FIA SOLUTIONS

Compensation Consulting Since 1995

Volume 10, Number 3

USING MARKET DATA TO UPDATE YOUR PAY STRUCTURE AND EMPLOYEE PAY

In our last two newsletters we discussed conducting a market salary survey, and using market survey data. Now that you know the competitive stance of your organization, how do you apply it to your salary structure to make sure employee salaries are market competitive?

As we discussed in the last newsletter, once you have your market data collected and analyzed, regression analysis is a statistical analysis that is useful for determining predicted rates of pay for all grade levels. This predicted pay rate for each grade level normally becomes the midpoint of a new market based salary structure, since it reflects the market pay trend generated from regression analysis. Minimums and maximums (and also steps) can then be calculated from that 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 utilizes the market pay trend figures, you can also simply adjust your current salary structure by the amount that you are below the market. For example, if it is found that your organization is on average, paying 3% below market, you can increase all figures of the current salary structure by 3%.

Your salary structure model should support your 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 expand as grade levels increase to accommodate growth and movement. There are also many variations of these two models that many 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 your new salary structure and for determining the associated costs, three options are utilized 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 your organization and is simply an initial placement cost. While this is the cheapest option to implement, it can cause compression among employees in that longevity and performance are not factored into the employee's placement. 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

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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 .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 .80 to arrive at the appropriate salary for the employee. So, if the new salary range midpoint is $39,000, the employee's new salary would be $31,200 ($39,000 * .80), or an increase of $1,200 (or 4.0%). 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 employee's longevity and performance, thereby eliminating any new compression problems.

Other less common options for implementation include factoring in hire date and time in grade. A combination of any of these cost alternatives described may be used that factor in merit, performance, and skilled-based or competency pay.

Fox Lawson & Associates conducts over 50 compensation studies for organizations each year. If you need assistance in updating your salary structure, please contact us to discuss how we can help in developing a salary structure and calculating associated costs of implementation. We can offer assistance in conducting a custom market survey, analyzing the results, developing and making salary structure recommendations, and calculating cost implications of implementing a new salary structure.

Call 800-383-0976 for more information. Press 102 for Jim Fox or 110 for Bruce Lawson.

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