Getting Control Over Market Compensation Data

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You have decided that your organization needs to determine its market competitiveness. You have considered your alternatives, which are to purchase published survey sources, participate in sponsored surveys, or to conduct your own survey either yourself or through a third party.

Each of these alternatives has its advantages and disadvantages. The factors to consider include cost, time, reliability, availability and confidentiality of the data, as well as legal issues. It will cost more to purchase published sources or to have a third party conduct a custom survey. It will involve more of your time to conduct your own survey. The data will be more reliable and meaningful if a custom survey is conducted. Confidentiality and compliance with legal issues will be secured if a third party conducts the survey. By collecting the data yourself there is the potential for antitrust violations (refer to the Fox Lawson & Associates Web site at **www.foxlawson.com/newsletter** for the vol.8, no. 4 newsletter, "New Alerts on Using Salary Survey Data").

Designing a Custom Compensation Survey

After weighing the alternatives and the associated factors involved, one may subsequently decide to conduct a custom survey. When conducting a custom survey, many items need to be addressed to ensure that the data one is receiving are reliable, valid and useful. The first task is to define the labor market. When determining organizations to include in a survey, size, geographic location and industry are the major considerations. General guidelines are to select organizations that compete with your organization for employees: organizations that are no less than 50 percent and no more than 200 percent the size of your organization, organizations that serve similar populations in terms of size and community character, and organizations that have similar economic bases (taxes, operating budgets, per capita income etc.). The organizations will vary based on the level of job being surveyed (i.e., different jobs have different labor markets). Clerical and technical jobs are normally surveyed locally, administrative/professional jobs are normally surveyed locally and regionally and management jobs are normally surveyed locally, regionally and nationally. The standard participation rate to expect is 50 percent to 70 percent, so be sure to select enough participants so that if only half respond there is still enough data to make and support conclusions. Fewer than five matches to a given job are normally considered an insufficient number for drawing valid conclusions.

The next task is to identify benchmarks. Benchmark jobs should be representative of a large proportion of employees within the organization, be widely representative of job families or occupational groups within the organization, be representative of all hierarchical levels within the organization, have well-defined job content and qualification requirements and be found in similar form in competing organizations. One will also want to focus on those jobs that one is having difficulty in attracting and retaining. The standard number of benchmarks to be selected (if a formal job evaluation system is in place) should equal about 30 percent of the total number of classifications in an organization. If a formal job evaluation system is not in place, the number should be 50 percent or more. However, there is a limit to the number of matches one can ask participants to provide. Fox Lawson & Associates has found that 50 to 75 benchmarks are okay, but beyond that participation starts to fall off.

If benchmarks have been selected correctly, they should cover about 50 percent to 75 percent of the employees. It is important to include summary descriptions that describe the benchmark job for participants to match their jobs to one's organization. Correct job matching is critical to getting valid and reliable data. It is important that the participants match 70 percent or more of the "core" of the job. That is, the essential skills, knowledge and capabilities of the job, not the things that make the job unique to one's organization, must be matched.

Some organizations want to look at total compensation. In order to get a handle on this it is necessary to survey benefits. Some organizations simply collect what the benefits are as a percent of base salary in order to determine if their benefits as a whole are competitive with the market.

Some benefit areas commonly surveyed are time-off amounts by length of service, retirement contribution amounts by both employee and employer, and amount of various insurances paid by the both employee and employer. In addition to benefits, pay practice items such as the prevalence of variable pay, on-call/call-back pay, shift differentials, merit increase amounts, and certification/education incentives may be important for one's organization to collect. Standard salary information to collect is both average actual salary and salary range (formal minimums and maximums) information. An organization's pay strategy will determine what specific salary data is collected.

It is important to prepare a survey questionnaire in a format that is concise, easy to respond to, and collects data in a fashion that is quantifiable. Communication with participants is critical; place a phone call initially to determine who to send the survey to, send a letter to the participants, and place phone calls to participants throughout the course of the survey to encourage participation and answer questions. Through this process, one should be able to collect reliable, valid and useful market data.

Making Sense of the Data

As the market data comes in, what should one do with it to arrive at meaningful and valid conclusions?

The first task of using market data involves an initial review of each participant's returned survey questionnaire. One should check for completeness and to be sure the responses seem appropriate. Review each job match made to the benchmarks

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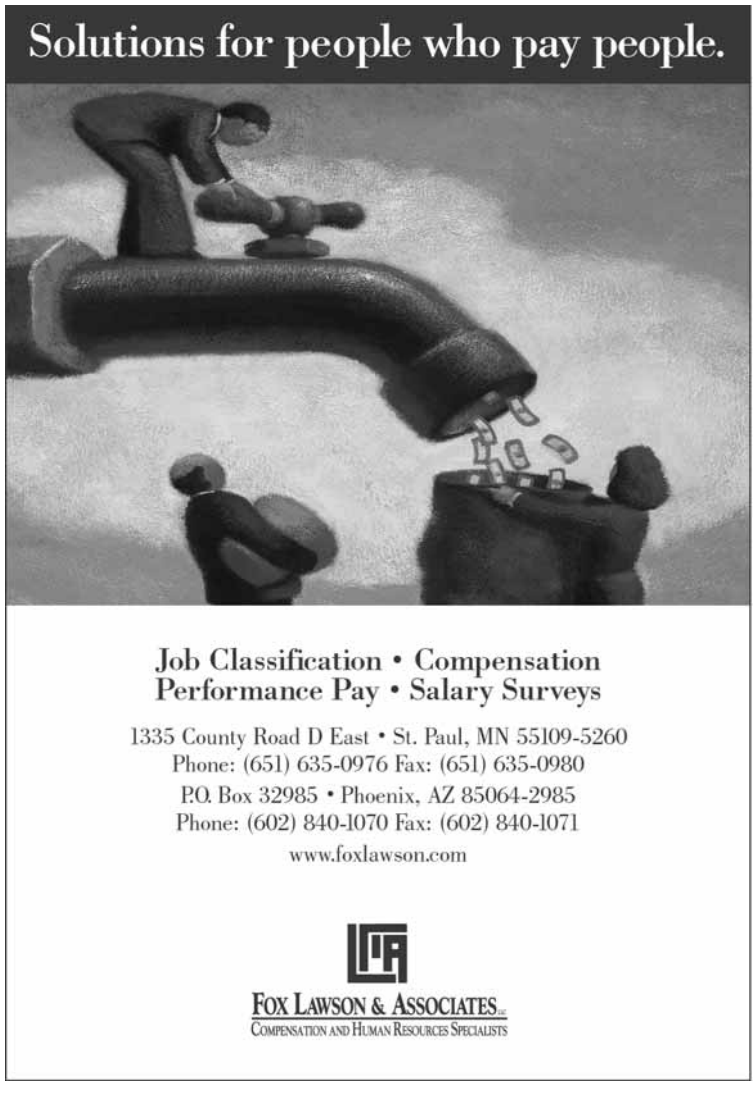

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as well as the salary data reported, and follow up with participants to question and clarify job matches or reported figures. Since the data one receives from participants will be in varying forms (hourly, monthly, annual) of varying effective dates and of varying geographic locations, the data needs to be adjusted so that consistent comparisons can be made. The data should be "aged" to a common point in time by applying an aging factor. The data should be "annualized" to one common dollar amount (hourly, monthly or annual), and the data can be adjusted by geographic factors so that the data is normalized to one's geographic location and labor market cost of living. Several independent sources can help with the correct aging and geographic factors.

Once all of the data have been reviewed, entered into an analysis application such as MS Excel or a statistics program and, adjusted, a check for "outliers" should be performed to exclude any extreme data figures. Calculating salary figures that are +2.00 or −2.00 standard deviation points from the market trend regression line does this. Standard deviation is a statistical term that represents how far data points are from the trend. If a salary figure is greater than + or − 2.00 standard deviation points from the trend, it means that the job match is poor or other factors that may not be identifiable are affecting this salary. Outliers should be excluded from one's analyses.

Once the data has been "cleaned," it can then be summarized. This means calculating statistics such as totals, averages and medians of the data. An organization's pay strategy will determine what statistics from the market will be calculated and what data will be compared to. Three statistics commonly calculated are unweighted average (a simple average), weighted average (averages weighted by number of incumbents) or median (50th percentile or the middle rate). The most commonly used statistic is the median since it is the middle rate and is not impacted by any high or low rates, which would be reflected in an average.

It is important to present your summarized data in a fashion that will not violate antitrust provisions. The general guidelines for these provisions state that the survey output should be aggregated rather than showing individual company data, that the data should not be summarized for fewer than five data matches, and that no organization can represent more than 25 percent of the aggregate data. (Refer to Fox Lawson & Associate's Web site at **www.foxlawson.com/newsletter** for the vol. 8, no. 4 newsletter, "New Alerts on Using Salary Survey Data," which covers this topic).

Comparisons can first be made on a job-by-job basis. A job-by-job basis compares an organization's salary against the market salary for each benchmark job. This comparison tells which individual jobs are above or below market. Jobs whose salaries are +/− 15 percent from the market should be reviewed more carefully. Overall, averages encompassing all benchmark jobs can also be calculated to get an idea of how an organization compares to the market in general.

Using regression analysis, a comparison can be made on a grade-by-grade basis. A grade-by-grade basis compares one's salary by grade to market salary by grade. This comparison tells which grade levels are above or below market (or how an organization's current structure compares with market). Regression analysis is a "line of best fit" between an independent variable, such as grade, and a dependent variable, such as base salary. The formula produced by regression analysis can be used to predict market pay rates for jobs at various points along this line of best fit. Thus, for any given grade level, the predicted market pay for that level can be determined. This is useful for determining predicted rates of market pay for jobs that were not benchmarked.

This predicted market pay rate normally becomes the midpoint of a new market based salary structure, since it reflects the market pay trend.

Getting to a Market Competitive Pay Structure

Now that the competitive stance of the organization is known, how does one apply it to one's salary structure to make sure employee salaries are market competitive?

Minimums and maximums (and also steps) can now be calculated from the new midpoint based on the desired range spread (spread from minimum to maximum) or distance desired between steps. As an alternative to creating an entirely new salary structure model that uses the market pay trend figures, one can also simply adjust one's current salary structure by the amount that one is below the market. For example, if it is found that an organization is, on average, paying three percent below market, all figures of the current salary structure can be increased by three percent.

The salary structure model should support the organization's pay philosophy and strategy, and represent the balance between internal and external equity. The two most common models are open-range models (consisting of minimum, midpoint and maximum), and step models (consisting of steps rather than open ranges). Range spreads can be constant or can expand as grade levels increase to accommodate growth and movement. There are also many variations of these two models that organizations find useful for supporting their strategy and rewarding their employees. Some of these include steps up to midpoint, with an open range between midpoint and maximum for performance related movement, or an increasing number of steps available in the range as grade levels increase.

While many options exist for implementing new salary structure and for determining the associated costs, three basic options are used by most organizations. The first option is to bring only those employees that are below the new minimum up to the minimum and leave all other employees at their current rate of pay. This represents the least cost to an organization and is simply an initial placement cost. While this is the cheapest option to implement, it can cause pay compression among employees in that longevity and performance are not factored into the employee's placement. (Refer to Fox Lawson & Associate's Web site at **www.foxlawson.com/newsletter** for the vol. 11, no. 4 newsletter "Pay Compression," which covers this topic).

The second option is to bring employees to the next closest step based on their current salary (if a step plan exists). This represents an average cost to the organization. This option is only relevant for those organizations with step plans.

The third option is to bring employees to the same point of the new range that they are in their current range (also known as same compa-ratio). A compa-ratio greater than 1.0 means the employee is above the midpoint. For example, if an employee's current salary is $30,000, and the current salary range midpoint is $37,500, the current compa-ratio for that employee is 0.80 ($30,000/$37,500). To place this employee at the same compa-ratio within a new salary range, one would multiply the new salary range midpoint times 0.80 to arrive at the appro-

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IPMA-HR Certification

The International Public Management Association for Human Resources (IPMA-HR) has issued its certification designation, IPMA Certified Professional (IPMA-CP) to more than 1,400 people in seven countries that include: Canada, China, Korea, Kuwait, the Philippines, Sri Lanka, and the United States. The purposes of the certification program are to: encourage continuous learning and help to develop the next generation of human resource professionals. The certification program contains a behavioral component based on the 22 competencies contained in the IPMA-HR competency model and a human resource technical component that is determined by an assessment of the technical experience of the applicants. Applicants need to pass a multiple-choice examination based on the competencies in order to be certified. The certification program can be tailored to ensure its global relevance.

For additional information about the certification program, go to ***http://www.ipma-hr.org/index.cfm?navid=241****, or contact Neil Reichenberg, IPMA-HR executive director, at* ***nreichenberg@ipma-hr.org****.* —*N*

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priate salary for the employee. So, if the new salary range midpoint were $39,000, the employee's new salary would be $31,200 ($39,000 x 0.80), or an increase of $1,200 (or four percent). This cost option represents the highest cost to the organization. Even though it represents the most cost, it is considered the most fair and equitable option because it does factor in the employee's longevity and performance history, thereby eliminating the introduction of any new compression problems.

Other less common options for implementation include factoring in hire date, time in grade, merit, performance, and skilled-based or competency pay.

A Software Solution to Keep the Data Straight

Using market data to establish pay structure is a simple philosophy but one that can require a lot of detailed, technical and statistical work to do a good job. When organizations run into difficulty the problems are usually practical rather than theoretical in nature, and often revolve around issues of market data management.

Software can simplify and resolve many of these market data management issues.

Most people first consider compensation management software as an aid to simplify the sophisticated number crunching. But there's a lot more that it can and should do. Good compensation management software should enable one to age and weight the data according to one's policies and preferences and do regression and other statistical calculations—and much more reliably than MS Excel or other statistical programs. In addition to simplifying the work though, software should also help to improve the quality of conclusions.

The old saying "garbage in, garbage out" applies with full force in compensation management software. While there are many quality issues to contend with, one should be especially careful about outliers. When combining multiple survey results to get a market average, outliers (extreme values) can skew the results considerably. As a rule, if removing a single data point has a big impact on estimate of the market price for a job, the data is suspect. Likewise, watch out for extraneous zeros when working with electronic data. Missing data can sometimes be interpreted as zeroes (for example, for jobs where a survey vendor has insufficient information), with a big distortion in market rates resulting. Good software should help one to check for outliers and potentially, remove the data to mitigate their influence.

One shouldn't let the crush of work compromise the quality of one's effort, especially when it comes to job matching. Most organizations receive multiple requests for salary data all at the same time. In the crush to meet deadlines, the quality of job matches often suffers. Further, when a participant report is received, the details of the job matches that were made several months earlier are sometimes forgotten.

Organization and preparation are the keys to quality results in compensation management software. There are big payoffs for those who take the time to prepare their matches carefully at the time of data submission. Just as important, one should take the time to document matches thoroughly so the same results can be used for salary planning and future data submissions. This is another area where market data management software can be an invaluable aid.

Finally, software can streamline the survey data submission process. If one's software already contains one's incumbent pay information and the matches between one's jobs and those of one's typical survey participants, then one should be able to completely automate the survey submission process.

But, if all of this sounds way too complicated, then there are many organizations that can walk one through these steps and manage the whole survey process at the same time. —*N*

Benchmarking Committee Plans Recruitment and Selection Survey

The IPMA-HR Benchmarking Committee recently wrapped up the 2005 Healthcare Benefit Cost Management Survey and is now looking forward to launching a survey on recruitment and selection practices. The survey will cover three areas: 1) recruitment strategies, 2) applicant assessment, and 3) time to hire.

The survey is currently in development and is expected to be launched in late February 2006. A link to the survey will be sent via e-mail to IPMA-HR members and Assessment Council members, and the results will be provided free to survey participants.

For the recruitment and selection survey, the benchmarking committee has partnered with NEOGOV. Based in El Segundo, Calif., NEOGOV works in public sector recruitment, selection and applicant tracking systems, and delivers integrated and scalable enterprise applications for government agencies of all sizes.

IPMA-HR's benchmarking committee has been conducting surveys since 1998. Visit the IPMA-HR website to read the results of the Healthcare Benefits Cost Management survey (free to members), as well as best practices in workforce planning. —*N*

Contributors Sought for *Public Personnel Management* Special Winter 2006 Issue

Focus of Issue to be Public Sector Collective Bargaining

The last issue each year of the International Public Management Association for Human Resources' (IPMA-HR) *Public Personnel Management*—the winter issue—is a special issue. This year, the topic for that issue will be "public sector collective bargaining."

IPMA-HR member Joe Adler, IPMA-CP, director of the Montgomery County, Md. Office of Human Resources has volunteered to be the special editor of the 2006 winter issue of *Public Personnel Management* and he needs your input with articles and/or potential authors.

Contributions from practitioners are encouraged. The guidelines for contributors to *Public Personnel Management* can be found online at **http://www.ipma-hr.org/index.cfm?id=2594&navid=196&tcode=nws3**. For more information, to submit article ideas or to submit a query, contact Adler by e-mail at **joseph.adler@montgomerycountymd.gov** or by phone at (240) 777-5100, or contact IPMA-HR Publications Manager Elizabeth Kirkland by phone at (703) 549-7100, ext. 243 or by e-mail at **ekirkland@ipma-hr.org**. —*N*