

Designing a Pay Structure (and beyond)

Dan Walter
FutureSense

Phone: 415-625-3406

Email: dan@futuresense.com

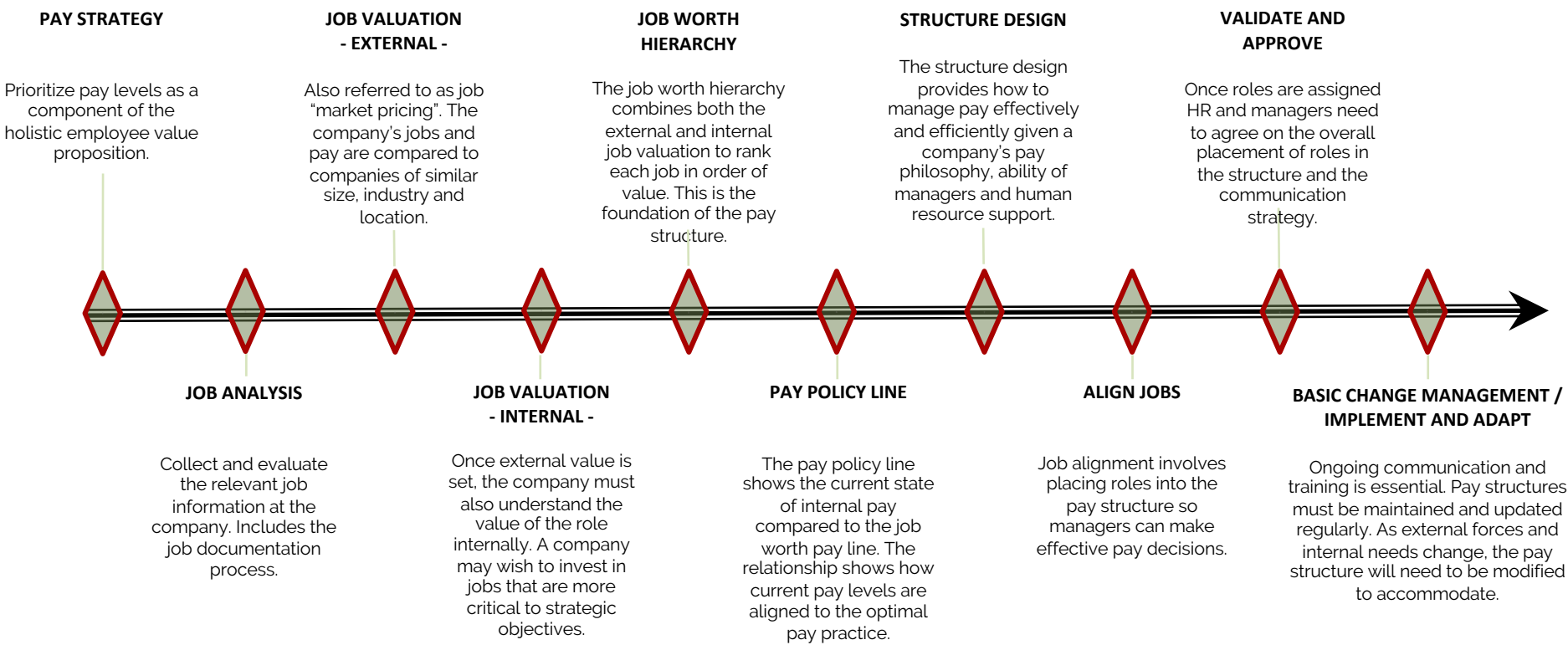
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OBJECTIVES OF A GOOD PAY STRUCTURE

Pay Structures:

- Are an administrative tool used to ensure pay levels are internally fair, externally competitive, and cost-effective – all in support of an organization's compensation strategy.
- Should create alignment between work and rewards.
- Should reflect the company's desired position in the marketplace.
- Improve the employee experience by considering the strategic needs of the business and creating stability in current and future pay, thus creating confidence in the organization.
- Support the organization's pay strategy, creating consistent practices while easing the burden of pay administration.

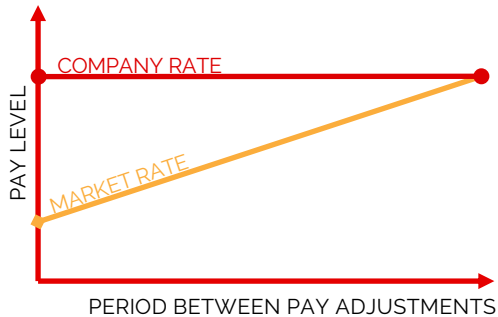
DESIGNING A PAY STRUCTURE



PAY STRATEGY – COMPETITIVE PAY TIMING

LEAD STRATEGY

HIGH PERFORMANCE OR
COMPETITIVE MARKET

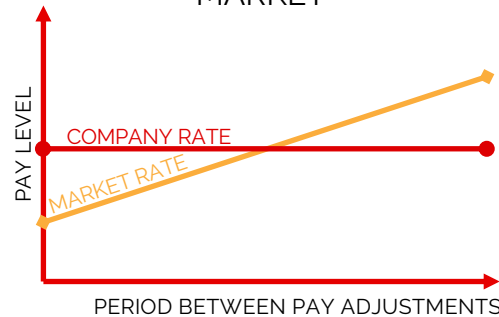


Lead strategy sets targeted pay levels at where they will be at the start of the next adjustment cycle.

Your pay stays ahead of the market to keep you competitive until the next adjustment date.

LEAD LAG STRATEGY

PLAYING THE “AVERAGES”
IN A FLAT OR CALM
MARKET

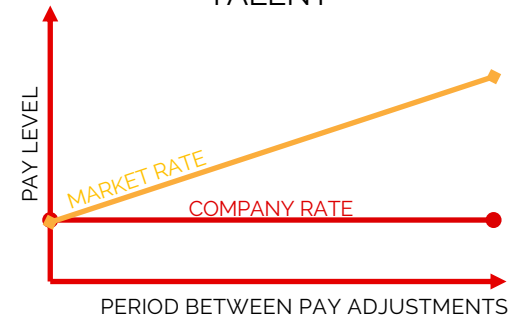


Lead Lag strategy sets targeted pay levels at where they are projected to be half-way through the adjustment cycle.

Your pay is ahead of the market for the first half the adjustment period then slowly fall behind for the last half.

LAG STRATEGY

LOW PERFORMANCE OR
NO COMPETITION FOR
TALENT



Lag strategy sets targeted pay levels as of the beginning of the adjustment cycle.

Your pay slips behind the market during the entire adjustment period. This can make end of period hiring more difficult and retention less predictable.

PAY STRATEGY – LABOR MARKET STRATEGY

- Data may not be available for every level in a staff category or every selected scope. Your staff levels may stretch higher or lower than reported in surveys.
- Company size may be determined by financial metrics or number of employees.
- Industry may be replaced by market strategy or operational focus.

	INDUSTRY	COMPANY SIZE	GEOGRAPHY
STAFF CATEGORY	MANAGEMENT	Specific companies in industry 1x – 4x: high growth .5X – 3x: slow growth	Global or National
	PROFESSIONAL	All related industries All companies in specific industry	1x – 2x: high growth 1x: slow growth
	SUPPORT	All industries	All sizes
	SCOPE		

JOB ANALYSIS

Understand enough about each position to allow accurate matching to a variety of external data sources, and efficiently compare jobs internally.

JOB DEFINITIONS

Summary of role defining key duties, skills, knowledge and behaviors.

JOB DESCRIPTIONS

Detailed description of duties, competencies, education, tasks and more.

These are compliant with the American Disabilities Act.



EXTERNAL JOB VALUATION - MARKET PRICING

Competitive Compensation Analysis (CCA)

The following process is used to populate a tool that compares internal pay levels to relevant external pay information



INTERNAL JOB VALUATION

Internal Job Valuations help determine how the company values each job independent of market perspective. In situations where market data is available, a more informal approach would be utilized.

Formal Methods:

In general there are two different methods to perform a formal Internal Job Valuation:

- Qualitative
 - Uses Ranking and Classification to identify the internal value of each job based Knowledge, Skills, Behaviors, and Reputation.
- Quantitative
 - Uses a Point Factor and Job Component to identify compensable factors using major categories such as Skill, Responsibilities, Effort, Working Conditions. This in turn helps identify the internal value of each job.

Informal Method:

- In cases where External Market data is available, we would use this to place each job on a grade. Jobs would then be adjusted up or down a grade as jobs are valued less or more internally. This method only uses the grade adjustments as a secondary method after the External Market Valuation method.

JOB WORTH HIERARCHY

Establish an informal ranking of groups of jobs or individual positions and determine specific grade placement based first on external market data and second on internal value factors such as job complexity, scope, strategic importance, unique talent pool, supervision, job progression, etc.

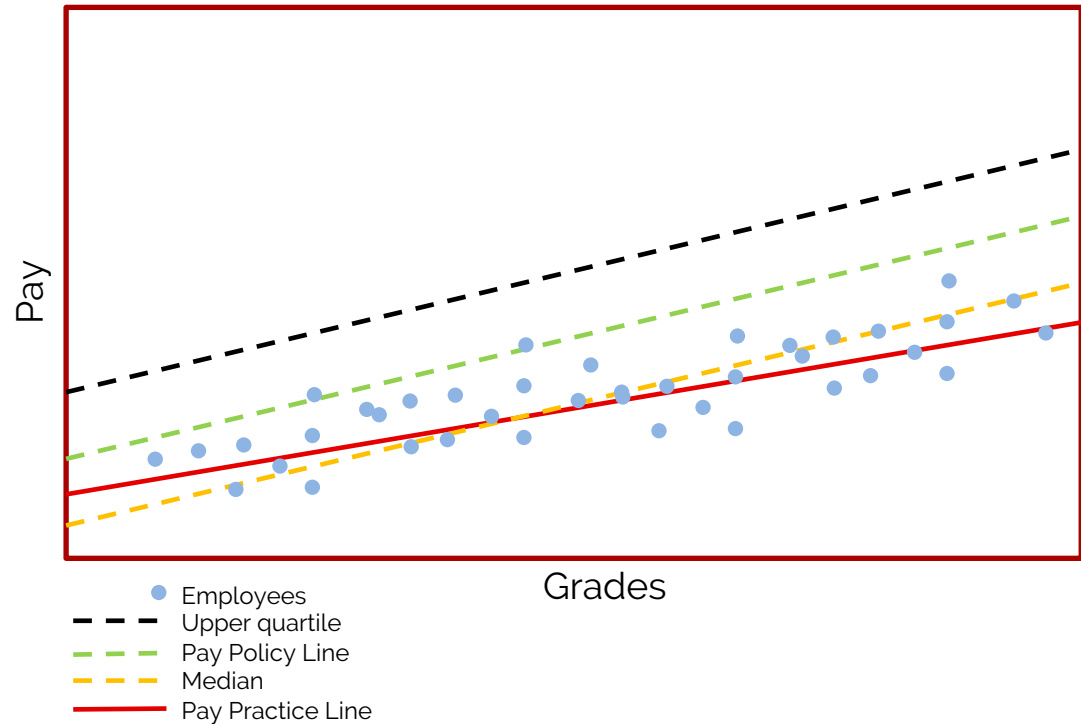
Hypothetical example below:

Your Company Job	Base Market 50 th Percentile	Closest Grade Assignment	Grade Midpoint	Internal Value Grade Adj.	Final Grade Assignment	Grade Midpoint
Software Engineer I	\$100,000	13	\$105,000	-	13	\$105,000
Software Engineer II	\$109,000	13	\$105,000	+1	14	\$116,000

PAY POLICY LINE

This data visualization shows how actual company pay practices compare to targeted pay practices.

- The graph provides information on individual jobs and a trendline for both the defined pay structure and the actual levels paid.
- Small inconsistencies can be seen and corrected quickly.
- Large discrepancies may require multiple adjustment cycles to bring within the structure.
- In this graph we have plotted sample current base salaries of an organization's employees vs. market median.



PAY STRUCTURE DESIGN - STRUCTURES

Determine the number of pay structures

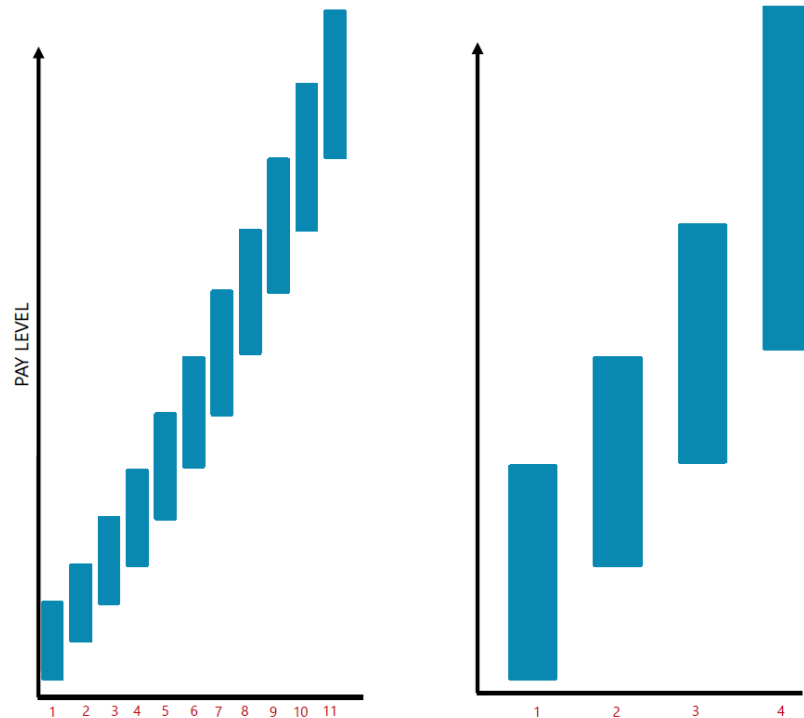
- The scatter gram shows clusters of jobs with similar pay characteristics from a sample Department.
- Your Company may have unique pay structures for each country. In each country there will probably be multiple pay structures, including: Executive, Management, and Professional.
- Unique pay structures are typically necessary for each geographical region unless a geographic differential policy is used.



PAY STRUCTURE DESIGN - GRADES

Determine the number of pay grades

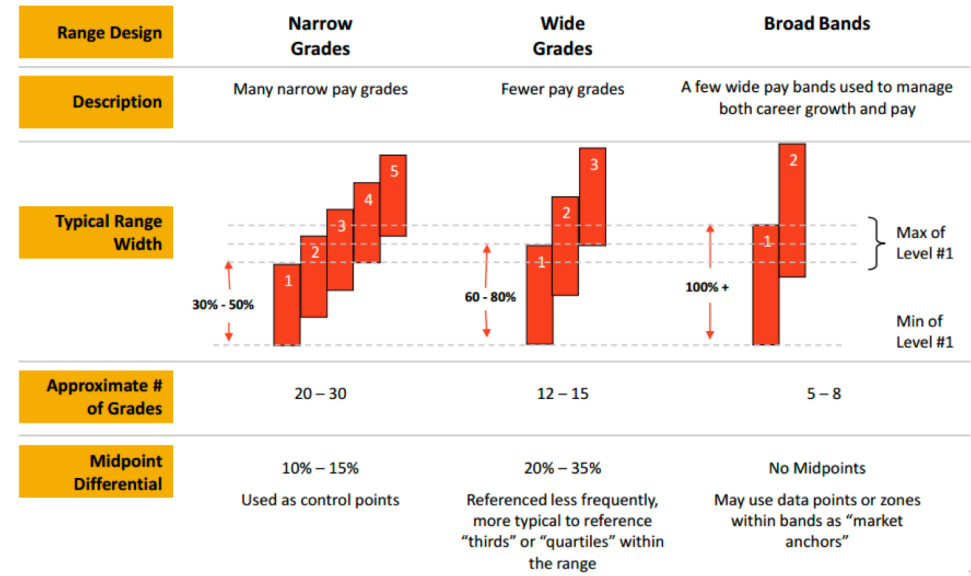
- Define how fine the distinctions between skill levels need to be (the more precise differentiation needed, the more grades will be required; the more jobs can be grouped together, the fewer grades will be required).
- There are several factors to consider when determining the number of pay grades such as:
 1. The number of supervisor-subordinate relationships in the company's organizational structure; and
 2. The degree of emphasis on career development and progression; and
 3. The resources available to administer the pay program. Generally, the more range levels, the more administration required.
- We often recommend using narrower pay ranges (spreads of 30%-50%) and more grades (rather than broad bands) to allow for more frequent promotions and a greater perception of growth and advancement. Recommendations for your Company may be different.
- The grids on the right show the difference between narrow and wide pay ranges.



PAY STRUCTURE DESIGN – RANGE SPREADS

Determine the desired range spreads

- Range spread is also known as pay range width or salary range width. Employees in a specific grade should have base pay that falls between the grade range minimum and maximum.
- Range spreads should increase with the increase in the level of job complexity.
- Example: More narrow grades with the following range spreads:
 - Executives: ~60%
 - Management: ~50%
 - Professional: ~40%



PAY STRUCTURE DESIGN – MIDPOINT DIFFERENTIALS

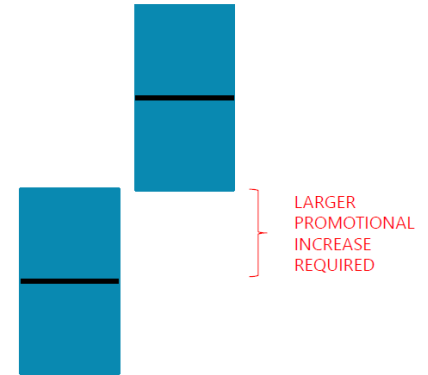
Determine the desired midpoint differentials

- A midpoint differential is the difference between one grade midpoint to the next.
- The smaller the midpoint differential, the more grades and greater accuracy of pay administration.
- Typically, midpoint differentials align with an organization's promotion policy. For example, a promotion policy that limits increases to 8%, but has a midpoint differential of 15%, may cause employee salaries to fall below the new grade minimum upon promotion.
- Example: Midpoint differentials by level
 - Executive: ~30%
 - Management: ~20%
 - Professional: ~10%

GRADE OVERLAP



NO GRADE OVERLAP



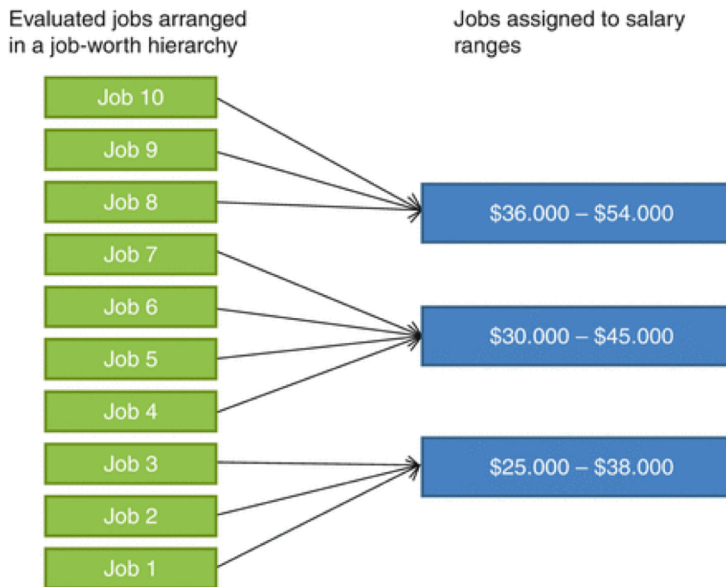
TYPICAL MIDPOINT DIFFERENTIALS

STRUCTURE TYPES	MIDPOINT DIFFERENTIALS
Executive	20% to 40%
Manager	15% to 25%
Professional	10% to 15%
Support	5% to 10%

ALIGN JOBS

Finalize job placement in pay structure

- Align the pay target (based on job worth hierarchy) with the nearest grade midpoint for each job.
- Grade assignments may need minor adjustments based on the expectation of a job's future pay growth.
- "Hot jobs" are in high demand and often have pay increasing quickly.
- Some jobs may also see reduced demand that results in pay lagging other roles in the same pay grade.



Process and Execution

AN OVERVIEW OF JOB STRUCTURES

DISCOVERY

- What are we trying to solve?
 - Provide career paths
 - Improve employee engagement and retention
 - Improve sourcing (internally and externally)
 - Limit job title proliferation
 - Governance process
 - Improved Reporting
 - Anything else?

DESIGN: RECOMMENDED PROCESS

- Match roles to the relevant survey data
- Arrange roles into job families
- Socialize Job Structure with managers
 - Explain process
 - Verify survey matches
 - Refine the job structure
 - Create job definition
- Build detailed job descriptions

WHY THIS PROCESS WORKS

Top Down	Bottom Up
<p>ADVANTAGES</p> <ul style="list-style-type: none"> ➤ Limits number of jobs to roles that are defined in the marketplace ➤ Time efficient, most work controlled and conducted by HR 	<p>ADVANTAGES</p> <ul style="list-style-type: none"> ➤ Requires HR to obtain a detailed understanding of roles
<p>DISADVANTAGES</p> <ul style="list-style-type: none"> ➤ Not all jobs are included in surveys 	<p>DISADVANTAGES</p> <ul style="list-style-type: none"> ➤ Extremely time consuming for HR and managers ➤ Often creates more roles that are too similar

TYPICAL JOB STRUCTURE

FUNCTION

- The major functional areas of a business that represent groups of job families.
 - Typical functional areas are Strategy, Product, Marketing, Finance, Human Resources, Technology and Operations. (Not to be confused with business departments)

FAMILY

- A group of related job specialties that are focused on common goals related to the function.
 - Typical Job Families in HR are Rewards, Recruiting, and Administration.

SPECIALTY

- A sub-group of job family that further define roles of similar job functions that are common in large and medium sized companies.
 - Typical Job Specialties in HR Rewards are Compensation, Benefits, Work/Life practitioners.

JOB

- A series of related job titles with progressively higher levels of impact, knowledge, skills, abilities (competencies), and other factors, providing for promotional opportunities over time.
 - Typical Job Families in HR are Rewards, Recruiting, and Administration.

JOB STRUCTURE EXAMPLE

HUMAN RESOURCES						
Rewards		Talent Management			Staffing	
Compensation	Benefits	Business Partner	Employee Relations	Development	Recruiting	Mobility
Compensation Director		BP Director				
Compensation Manager	Benefits Manager	BP Manager	ER Manager	Training Manager	Recruiting Manager	Mobility Manager
Compensation Consultant	Benefits Consultant	Business Partner	ER Consultant		Executive Recruiter	
Comp Analyst	Benefits Analyst			Trainer 2	Recruiter 2	Mobility Specialist
Comp Support	Benefits Support			Trainer 1	Recruiter 1	

CONTACT INFORMATION

Dan Walter, CECP, CEP

Managing Consultant | FutureSense, LLC

Tel: 1-415-625-3406 | Mobile: 1-917-734-4649

dwalter@FutureSense.com | www.FutureSense.com

Kyle Jaimerena, CCP, CECP

Vice President and Controller | FutureSense, LLC

Office: 949.542.7714 | Cell: 949.584.9965

kyle@futuresense.com | www.futuresense.com