

Results of Rewards Survey: Market Based Pay Systems

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We conducted a nation-wide pay practices survey last year. The survey collected data from 273 organizations regarding specific changes in their compensation programs. 112 (41%) indicated they changed one or more of the following elements of their compensation program in the past three years: Quantitative Job Evaluation, Market Based Grading Systems, Performance Management Systems, Broadbanding, New Salary Ranges, Skill Based Pay, Competency Based Pay, Spot Awards, Team Awards, Gainsharing, Goalsharing.

This article deals with an aspect of Salary Management: Market Based Grading System.

Market Based Grading System determines the appropriate salary ranges for positions by linking an organization's jobs to the appropriate level of the market's pay and establishing the pay grades based on market levels. This is accomplished by collecting market data on a representative group of positions from each occupational group. The salary data is analyzed, a grading system established based on the market data and then jobs are slotted into the market based graded structure based on the closeness of the market data to the midpoint of the graded structure that has been established.

SURVEY PROCESS

Organizations were asked to identify why they implemented a market based pay system, what job families

they included, what percentage of their job titles were benchmarked, how many pay grades were developed, the salary range spread, the vertical progression, market strategy, and finally how they will maintain internal equity.

SURVEY RESULTS

The average organization that implemented a new market based grading system had about 1400 employees. 55% of these organizations were City organizations, 35% were County organizations, and 10% were Special Districts.

The lists below summarizes the most important and least important reasons why they implemented a market based grading system, and the percentage of organizations that responded.

Most important:

- Improve Market Competitiveness - 91%
- Improve Recruitment Results - 76%
- Improve Employee Morale - 76%
- Improve Internal Equity - 71%

Least important:

- Avoid Unionization - 81%
- As a Result of a Collective Barg. Agreement - 81%
- Reduce Costs of Grading - 80%

The following list indicates the percentage of organizations that implemented a market based pay system for the following employee groups.

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Management - 83%
Professional/Technical - 91%
Clerical/Administrative - 78%
Trades/Maintenance - 70%
Protective Services - 48%

The average organization benchmarked 47% of their positions and developed 29 different pay grades with 40% range spreads, and vertical progressions of 6%. The average organization lagged the market by about 2%. All organizations intended to maintain internal equity by a series of reviews by the human resources department and by a consultant. 45% of the organizations indicated they would maintain external equity by a periodic collection of market data.

ANALYSIS OF RESULTS

We believe the organizations implemented a market based grading systems for all the right reasons. A market based grading system links an organization's pay rates to the market very directly. This should help your recruitment results and increase employee morale. However, market based systems may be difficult to defend as jobs change in the future, because there is no internal equity (job evaluation) tool, to decide which grade each job should be assigned.

The average structure has a range spread of 40% and its vertical progression is 6%. This is consistent with what we have seen in the market. Although, we predict that salary ranges will increase to at least 50% as organizations want greater flexibility in placing new hires and rewarding performance.

In performing a market analysis there are two critical elements to a successful study. First, ensuring

participants are comparable in industry, size and location to your organization. Second, you select a sample of jobs across all levels of the organization that are representative of the organizations you selected to survey.

Furthermore, before you attempt to gain market parity, you must ensure your organization solidifies its internal equity. Too many organizations are eager to perform a market analysis, without verifying its internal equity. If an organization's internal structure is out of alignment, it is meaningless to perform a market study, as the resulting pay relationships will be directly related to the rank order of your jobs.

All organizations indicated they would sustain internal equity through human resources or consultant review. Organizations typically use consultants to assist them in evaluating jobs to maintain objective evaluations. We strongly encourage organizations to make sure they have the internal equity aligned, before they try to develop a market based pay system.

Only 45% of the organizations indicated they would maintain external equity by a periodic collection of market data. If the system is market based, periodic market analysis is needed to make sure the system maintains market parity. When you have a market based grading system, we recommend that organizations perform a thorough market analysis every 3 to 5 years, in lieu of inflationary periods, to ensure they are sustaining their salaries properly. In non-survey years, there are various industry reports that can be used to adjust ranges to remain competitive.