Alaska State HR Conference Compensation and Administration

TODD Y. ALLEN, SPHR, CCP
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Introduction

- **What is the purpose and objective**
  - Salary surveys
  - Common positions in companies
  - Trends in Alaska and L-48

- **Your active participation and engagement**

- **Questions and Answers**

Compensation Philosophy

A compensation philosophy is simply a formal statement documenting the company's position about employee compensation. It essentially explains the "why" behind employee pay and creates a framework for consistency.

Why is this important?
Transparency and an official pay strategy

Compensation Philosophy

- An effective compensation philosophy should pass the following quality test:

  o Is the overall program equitable?
  o Is the overall program defensible and perceived by employees as fair?
  o Is the overall program fiscally sensitive?
  o Are the programs included in the compensation philosophy and policy legally compliant?
  o Can the organization effectively communicate the philosophy, policy and overall programs to employees?
  o Are the programs the organization offers fair, competitive and in line with the compensation philosophy and policies?

  What is the one item missing?

Linking Compensation and Organization Strategy

- What is the company philosophy? There are only three (3) options:
  o Lead
  o Lag
  o At market

- Responsibility to develop?
  o Driven by? With the board of directors and the executive management team to decide

Linking Compensation and Organization Strategy

- There might be multiple philosophies
  o Executive / managers / all other staff

- Dependent upon nature and maturity of the organization and the business climate
  o New company vs. mature
  o Trying to attract top talent
  o Very competitive environment vs. stable/flat

Development of a Pay System

- Typical components of a pay system include:
  - Position descriptions
  - Performance reviews
  - Salary schedule
  - Salary administration guidelines

Development of a Pay System

- What are the steps in developing a pay system?
  - Step 1 – executive / leadership support
  - Step 2 – establish an internal team (steering committee)
  - Step 3 – depending on size of project, select an external vendor/consultant
  - Step 4 – communicate with line management
  - Step 5 – secure current position descriptions
  - Step 6 – work with line supervision to develop and/or update the position descriptions

Development of a Pay System

- What are the steps in developing a pay system?
  - Step 7 – conduct or commission salary survey
  - Step 8 – review results and adjust as appropriate
  - Step 9 – communicate with line management
  - Step 10 – develop salary schedule
    - How many pay grades/grouping of org. units/regional structures/size of pay range, etc.?
  - Step 11 – develop salary administration guidelines
  - Step 12 – review with executive management and edit as necessary
  - Step 13 – Rollout to line management

  - Last step – roll out to employee's – who's responsibility?

Utilization of Market/Survey Data

- Position descriptors and position descriptions – match at a target of 75-80%; never get a 100% match.

- Mean - The "mean" is the "average" you're used to, where you add up all the numbers and then divide by the number of numbers.

- Median - The "median" is the "middle" value in the list of numbers. To find the median, your numbers have to be listed in numerical order, so you may have to rewrite your list first.

Glossary of Terms

- **Salary Range or Grade** -- A range of pay rates, typically defined by a minimum, midpoint and maximum, which reflect jobs having a similar internal or external (market) value.

- **Salary Structure** -- A series of salary ranges which encompass a family of jobs or the entire universe of jobs within an organization.

- **Midpoint Progression** -- The percentage increase in the midpoint from one salary grade to the next, expressed as a percentage of the lower midpoint.

- **Range Spread** -- The distance from the salary grade minimum to the salary grade maximum, typically expressed as a percentage.

- **Midpoint** -- The salary level midway between the minimum and maximum of a salary range, sometimes used as a reference for the market value of jobs in the grade.

- **Range Overlap** -- The degree to which adjacent salary ranges or grades in a given salary structure encompass the same pay levels.

Base Pay

- How does one determine base pay?
  - Pay philosophy
  - Salary survey data
  - Internal equity
  - Salary schedule

- CEO, CFO, COO, EVP, SVP, and on occasion VP positions.

Common Positions

- Common Positions
  - A/P and A/R, billing
  - HR administrators
  - Accountants
  - Safety and health professionals
  - Medical professionals
  - Truck drivers
  - Engineers
  - Technicians

- In the Alaska market where should we recruit?
  - All companies or those that are common to our particular industry?

Current Trends in Compensation

- What is the national market doing in the way of adjusting salary schedules?
  - Ex
  - Nx
- What is the local market doing in the way of adjusting salary schedules?
  - Ex
  - Nx
- What's the local market doing in the way of COL/merit/market adjustments?
  - Ex 3.0%
  - Nx 3.0%
- What is the national market doing in the way of COL adjustments?
  - Ex 3.0%
  - Nx

Compensation Trends / Impacts

- Pressures and Impacts on Salary Administration
  - Economic Stability
  - Economic Volatility
  - Unemployment
  - Tight Labor Market
  - Employment Laws / Union activity
  - Total Reward Offerings
  - Government Stimulation

Other Comp Trends

- Market-based salary structures now are the most prevalent type of pay structure (used by 64 percent of respondents)

- Traditional and broadband structures have been popular in the past, but now are less common today (23 percent and 12 percent, respectively).

Market-based Salary Structures

- Advantages:
  - Provide "the best of both worlds"
    - flexibility to recognize differing market rates of pay based on performance, skill level or market conditions, and
    - a reasonable level of control over salary costs and internal equity.

Market-based Salary Structures

- Disadvantages: To be reflective of the market

  - More frequent or sophisticated market analysis may be required, and

- Increasing attention and understanding to market rates for not just HR professionals, but line managers and the executive staff.

Sources and Utilization of Market Data

- Local data
  - Alaska Cross Industry Survey (AXIS)
  - Economic Research Institute (ERI)
  - State of Alaska
  - The Foraker Group (Non-profit)

- National Data
  - Milliman (various survey reports)
  - Towers Perrin
  - WorldatWork
  - SHRM
  - Deloitte Consulting
  - Mercer
  - Hay Group

- Professional – Executive (CEO, COO, CFO, etc.); Human Resources; IT

- Industry specific surveys
  - Oil/gas
  - Financial
  - Construction
  - Engineering
  - Non-profit
  - Sales

Compensation Resources

- Economic Research Institute (ERI)
  - www.erieri.com
- Milliman
  - Alaska Cross Industry Survey
- WorldatWork www.worldatwork.org
- Towers Watson Data Services
- Mercer www.imercer.com
- Compdata Surveys www.compdatasurveys.com
- Society for Human Resource Management
  - www.shrm.org
    (all of the above will lead to other resources)

- The Foraker Group www.forakergroup.org