

# Typical Considerations: Conducting Pay Structure & Compensation Program Reviews

## **Context:**

- Provide a broader context to the key factors that should be considered by any organization undertaking any sort of Compensation Review or plan change, regardless of any the organization-specific criteria driving such a change
- Objective is to ensure that recommending & initiating change at this scale involves understanding there are considerations that best assist in assessing the degree of change required
- Once the scope of change can be determined through understanding the considerations detailed below, the associated activities detailed below can be properly scaled & aligned allowing for an accurate approach to be determined

## **Consideration: What is a job?**

- Jobs are “priced” based on a mix of job “size”, market “pricing” and other criteria, as well as a consideration of an organization’s ability to pay
- Jobs are the roles that job descriptions are written to represent
- The content/requirement of the job is what is being valued both internally and out in the market, regardless of how many incumbents are in the job or their experience/performance level
- Jobs can have one or more positions (e.g., each incumbent in a job is in a single position)
- For example, a Sr. Accountant job can have 3 positions —each position carries out the specific requirements of the job, however, each incumbent can possess more or less experience, perform better or worse, etc.
- Determining pay for individuals typically involves determining the “value” of the specific role within the organization and/or external market **and then** considering what “value” each incumbent brings to the role (i.e., do they perform job requirements as stated, is there a learning curve, etc.)

## **Consideration: Managing Salary Costs**

- An objective of a sound Compensation/Salary Administration program is to both retain the necessary skills of the current employees and be able to attract top tier people who can quickly become an integral part of the organization
- Typically, base salaries are usually the second highest expenditure in an organization after operational costs

- To manage escalating base salary costs, the trend has been moving toward **“Pay for Performance”** compensation programs; identifying a more tangible link between remuneration and individual employee performance
- “Pay for Performance” or “Merit Pay” programs are designed to show the clear link between strong individual performances and what an employee should and will be paid on an on-going sustainable basis
- Moving to this approach also means considering adopting a “Total Cash Compensation” approach to further manage escalating base salary costs
- Total Cash Compensation is **not just base salary**, but considers other monetary components to **develop a full competitive cash compensation package to attract and retain employees** (e.g., inclusion of incentive or variable pay opportunities)
- Salary costs can be better managed using a Total Cash Compensation approach due to its design as part of the **overall cash compensation** package would be **“variable” and re-earnable** each cycle; in some cases, being driven by performance (i.e., individual, corporate, etc.)

#### **Consideration: Assigning Jobs to job bands/job grades (Internal Value)**

- Typically a review of current jobs along with any proposed roles must first be undertaken (job documentation, organizational factors, etc.)
- Jobs are then subject to an evaluation of their components and assessed to determine their relative value and contribution to the organization in relation to all other jobs internally (Job Evaluation)
- By evaluating broad job performance factors, inherent in every job, an overall internal job “value” is determined
- Once jobs are evaluated, they are ranked and grouped together, based on the job evaluation results, into job bands/job grades
- Each job band/job grade consists of roles of similar value grouped together
- Eventually, salary ranges are determined based on each job band/job grade identified

#### **Consideration: Determining Base Salaries (External Market Considerations)**

- Salaries must also be competitive with those being offered by other organizations in the marketplace if the company is to attract and retain high performing, well skilled employees
- A combination of different factors in the market is considered to determine competitiveness: industry, revenue, geographical location, employee population, private/public sector, etc.
- Published survey data readings at the 50th & 75th percentiles represent where the bulk of the competitive marketplace data is found to begin to make comparisons, develop salary ranges and set salaries