

dH

# **The Role of Salary Surveys in Setting Pay**



**Office of Personnel Management  
Strategic Compensation Conference  
August 29, 2000**

# Outline

- The **BIG** picture - Value Exchange
- How pay is determined
- Salary surveys
- How surveys are used
- What to look for in surveys



# Value Exchange Theory

---

Objective is fair pay



# Fair Pay Employee Viewpoint

---



- Pay opportunities/ranges reflect value of each job/skill relative to other jobs/skills within the organization
- Pay opportunities are competitive with similar jobs/skills in other organizations
- Superior performance/skills are recognized and rewarded

# Fair Pay Employer Viewpoint

---

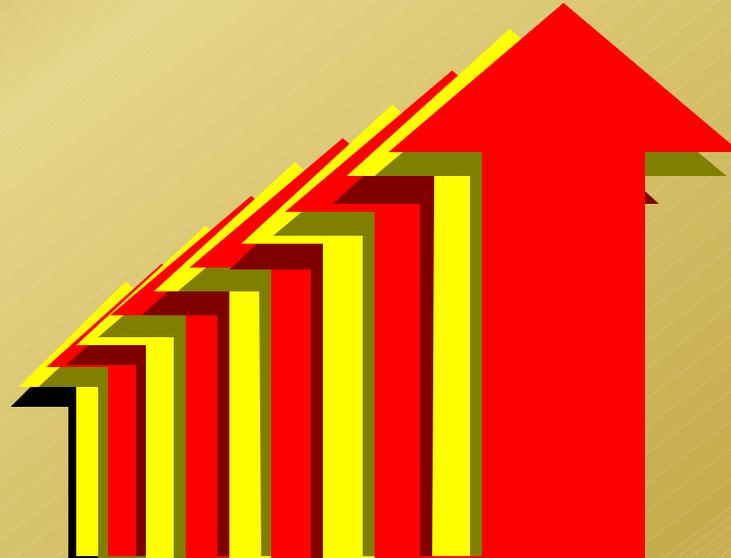


- Employees view pay as fair
- Pay program supports organization philosophy and strategies
- Pay is affordable and legal

# Achieving Organization Goals

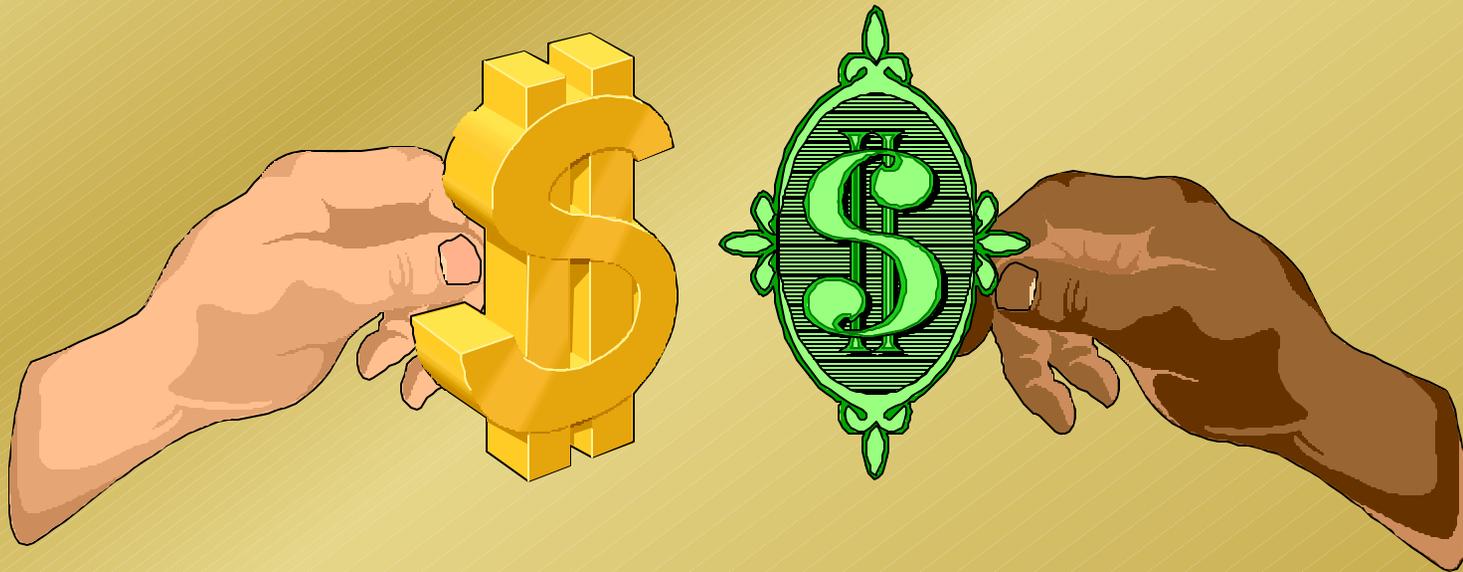
---

- **Accomplished by people**
- **Challenge**
  - **Attract**
  - **Retain**
  - **Motivate**
  - **Align**



# Value Exchange

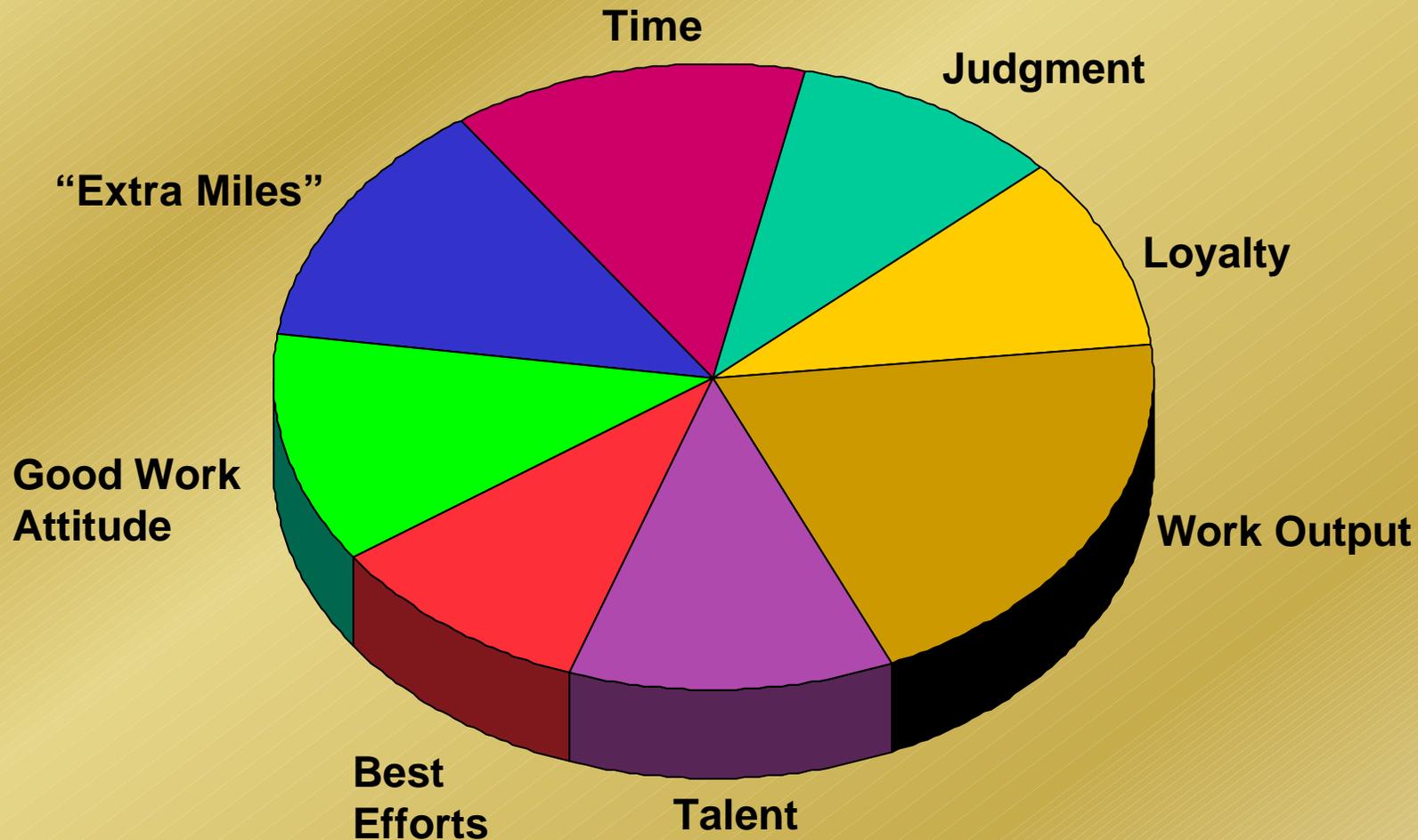
---



**Value given for value received**

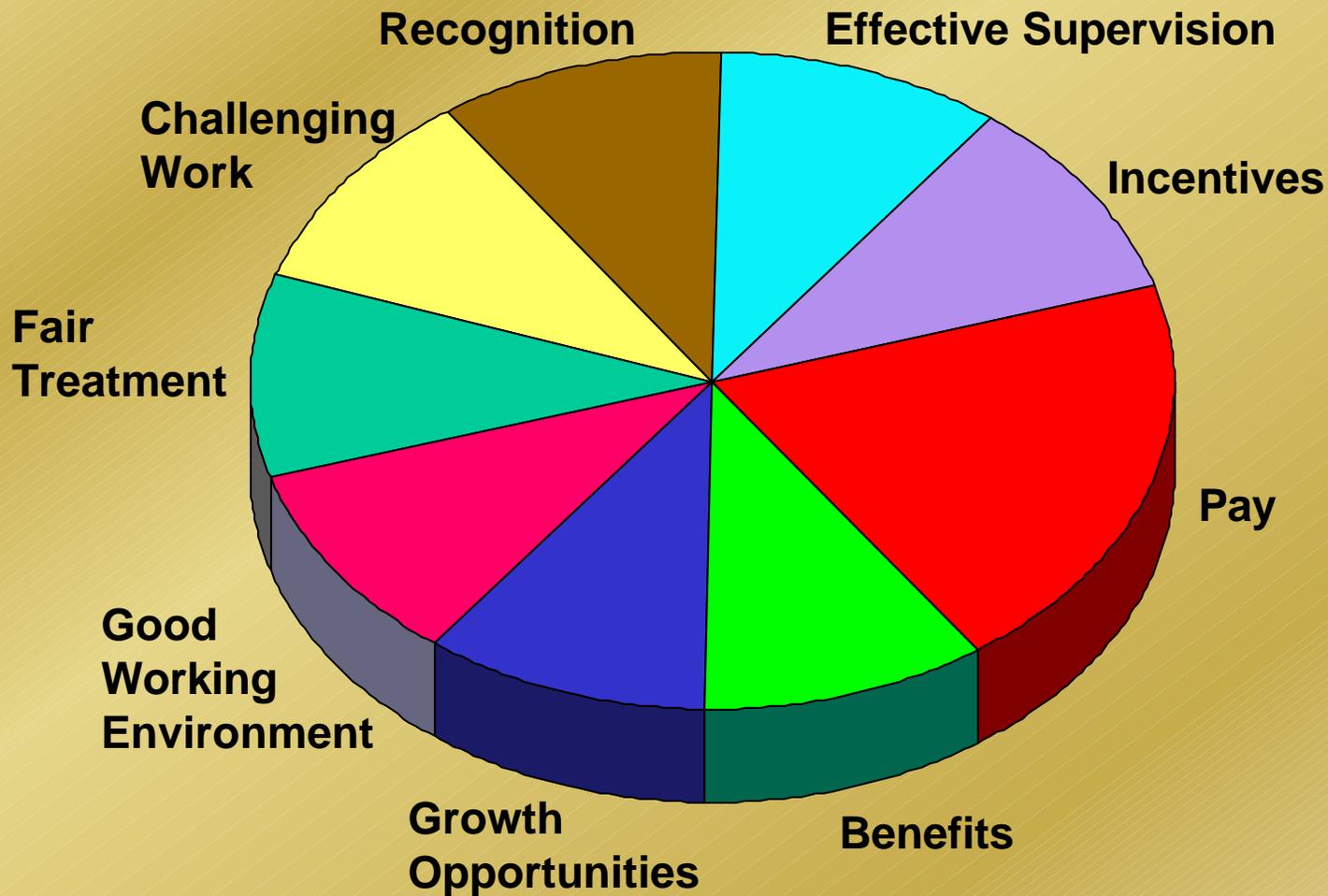
# The Employee Gives and the Employer Receives

---



# The Employer Gives and the Employee Receives

---



# Fair Value Exchange is a Good Deal

---

- Conceptually, employer and employee are traders in a peer relationship
- Employer achieves business goals and strategies
- Employee achieves business-related personal goals



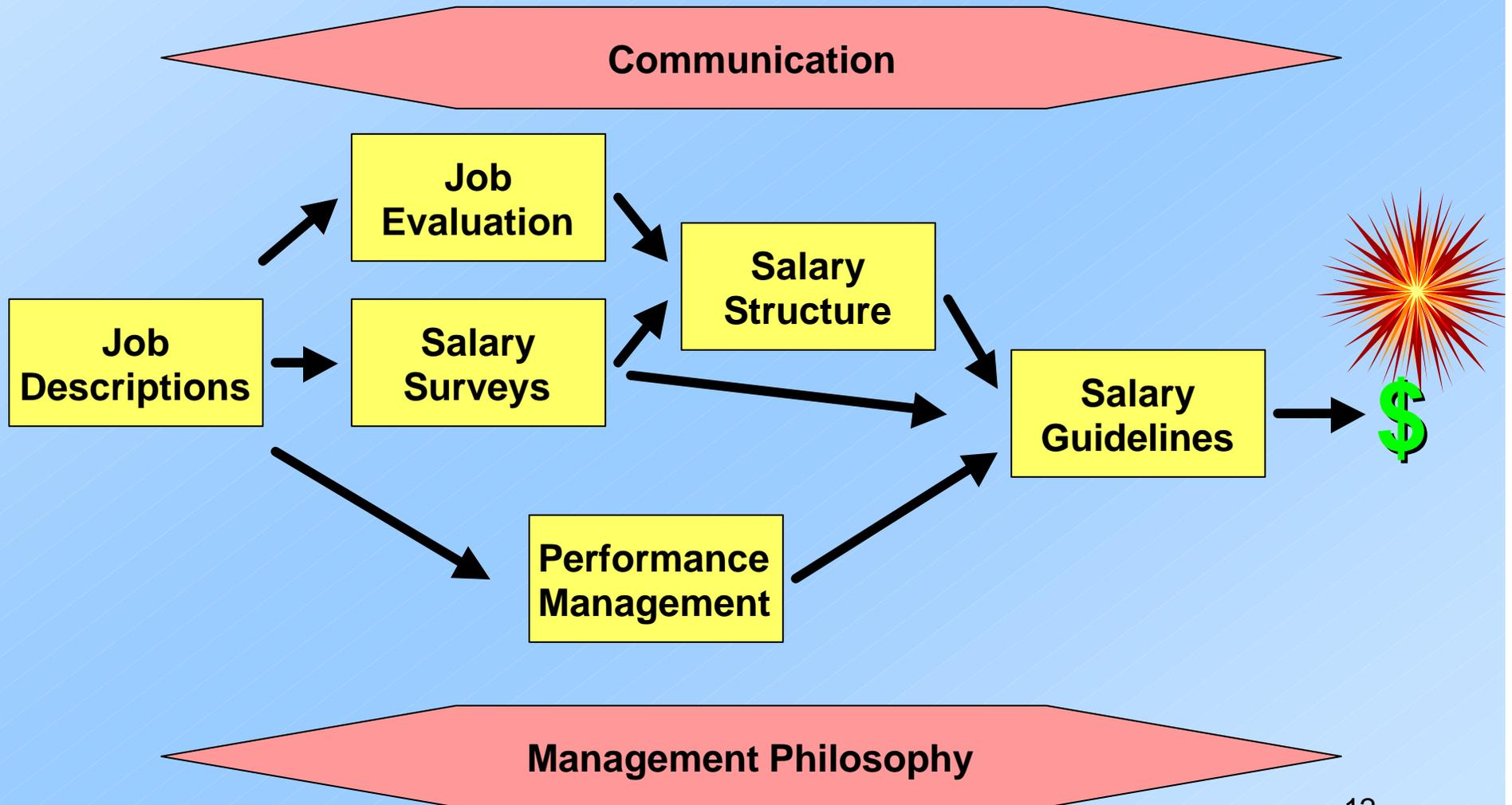
# Fair Value Exchange is a Sound Compensation Practice

---

- Sound compensation practice has duality
- Win-win duality is part of value exchange



# How Pay is Determined



# Salary Survey

A salary survey is a description of what companies pay for ...

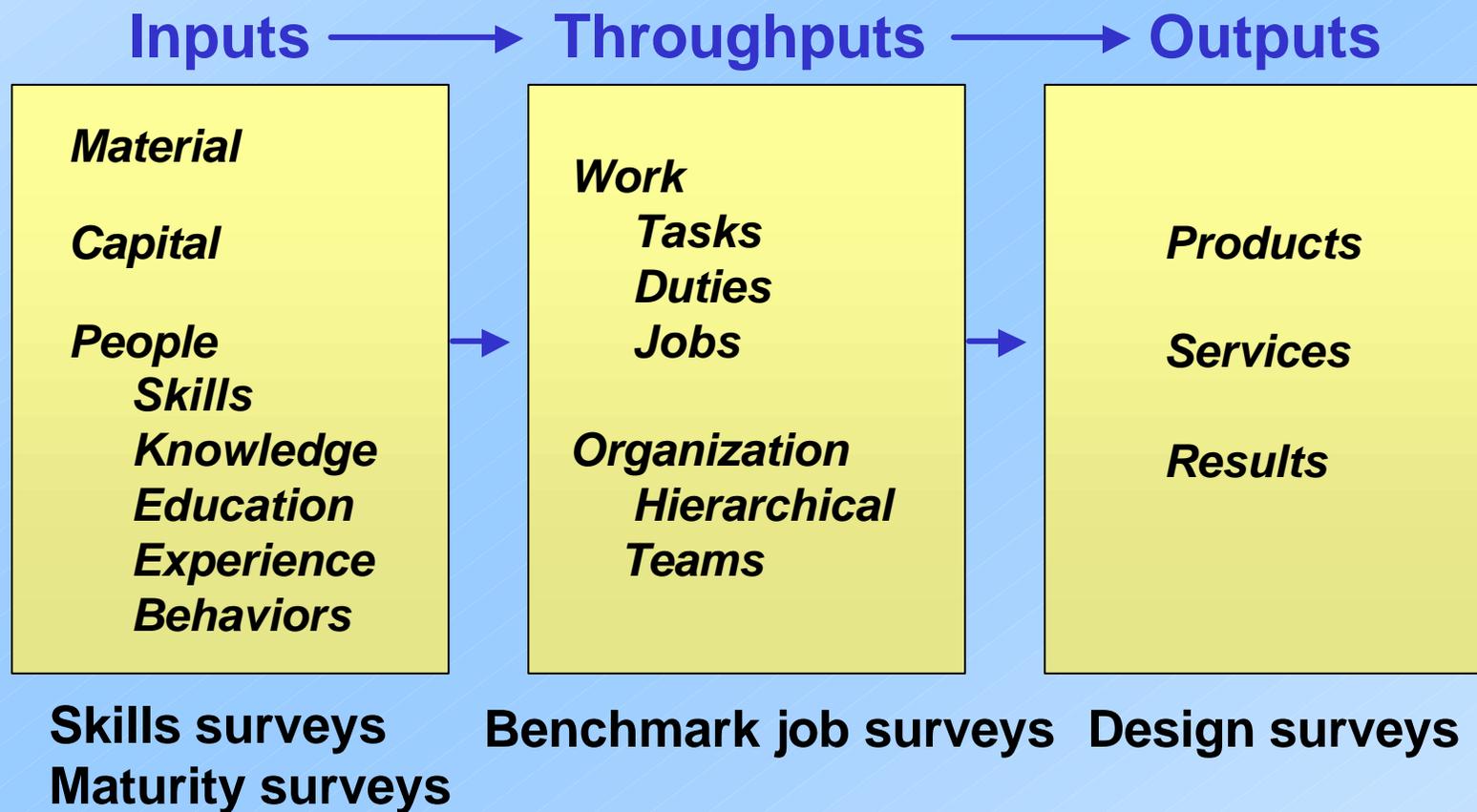


# What Do You Want To Pay For?

- Performance
- Contribution
- The “job”
- What others pay
- Education
- Experience
- Skills
- What you have to
- What you can afford
- What supports the goals and strategy
- What supports the desired culture
- What you want to
- Other ...

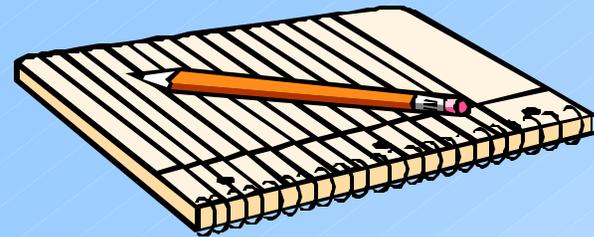


# Work Model and Surveys



# Salary Survey Typical Content

- **Job/skill descriptions**
- **Statistics on**
  - Base pay
  - Total cash
  - Total cash plus equity
  - Details of bonuses
  - Details of long term incentives
  - Scope
- **Observations and trends**



# Example Survey Results

## Scope Information

Number of Companies	24
Number of Incumbents	141
Average Length of Service	5

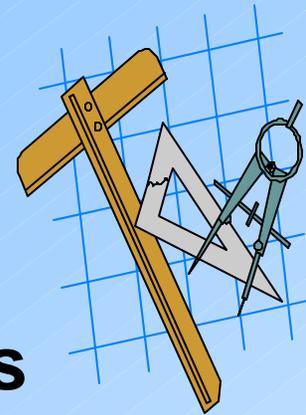
## Bonus Summary

Wtd Avg Base of Those Not Receiving	59,310
Wtd Avg Base of Those Receiving	64,743
Wtd Avg Bonus of Those Receiving	4,873
Bonus as Percent of Base	7.5%
Percent of Incumbents Receiving	39.0%

	Base Pay	Total Cash	Target Total Cash	Total Cash & Equity
Wtd Avg	61,429	63,330	64,671	64,153
Unwtd Avg	59,167	62,214	60,602	63,906
Std Dev	12,493	14,009	14,037	16,482
Low	35,360	35,360	35,360	35,575
P10	47,680	48,399	48,548	48,399
P25	52,500	54,550	53,529	54,658
P50	58,406	61,000	61,600	61,215
P75	70,000	70,000	75,020	70,000
P90	78,000	80,774	85,740	80,774
High	104,200	113,000	104,200	153,448
CV	20%	22%	22%	26%
P90/P10	1.64	1.67	1.77	1.67

# Survey Uses

- **Market position**
  - overall for organization/department
  - by job or skill
  - by individual
- **Salary increase budgets**
- **Pay ranges**
  - salary structure for all grades
  - individual jobs or skills
- **Targeted salaries**

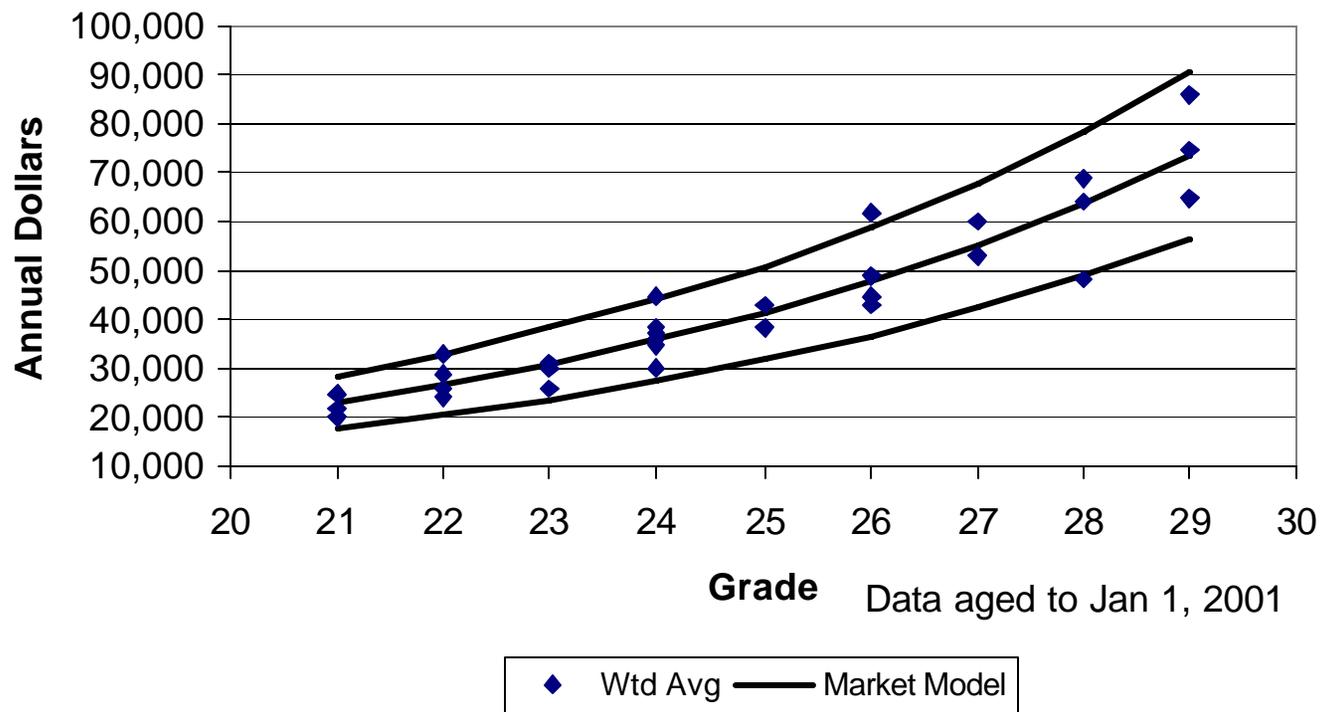


# Typical Survey Analysis Process

1. Gather survey data
2. Age to common date
3. Develop market model
  - *Use integrated market model approach with grades*
  - *Can segregate analyses into components*
4. Compare employee salaries to model
  - This determines the market position
5. Address issues
6. Develop salary structure
7. Address issues

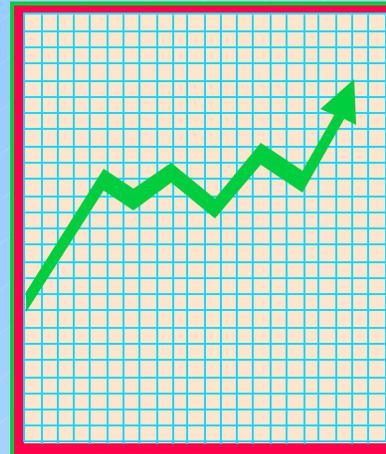
# Market Model

Finance Department  
Survey Pay and Company Grade for Matched Jobs



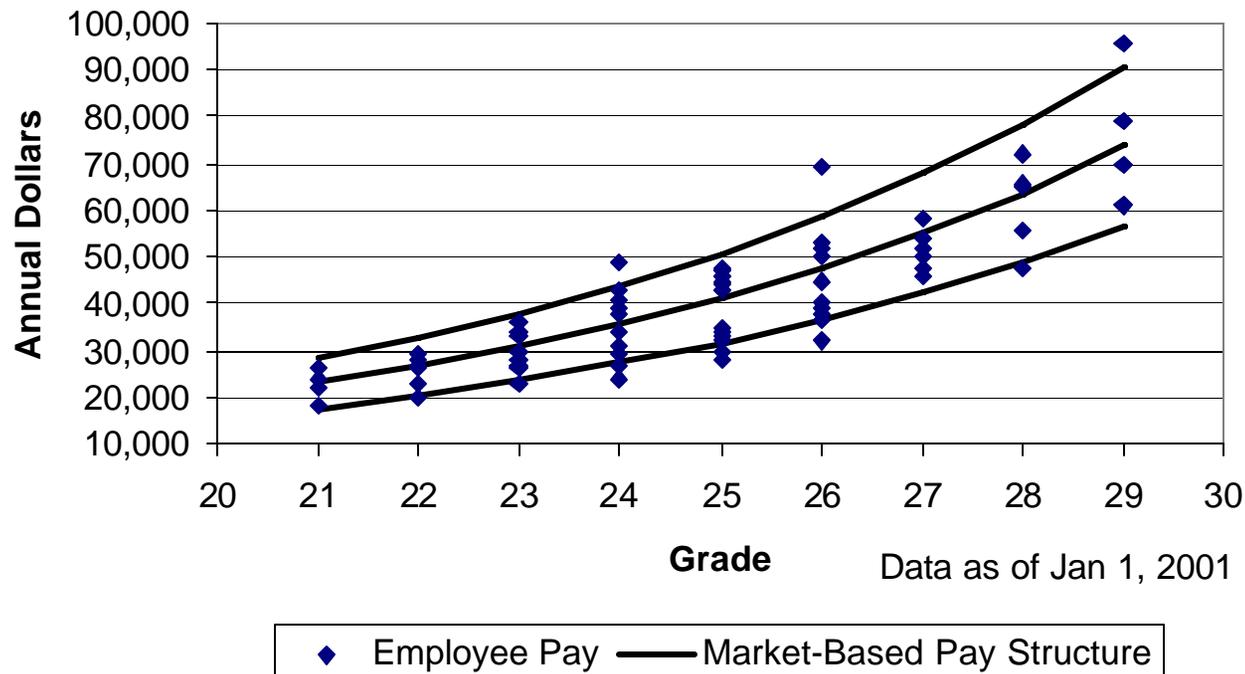
# Assumption of Integrated Market Model Approach

- The market model is a good estimator of what the market would pay for all jobs, whether or not they were surveyed.



# Market Position

Company XYZ Finance Department  
Market Position



# Market Position

## Company XYZ Finance Department

### Market Position - Comparison of Employee Pay to Market-Based Pay Structure

Grade	No Emp	Total Pay	Total Mkt Mid	Diff	% from Mkt Mid	% to Meet Mkt Mid	No Emp under Min	No Emp over Max	Dollars under Min	Dollars over Max
21	4	90,000	92,292	2,292	-2.5%	2.5%	0	0	0	0
22	6	153,000	160,050	7,050	-4.4%	4.6%	1	0	519	0
23	8	237,000	246,720	9,720	-3.9%	4.1%	1	0	723	0
24	10	355,000	356,560	1,560	-0.4%	0.4%	2	1	3,856	5,115
25	15	601,000	618,360	17,360	-2.8%	2.9%	2	0	5,422	0
26	10	455,000	476,600	21,600	-4.5%	4.7%	1	1	4,662	10,341
27	6	308,000	330,612	22,612	-6.8%	7.3%	0	0	0	0
28	5	307,000	318,535	11,535	-3.6%	3.8%	1	0	1,005	0
29	4	306,000	294,616	-11,384	3.9%	-3.7%	0	1	0	5,349
<b>Total</b>	<b>68</b>	<b>2,812,000</b>	<b>2,894,345</b>	<b>82,345</b>	<b>-2.8%</b>	<b>2.9%</b>	<b>8</b>	<b>3</b>	<b>16,187</b>	<b>20,805</b>

Data as of January 1, 2001

# Salary Increase Budget

Catch-up (or fall-back) \_\_\_\_\_ %

Anticipated market movement \_\_\_\_\_ %

Pay policy \_\_\_\_\_ %

**TOTAL** \_\_\_\_\_ %



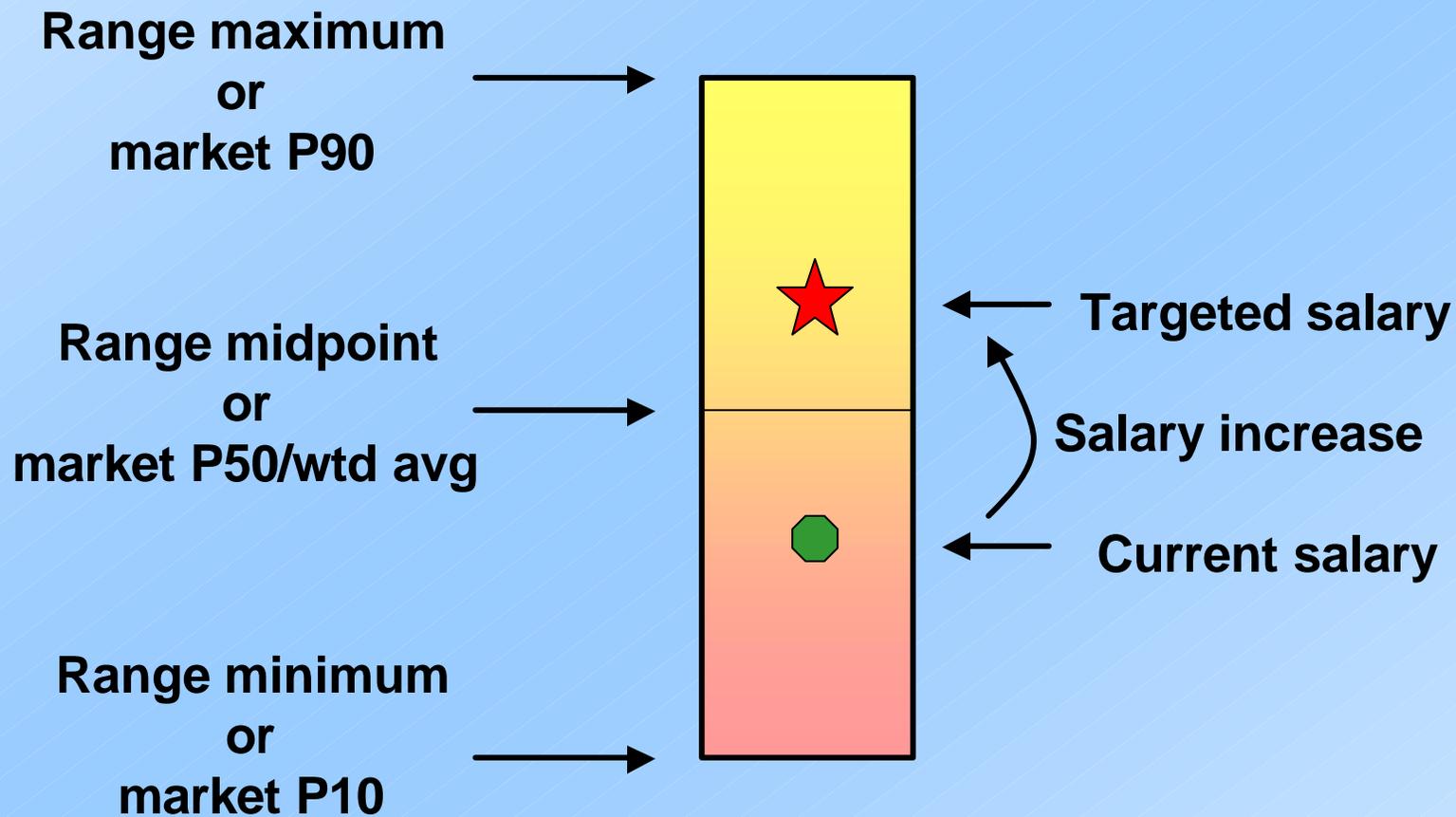
# Salary Structure

	Market-Based Pay Structure		
Grade	Minimum	Midpoint	Maximum
21	17,748	23,073	28,397
22	20,519	26,675	32,830
23	23,723	30,840	37,957
24	27,428	35,656	43,885
25	31,711	41,224	50,738
26	36,662	47,660	58,659
27	42,386	55,102	67,818
28	49,005	63,707	78,408
29	56,657	73,654	90,651

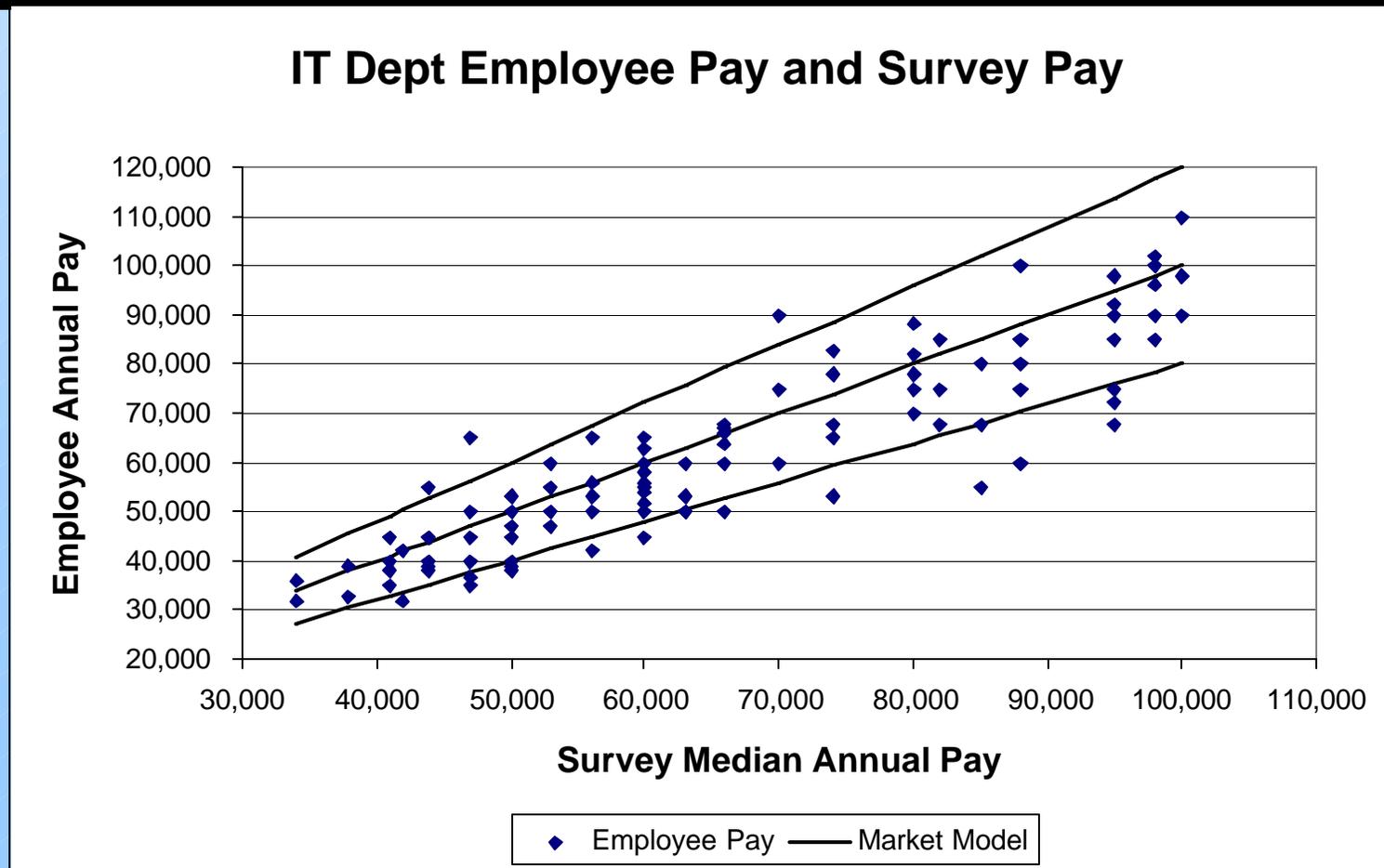
**Adjust as appropriate to develop administrative structure.**

**Parameters: midpoint progression, range widths,  
desired position within structure**

# Targeted Salary



# Market Model when Grades Are Not Used (Steps 3 and 4)



# Market Position (Step 4)

## Company XYZ IT Department

### Market Position - Comparison of Employee Pay to Market-Based Pay Structure

Skill/Level	No Emp	Total Pay	Total Mkt Mid	Diff	% from Mkt Mid	% to Meet Mkt Mid	No Emp under Min	No Emp over Max	Dollars under Min	Dollars over Max
Int/Int 1	4	90,000	92,000	2,000	-2.2%	2.2%	0	0	0	0
Int/Int 2	3	92,000	88,000	-4,000	4.5%	-4.3%	0	0	0	0
Int/Int 3	6	208,000	187,000	-21,000	11.2%	-10.1%	1	0	519	0
Int/Int 4	4	276,000	258,000	-18,000	7.0%	-6.5%	0	0	0	0
Int/Int Tot	17	666,000	625,000	-41,000	6.6%	-6.2%	1	0	519	0
Data Min 1	1	36,000	40,000	4,000	-10.0%	11.1%	2	1	3,856	5,115
Data Min 2	3	137,000	155,000	18,000	-11.6%	13.1%	0	0	0	0
Data Min 3	8	642,000	724,000	82,000	-11.3%	12.8%	2	0	5,422	0
Data Min 4	3	298,000	358,000	60,000	-16.8%	20.1%	0	0	0	0
Data Min Tot	15	1,113,000	1,277,000	164,000	-12.8%	14.7%	4	1	9,278	5,115
.										
.										
.										
<b>Total</b>	<b>100</b>	<b>6,169,000</b>	<b>6,593,000</b>	<b>424,000</b>	<b>-6.4%</b>	<b>6.9%</b>	<b>16</b>	<b>3</b>	<b>59,800</b>	<b>16,800</b>

Data as of January 1, 2001

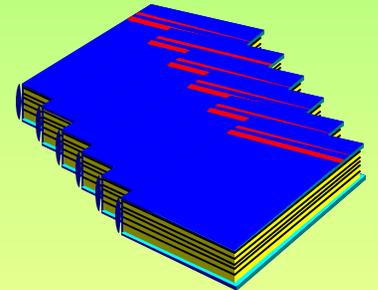
# What to Look for in Surveys

- **Jobs/skills, locations**
- **Job descriptions**
- **Participants**
- **Job matching**
- **Data collected**
- **Results format**
- **Options and special analyses**
- **Usefulness and user-friendliness**
- **Stability**
- **Innovation and continuous improvement**
- **Quality and reputation**



# Types of Surveys

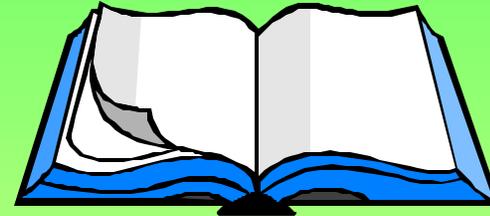
- **Closed surveys - must participate to get results**
  - **Steering committee/sponsor “owns” the survey**
    - Industry groups, geographic groups
    - Must apply or be invited
    - Steering committee approves participation
  - **Consulting firm “owns” the survey**
    - Industry groups, geographic groups
    - Consulting firm approves participation
- **Open surveys - can obtain results without participation**



# How to Find Surveys

- **WorldatWork**

- Catalog
- Call



- **Compensation/HR consulting firms**

- **Internet**



- **Other organizations**

# The Role of Salary Surveys in Setting Pay

- Pay is just one factor in attracting, retaining, motivating, and aligning employees.
- Market information is just one input to pay decisions.
- Survey data form the basis for market information.
- Must have quality surveys and sound statistical analyses to have credible starting point.



dH

# The Role of Salary Surveys in Setting Pay



**John H. Davis, Ph.D., CCP**

**Hewitt Associates**

**972-402-8700**

**[jhdavis@hewitt.com](mailto:jhdavis@hewitt.com)**