Comp Doctor™

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Question: We just installed a new pay system and it seems that the salary range for certain jobs does not match with the market. Should we raise the grade of the job so that the market and the pay range match? This might upset internal equity, but if we don't do it, we risk losing some of our employees. Do you have any solutions?

CompDoctor™: Yes, we do have solutions. Can you stand the heat? Yes? Read on. No? Get out of HR.

Assuming that the second alternative is not acceptable, you will find that your problem is very common. So, while you are not the only one with the issue, you are also not the only one without an ideal solution.

First, recognize that the issue you raised is one of the classics in the field of compensation. To put it in different terms, it is the battle between internal equity and market parity. You can have one or the other, but there is always a compromise if you want both.

Here is why: To achieve *pure internal equity* you will not care what the outside world pays for similar jobs. Think of it this way. You are on *LOST* and you have not yet discovered "the others," so all you care about is yourself. On the flip side, to achieve *pure external parity,* all you care about is what others are doing. You are like Paris Hilton, always interested in what others are thinking. In this respect, you don't care about yourself, unless you hear it from people outside your organization.

Unfortunately, these two issues never seem to be in total alignment with each other. (You can imagine Paris Hilton on *LOST,* or in jail. Her total self worth would be reduced, because her only reference would be herself). That means that for some jobs (such as engineers, planners, inspectors and some trades jobs) and at some times, the market will pay more for these jobs than your pay system thinks they are worth, given your internal equity concerns. On the other hand, you will find some jobs that you believe are highly valued, but the market does not.

When you have an internally equitable and a market competitive pay structure, you will need to compromise in both areas. Here is an example. Currently, beginning engineers, accountants and HR specialists require a BA degree. To some, these jobs should be paid at about the same rate because they require the same level of education and experience. Following this logic, if you have a pure internally equitable pay system, they would be assigned to the same pay grade. The current pay plan for the Government of Thailand is based on this concept. All employees who are hired with a BA degree are placed in the same pay grade. Individuals with master's degrees in the next higher grade, and those with a Ph.D. are at the next higher grade regardless of whether the job requires that particular level of education or whether it is consistent with market pay rates.

But the market thinks differently. In the U.S., the national averages for these entry-level public sector jobs are:

Entry Level Job Title	Average National Pay
Accountant	$39,200
Engineer	$44,000
Human Resources	$40,000

Because of various market forces, supply and demand and other factors, average engineer salaries in the public sector are about 10 percent above those of the accountant and the HR job. If you stick to your internal equity argument, you may decide to compromise by selecting a pay grade that is a middle point between the market data for these three jobs. If you decide that the grade with a midpoint of about $42,000 is the best compromise, you will be overpaying for the accountant and HR jobs and underpaying for the engineer. Thus, you are not paying at the market rates, for any of these jobs, but you are internally equitable!

Now, suppose the situation is reversed. In this case, you have a job that reports to the top job. This job is not only a gatekeeper of his or her boss' time, but also keeps the boss informed of events that may affect his or her decision making and makes sure that the boss is on time to appointments. In addition, the job is responsible for the office's historical record, assembling the budget, keeping department heads in line, and managing the administrative affairs of the board. Clearly, this is a valuable job to the organization and it is evaluated at grade 10—midpoint of $70,000. Unfortunately, the market cannot support anything better than $45,000—grade 6—the same grade as a budget analyst.

If you follow the market in this case, this job will be paid at the same level as a budget analyst, but clearly the level of authority and impact of decisions is greater than the budget analyst. Again, if you are striving for a pure market based pay system you will pay this job at what the market pays: grade 6. If you are interested in internal equity, you pay it at grade 10. If you compromise, it will be grade 8.

Either way you choose, you will have to give up some principles to achieve others. The only way that you will have a totally internally equitable and externally competitive pay structure is if all of your competitors define the jobs in exactly the same way you do. Believe us—that is not going to happen.

So, back to the original question: Can you stand the heat? If you can, then compromise. If you can't, get out of HR, or…

You could set up distinct salary structures based on the market for those jobs that don't fall into the normal pay structure. Thus, you would set up a special pay structure for engineers, and any other jobs where the internal pay grades are not competitive with the market. Or you could establish market contingency pay rates and make sure that they are administered as separate pay conditions. If you go this route—and some organizations have—you should set up some guidelines that will govern when a job will be paid from the "special" pay structure. A common rule is that the average of the market should be at least 1.5 times greater than the midpoint of the assigned grade before it is paid from a special pay structure or is entitled to a market premium. Or you could establish a guideline that states that only certain job families are paid from the special pay schedule, such as engineers, architects and data processing jobs. By setting up rules to guide which jobs are eligible for the special pay schedule, you will have some handle on when and how a job is taken out of the standard pay schedule. Be careful with this, however, because, as you probably know, each occupation is special and therefore should have its own pay structure.

One of our clients had this situation and over the years ended up with 200 pages of pay structures. Some structures were only a couple of pennies apart. It just didn't seem to us to be an efficient or fair way to run the compensation system. But, you decide. It is your house and you have to live in it.

The Comp Doctor™ is the team of Jim Fox and Bruce Lawson of Fox Lawson & Associates LLC, a compensation and human resources consulting firm that specializes in assisting governments in fixing their compensation and classification systems. They are seriously irreverent about their specialty. You may find them on the Web at www.foxlawson.com. If you have a question you would like to have them answer, please write to them at jfox@foxlawson.com or blawson@foxlawson.com. They will try to include it in the next issue of Comp Doctor™. —N