

Solving the Compensation Puzzle

Putting Together a
Complete Pay and
Performance System

Sharon K. Koss, SPHR, CCP Society for Human Resource Management Alexandria, Virginia USA www.shrm.org

Contents

Preface and Acknowledgements		
Introduction:	A Step-by-Step Guide to Designing a Pay-for-Performance System	1
	What Is in This Book?	2
	What Is Not in This Book?	(
Chapter 1	A Historical Look at Pay for Performance	Ę
	Major Labor Market Trends	
	Workforce Trends: Generations Working Side by Side	
	Multicultural Issues	ç
	No Middle Class-The Haves vs. The Have Nots	ç
	Now What?	10
Chapter 2	Is Pay for Performance Worth the Trouble?	11
	Components of a Successful Pay-for-Performance System	1:
	Organizational Metrics to Gauge Readiness	
	for a Pay-for-Performance Plan	10
	Myths and Facts About Merit Pay	13
	Best Practices in Pay for Performance	14
*	Public Sector and Non-Profit Organizations	15
	Real: Life Example: A Tale of Two Cities: The Importance of Top Management Support	16
	Compensation Boot Camp: Concepts and Definitions	19
	Sanity Suggestions	20
Chapter 3	Compensation's Role in Human Resource Strategy	2-
	Engaging Key Stakeholders to Support the Compensation Strategy	2
	The Payoff of a Pay-for-Performance Compensation Strategy	24
	Important Considerations in Designing a Compensation Strategy	2
	Goals for the Pay-for-Performance System	29
	12 Steps for Designing a Pay-for-Performance System	29
	How to Conduct a Successful Employee Survey	33
	Real-Life Example: The Case Study of the Dog Shelter	
	Where Its Bark Was Worse than Its Bite	34
	Compensation Boot Camp: Concepts and Definitions	3
	Sanity Suggestions	38

Chapter 4	The Pay-for-Performance Foundation	37
	The 500-Foot View: Where Are We Going?	37
	Sticky Design Issues	41
	What Are the Best Resources?	41
	When is an Employee Design Team Not Appropriate?	43
	Compensation Policy Decisions	45
	Pay Secrecy in Private-Sector Companies	47
	The Case of Pay Secrecy: The Need-to-Know Theory	47
	What Is Salary Compression?	48
	Can Pay Compression Be Resolved?	48
	Managing Pay for Performance in Financial Downturns	48
	Create a Three-Year Strategic Plan for Compensation and Benefits	49
	Transformational vs. Transactional Upgrades	50
	Real-Life Example: Swimming with the Sharks	51
	Compensation Boot Camp: Concepts and Definitions	51
-	Sanity Suggestions	52
	, 00	
Chapter 5	How to Write a Job Description	53
	Common Uses for a Job Description	53
	Simplifying the Process of Writing Job Descriptions	53
	Enhancing the Quality of Job Descriptions	55
	Gathering Job Description Information	56
	Tips for Writing Job Descriptions	56
	Suggestions for the Supervisor Review Process	57
•	Common Issues that Arise During the Supervisor Review	58
•	The Necessity of Management Approval	59
	Editing the Job Description: The Final Check	59
	The FLSA Puzzle: Is the Position Non-Exempt or Exempt?	62
	Job Descriptions and the Americans with Disabilities Act (ADA)	64
	How to Keep Job Descriptions Up-to-Date	65
	Employee Job Description Input Form	65
	Real-Life Example: The Case of the Fishing Company	00
	Managers Who Hated Paperwork	66
	Tips and Takeaways	66
	Compensation Boot Camp: Job Description Terms and	
	Job Analysis Methods	67
	Sanity Suggestions	67
Chapter 6	Make Sure Employees Are in the Right Salary Range	69
Cilapiei 6	External Equity—The Market Study	69
	How to Prepare for a Market Study	69
,	Major Sources of Salary Information	71
	How to Make the Salary Survey Decision	75
	How to Use Salary Survey Information	77
	· · · · · · · · · · · · · · · · · · ·	

	How to Match the Organization's Jobs to its Pay Surveys	77
	Market Survey Tips	78
	Matching Jobs Like a Compensation Professional	78
	Example	79
	Quality Assurance: The Critical Last Step	79
	Make Sure the Salary Plan Fits the Organization	80
	Internal Equity Challenges	81
	Real-Life Examples: The Case of the Complex Collection	81
	The Case of the Difficult Blood Draw	81
	The Case of the Life-Saving Social Worker	81
	Steps for Completing an Internal Equity Review	82
	Job Ranking	83
	Real-Life Example	83
	Point-Factor Internal Equity System	83
	Point-Factor System Advantages and Disadvantages	84
	Steps for Designing a Point-Factor System	85
	How to Create Salary Grades	86
	Pay Range Widths: What Do You Need to Know?	87
	Progression Between Salary Grades	88
	Real Life-Examples: The Case of a Nice Title, But No Raise	89
	The Tale of the Housekeeper vs. Janitor Market Pay	89
	The Case of the Mysteriously Underpaid Tech	
	Support Department	89
	Compensation Boot Camp: Terms: Market Study	90
	Sanity Suggestions	91
Chapter 7	Performance Appraisal:	
onapici i	An Essential Step to Pay for Performance	93
	Where Do We Stand?	93
	What Is the Bottom Line?	94
	Coaching-A Unique Opportunity to Change an Employee's Life	97
	Real-Life Examples: The Case of the 20-Something Employee	97
	The Case of the Drinking Employee	98
	Steps for Making the Final Link to Pay for Performance	101
	Real-Life Examples: The Case of the	
	"Drive-thru Performance Appraisal"	104
	The Once-in-a-Lifetime Thank-You	104
	Sanity Suggestions	105
Chapter 8	How to Design, Update and Maintain the New	
	Compensation System	107
•	How to Update a Salary Plan for New Jobs	107
	Real-Life Example: The Case of the Manager's Clever	
	Work Around for More Employee Pay	108
	Salary and Benefit Information as Part of the Annual	100
	Budgeting Process	108

	Compa-ratio Examples	111
	Administration of the New Compensation System	111
	Promotional Adjustments	113
	Approvals of Compensation Decisions	114
	Maintaining the Pay-for-Performance Link in Hard Times	114
	Real-Life Example: The Case of the Employees in the Wrong Place	115
	Compensation Boot Camp: Compensation Administration Terms	117
	Sanity Suggestions	118
•	Next Steps	118
End Notes		119
ndex		149
About the Aut	thor	155
Figures		
_	Figure 1 Key Stakeholders of a Pay System	22
	Figure 2 Market Position Choices	25
	Figure 3 Pay Policies: Advantages and Disadvantages	30
	Figure 4 Roles for Employee Compensation Committee	43
	Figure 5 Work Plan for a Small Company in a Mid-size City	44
	Figure 6 Salary Survey Market Data Choices	70
	Figure 7 Relevant Labor Market	70
	Figure 8 Three Major Types of Salary Survey Choices	72
*	Figure 9 Suggested Annual Salary Increase Guidelines	104
	for FY 2009 Figure 10 Compensation Forecasting & Budgeting Process	104 117
Tools	,	
	Tool 1 Compensation Philosophy Questionnaire	121
	Tool 2 Employee Guidelines for Writing Excellent Job Descriptions	122
	Tool 3 Action Verb Examples	124
	Tool 4 Job Description Questionnaire (Non-exempt)	125
	Tool 5 Job Description Questionnaire (Exempt)	126
	Tool 6 Completed Job Description Questionnaire (Exempt)	128
	Tool 7 ABC Company Official Job Description (Exempt)	130
	Tool 8 Job Description Resource List	132
	Tool 9 Part A Market Survey Summary Sample	.133
	Tool 9 Part B ABC Company List of Exempt Jobs by Grade	134
	Tool 10 Sample Salary Range Structures	135
	Tool 11 ABC Company Salary Administration Manual	138

CD-ROM Tools

Tool 1 | Compensation Philosophy Questionnaire

Tool 2 | Employee Guidelines for Writing Excellent Job Descriptions

Tool 3 | Action Verb Examples

Tool 4 | Job Description Questionnaire (Non-exempt)

Tool 5 | Job Description Questionnaire (Exempt)

Tool 6 | Completed Job Description Questionnaire (Exempt)

Tool 7 | ABC Company Official Job Description (Exempt)

Tool 8 | Job Description Resource List

Tool 9 | Part A | Market Survey Summary Sample

Tool 9 | Part B | ABC Company List of Exempt Jobs by Grade

Tool 10 | Sample Salary Range Structures

Tool 11 | ABC Company Salary Administration Manual

Tool 12 | How to Achieve a Successful Employee Survey

Tool 13 | Completed Job Description Questionnaire (Non-exempt)

Tool 14 | ABC Company Official Job Description (Non-exempt)

Tool 15 | Sample Point-Factor System

Tool 16 | Sample Custom Salary Survey

Tool 17 | Sample Performance Appraisal #1

Tool 18 | Sample Performance Appraisal #2

Tool 19 | How to Deliver Quality Performance Appraisals

Tool 20 | Compensation Survey