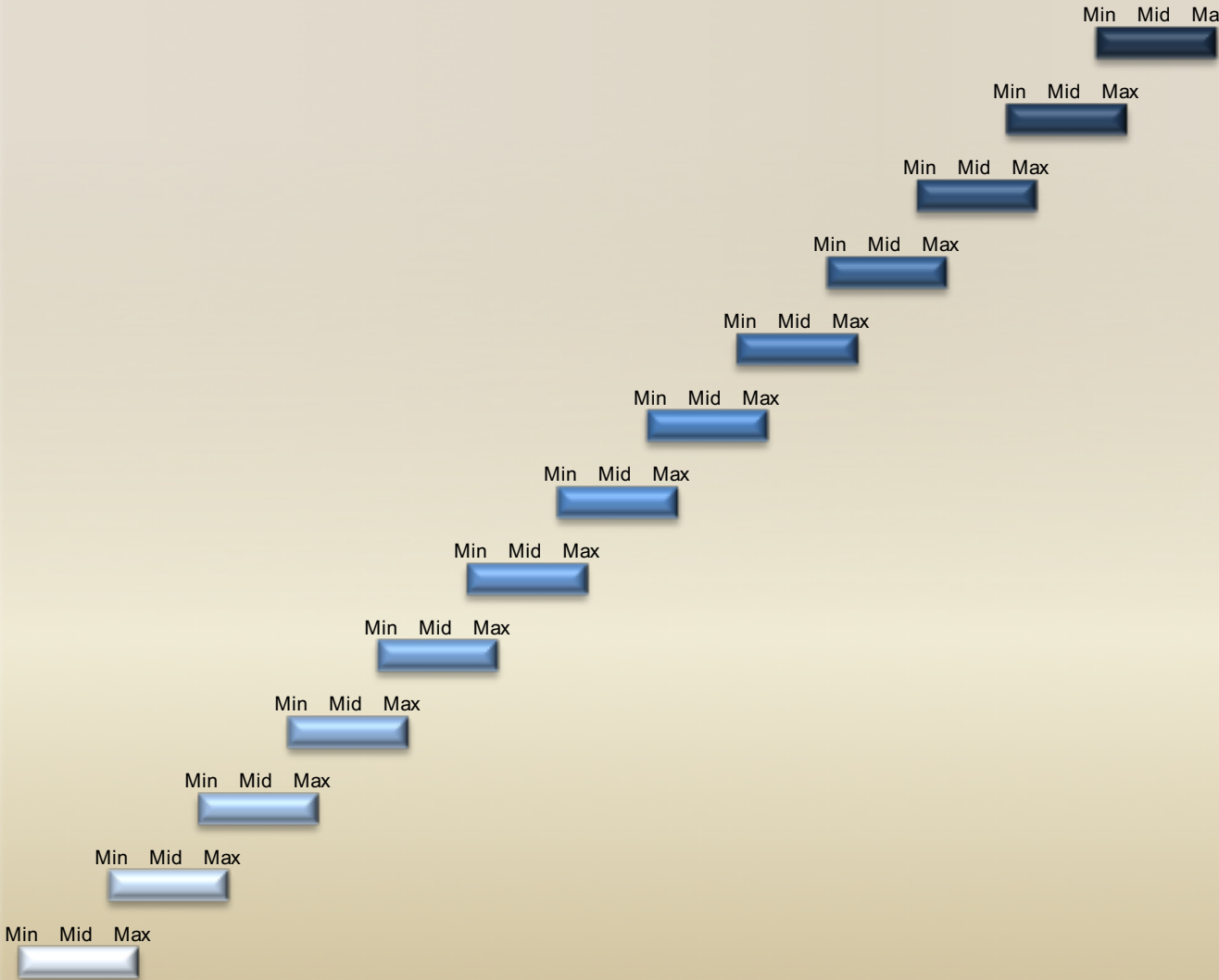
Can be administratively burdensome. Lack of relevant market data for positions makes it challenging to establish a pay range.

Example:

A small hierarchical accounting firm with very limited rewards structure.

Traditional Salary Structure

Positions are categorized inside of a system with many ranges, each with a minimum midpoint, and maximum. Rewards eligibility and targets are determined by level.



Pros:

Provides narrow ranges of pay for all positions. Works well in very large, highly structured promotion minded organizations e.g. Government, Military, Universities.

Cons:

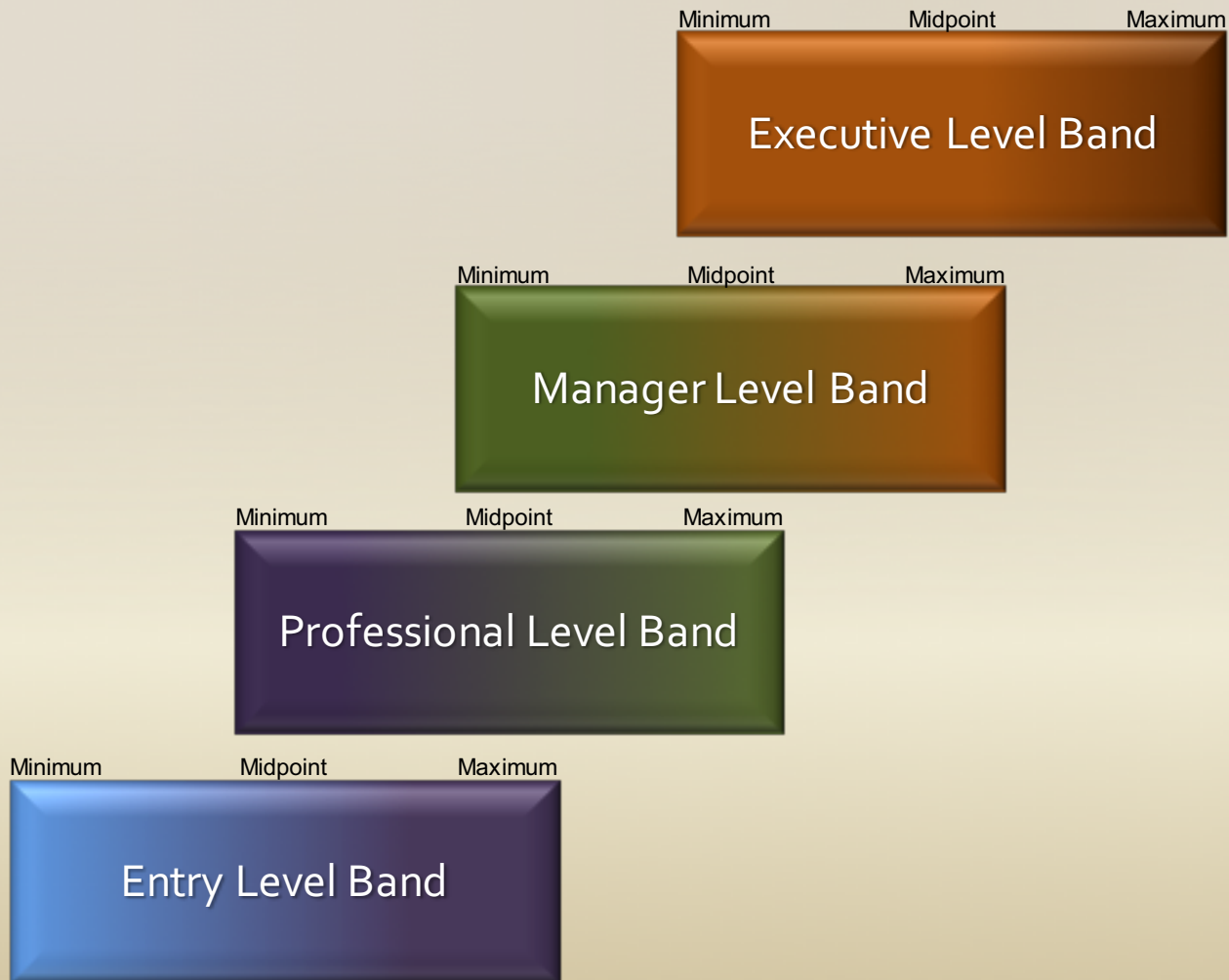
Extremely Rigid. Very little overlap of ranges. Can be difficult to maintain and administer.

Example:

The U.S. Military, where promotion into a new position may grant you access to a new level of reward eligibility

Broadband Structure

Positions are categorized inside a few broad ranges to allow for maximum discretion in pay decisions. Rewards eligibility is flexibly determined by band.



Pros:

Provides maximum flexibility for making pay decisions.
Simple to administer.
Focuses on lateral movement rather than promotion.

Cons:

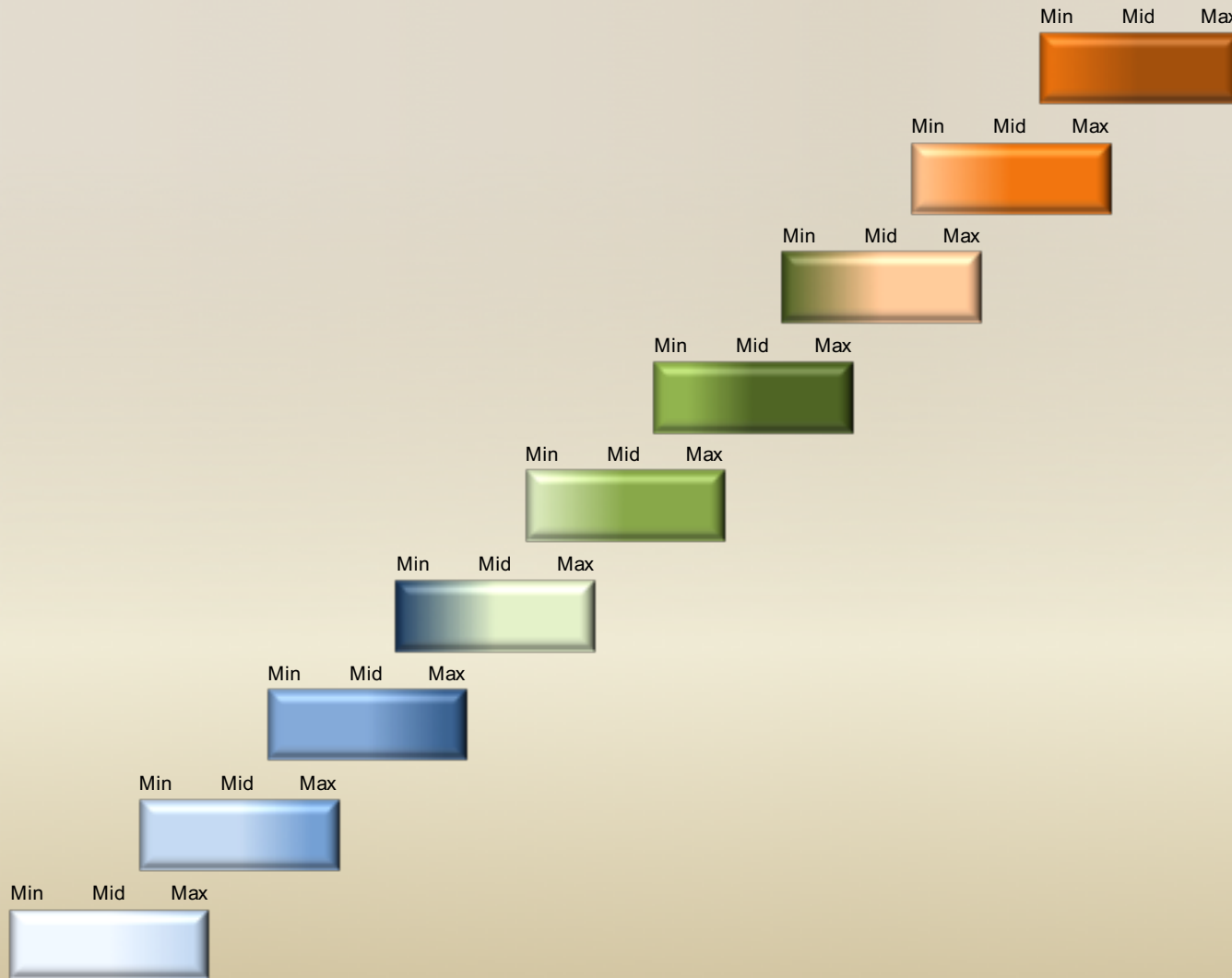
May not provide tight correlation to actual market conditions. Actual pay, although inside the range, may not be tightly correlated to the market.

Example:

A progressive online business where employees are encouraged to explore lateral moves over promotion. High level of rewards flexibility and eligibility is simply defined.

Hybrid Rewards Structure

Allows for broad flexibility inside of a progressive pay hierarchy.



Pros:

Combines the best of elements of a broadband and traditional structure.

Cons:

Does not capture the full value of either a broadband or traditional structure.

Example:

Hybrid structures are fairly common today. Because of the number of bands/grades it is easy to tie eligibility to multiple rewards programs. They support both lateral movement inside the grade as well as promotional movement to the next grade.

Step 4 - Geographical Differences

- If you have similar roles in different locations you may need to adjust those ranges
- Survey providers provide intelligence on “geographic differentials”
- Do not base pay ranges on the **Cost of Living**
 - Price of milk, gas, housing, etc.
- Adjustments should be based on the **Cost of Labor**
 - Cost of living plus supply and demand



Geographical Differences

- How hard is it to find an accountant in Manhattan vs. Preston, Idaho?



- Geographic differentials are usually more pronounced for lower paid positions
 - Call Center Rep (High differentiation)
 - CEO of a \$500M Company (Low differentiation)

Step 4 – Internal Equity

- Very few organizations are able to find a survey match for every position in their company
- Sometimes organizations can get creative with the survey data to find an acceptable starting point
- Most of the time, however, organizations must **search** elsewhere



Internal Equity Review

Take several positions with similar internal importance:

Position	Similar To	Market Data		
		25th	50th	75th
Underwater Dog Trainer	Hamburger Engineer	55.7	61.4	68.6
	Accounting Manager	61.2	68.9	75.7
	Fish Trainer	51.3	57.4	63.4
	Yoga Instructor	73.0	79.4	93.2
	Underwater Basketweaver	44.9	53.0	58.7
	HR Manager	78.1	85.7	94.9
Aggregate		60.7	67.6	75.8

Or

Find a position above it and a position beneath it in your hierarchy

Position	In Between	Market Data		
		25th	50th	75th
Underwater Dog Trainer	Less than a Lion Tamer	76.4	88.7	93.8
	Greater than a Shark Tamer	55.6	65.3	78.4
Aggregate		66.0	77.0	86.1

All data represented above is theoretical and only for illustration purposes

Step 5 – Pay For Performance

- Hire appropriately within the ranges
- Manage appropriately within the range

Salary Minimum

Midpoint

Salary Maximum



- Underqualified
- Brand New
- Consistently Low Performing

- Qualified
- Average tenure
- Meets performance expectations

- Overqualified
- Long tenured
- Consistently High Performing

- Your ranges should be used to reward for performance and not simply for tenure

Step 6 - Keep the data current

- How often should you market price all your roles?
- Depends on your budget for market data, staff size, pay philosophy, and industry.

- Large company
- Regular and consistent salary survey budget
- Diversified HR staff
- Narrowly defined salary ranges
- In very competitive industry (IT)

Annually

- Small to mid-sized company
- Modest survey budget
- General HR staff
- Moderate salary ranges
- Talent pool fluctuates

Every 2-3 Years

Keep the data current

- How often should you adjust your ranges?
- Most likely every year
 - Inflation
 - Market shifts
- Market intelligence trends can help you adjust your ranges on an annual basis
- Generally speaking your ranges should be adjusted 1-3% a year
 - Apply to entire structure or
 - Apply to specific ranges

Step 7 - Communicate

- How much should my employees know?
- Should you communicate salary ranges/market data with your employees?
- Depends on company philosophy on pay transparency
 - More companies are sharing intelligence with their employees
 - Typically companies do not share market data
 - Do share pay ranges
 - Sometimes posted on company bullet board/lunch room



Why should you consider sharing data?

Hypothetical Situation

- One of your most valued employees approaches you with a significant issue
- The employee was simply browsing the internet last night when she happened to “accidentally” stumble across a salary survey website
- Based on the information from the website the employee now feels her salary is \$10,000 below market



A Better Solution?



- Share your pay ranges
- Salary intelligence is commonly found on the internet and consequently easy for employees to “accidentally stumble across”
- Studies have shown that providing information on pay reduces the chances your employees go looking for answers elsewhere
- It addresses the elephant in the room

Be Prepared

- It is better to be in a situation to educate your employees than to be educated by them
- Make sure that you have market intelligence in your “back pocket”
- Ensure that the data is meaningful and up to date



“Establish” Competitive

1. Define your compensation philosophy
2. Obtain market intelligence
3. Create/Maintain a Salary Structure
4. Be mindful of geographic differentials
5. Pay-For-Performance
6. Keep your data current
7. Communicate



Stop Chasing “Competitive”



Upcoming VisionLink Online Seminars:

The 3 “Habits” of Highly Effective Pay Plans <i>How to Ensure Your Rewards Programs will Succeed</i>	August 25th
How to Achieve a Competitive Advantage in Pay (HR Audience)	Sept 9th
The 4 Secrets to Retaining Top Talent <i>How to Solve the Key Performer Retention Problem</i>	Sept 22nd
I’m Paying My Top 4 People \$1 Million -- What am I Getting For It? <i>How to Measure the Return on Your Compensation Investment</i>	Oct 27th
How to Build and Manage a Total Compensation Structure (HR Audience)	Nov 11th
Performance-Based Pay that Actually Performs <i>How to Engineer Rewards that Drive the Outcomes You Want</i>	Dec 8th

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