

SHRM<sup>TM</sup>

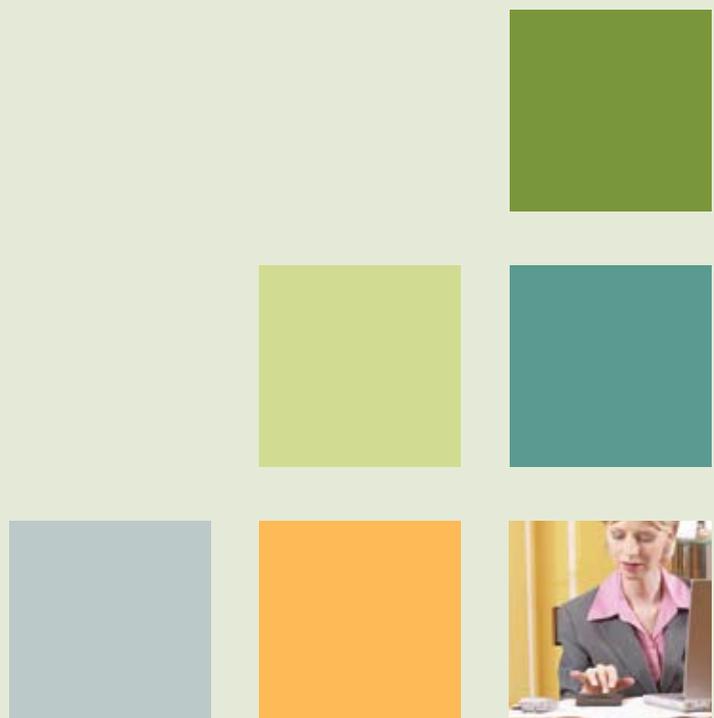
SOCIETY FOR HUMAN  
RESOURCE MANAGEMENT

CASE STUDY AND INTEGRATED APPLICATION EXERCISES

# Designing A Pay Structure

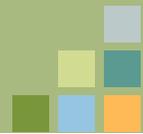
By Lisa A. Burke, Ph.D., SPHR

Instructor's Manual



TOTAL REWARDS





## Designing a Pay Structure

### ABOUT THIS CASE

In this case, upper-level undergraduate or master's level HR students will learn how to design a pay structure using a case scenario and integrated application exercises.

This case is rated as slightly challenging and requires familiarity with and use of the Internet and Microsoft Excel. Instructors can make the case and associated exercises less challenging by eliminating certain tasks assigned in the case, or may increase the difficulty by adding other relevant tasks and questions. Teaching notes accompany the case. Instructors who have previously taught compensation courses, are familiar with the Internet and Excel, have work experience with pay systems, or who conduct research in compensation area may find the case easier to facilitate.

This case complements the first 40 percent or so of chapters in most compensation textbooks. The amount of time the case takes for students to complete will depend on students' skills and education level. Time can be allotted during class in a computer lab so the instructor can facilitate students' work on the associated exercises, but some outside-of-class work is also necessary.

### Learning Objectives

In this case, students will learn to design a pay structure. To do so, they will:

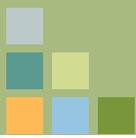
- Write a job description using the O\*NET website.
- Use the point method to conduct a job evaluation.
- Analyze pay survey data for benchmark jobs.
- Create a market pay line in Excel.
- Create a pay policy line based on a stated pay-level strategy.
- Create pay grades.
- Establish pay ranges.

### Recommended Reading

Milkovich, G., and Newman, J. (2008). *Compensation*. McGraw-Hill Irwin. Chapters 1-8.

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## Case with Teaching Notes

### Introduction to Compensation and Designing a Pay Structure

Compensation is a critical area of human resource (HR) management, and one that can greatly affect employee behavior. To be effective, compensation must be perceived by employees as fair, competitive in the market, accurately based, motivating and easy to understand.

HR professionals might create the pay structure for their organization, or they might work with an external compensation consultant. There are several steps to designing a pay structure: job analysis; job evaluation; pay survey analysis; pay policy development; and pay structure formation. Each step is briefly explained below. For a more extensive discussion, please review Milkovich & Newman (2008).

#### Step 1: Job Analysis

Job analysis is the process of studying jobs in an organization. The outcome of this process is a job description that includes the job title, a summary of the job tasks, a list of the essential tasks and responsibilities, and a description of the work context. Also included are the knowledge, skills and abilities needed to perform the job.

#### Step 2: Job Evaluation

Job evaluation is the process of judging the relative worth of jobs in an organization. The outcome of job evaluation is the development of an internal structure or hierarchical ranking of jobs. Job-based evaluation is used more often than person-based evaluation, and so the former will be the focus in this case. There are three methods of job-based evaluation: the point method (which is the most commonly used); ranking; and classification. Job evaluation helps to ensure that pay is internally aligned and perceived to be fair by employees.

#### Step 3: Pay Policy Identification

Pay policy identification is the process of determining whether the organization wants to lead, lag or meet the market in compensation. The pay policy or strategy will likely influence employee attraction and retention. Pay policies can vary across job families (i.e., groups of similar jobs) and job levels if the top management feels that different strategies can be effective in different areas of the organization.

#### Step 4: Pay Survey Analysis

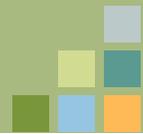
Pay survey analysis is the process of analyzing compensation data gathered from other employers in a survey of the relevant labor market. Gathering external pay data (e.g., base pay, bonuses, stock options and benefits) is essential to keep the organization's compensation externally competitive within its industry. Employee attraction and retention can be improved by maintaining externally aligned pay structures.

#### Step 5: Pay Structure Creation

Pay structure creation is the final step, in which the internal structure (Step 2) is merged with the external market pay rates (Step 4) in a simple regression to develop a market pay line. Depending on whether the organization wants to lead, lag or meet the market, the market pay line can be adjusted up or down. To complete the pay structure, pay grades and pay ranges are developed.

In this case, upper-level undergraduate or graduate HR students will design a pay structure using a case scenario and integrated application exercises.

# Designing A Pay Structure



## CASE

You are the newly hired human resource (HR) director for an engineering consulting firm that is expanding its operations to Chattanooga, Tenn. The organization is headquartered in Indianapolis, Ind. Based on the organization's mission statement, you know the firm strives to create customized and technically proficient electrical engineering plans for regional clients. The following personnel are required to start the Chattanooga operation (the numbers in parentheses indicate the number of positions):

- Director of regional operations
- Assistant to the director of operations
- Operations analyst (2)
- Operations trainee
- HR director (this is you)
- Administrative assistant in HR
- Benefits manager
- Benefits counselor
- Payroll assistant
- Lead engineer (3)
- Engineer (6)
- Engineering associate for special projects
- Manager of information systems
- Senior information systems analyst
- Information systems analyst
- Security guard
- Front desk receptionist

You can see from the list that there are several job families, including operations, HR, engineering, information systems and office support. You can now begin the process of designing a pay structure for the organization.

Job analysis is central to many HR functions, including compensation, recruiting and training. You need to understand what tasks, duties and responsibilities various jobs will entail before you can assign fair and competitive pay rates.

Begin the process by gathering the needed job description information. To do so, you will combine information from O\*NET (<http://online.onetcenter.org>), an online job analysis resource developed by the Department of Labor, and existing internal corporate HR documents (such as previous job descriptions). Each job description includes the job title; a job summary; essential job tasks; the job's work context; and job-relevant knowledge and skills that an incumbent must possess.

Benchmark jobs (jobs that are common and consistent across a wide range of employers) will be the focus of this exercise because they will be used to design the pay structure. Appendix A contains the job descriptions of the benchmark jobs. You have one description left to complete; your first task is to create a job description for the benefits manager position.

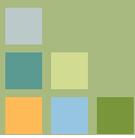
## Learning Objectives

In this case, students will learn to design a pay structure. To do so, they will:

- Write a job description, using the O\*NET website.
- Use the point method to conduct a job evaluation.
- Analyze pay survey data for benchmark jobs.
- Create a market pay line using Excel.
- Establish a pay policy line based on a pay level strategy.
- Create pay grades.
- Establish pay ranges.

## Recommended Reading

Milkovich, G., and Newman, J. (2008). *Compensation*. McGraw-Hill Irwin. Chapters 1-8.



» **Task A: Create a complete job description for the Benefits Manager position using O\*NET.**

### Teaching Note

Students' answers for this first task may slightly vary; a possible job description is presented in the solution set.

O\*NET was developed for the U.S. Department of Labor by the National Center for O\*NET Development. The website is free, easy to navigate, and has a wealth of information.

As organizations become increasingly market-driven, job analysis is becoming less commonly performed. Instructors should note to students that it is extremely difficult to design a valid pay structure without accurate job descriptions. If job descriptions are not created, or are created incompletely, it is nearly impossible to create a sound and fair internal ranking or hierarchy of jobs.

Also, because the term "benchmark job" may be new to some students, instructors can provide examples not necessarily found in this case, such as a first-line supervisor, accountant, marketing analyst, recruiter and financial analyst. Benchmark jobs are used to design pay structures because external market data about them is readily available. See Milkovich & Newman (2008) or any other basic compensation text for further discussion.

To design a pay structure, there must be a formal way to value the work inside the organization so that pay is awarded fairly. The job evaluation process will help develop this internal work hierarchy.

Different evaluation methods, pay strategies, and pay structures will be used for different job families in the organization. You decide to use a job-based evaluation approach for the operations, office support, and HR job families. A skills-based approach will be used for information systems and engineering job families, although it is not included as a task in this case. The security guard and director of regional operations jobs will be assigned pay rates primarily using market pricing and slotted later into the pay structure.

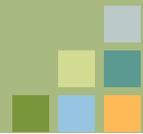
### Teaching Note

To ensure students understand and remember the big picture for designing a pay structure, frequently remind them of the steps outlined at the beginning of the case. They will need to go through each step to complete their pay structure.

To keep this case to a reasonable length yet expose students to the reality of many decisions involved in designing compensation systems, the present case has students execute a job evaluation, not a skills-based evaluation. Job evaluation is more common in the workplace because most pay structures are job-based. To illustrate that skills-based evaluation may be recommended or preferred in certain situations, the case discusses that certain job families, such as engineering and information systems (which are more skills-driven), could be evaluated with a skills-based approach. See Milkovich and Newman (2008) or any other basic compensation text for further discussion of skills-based approaches.

External market pricing can be used to establish pay rates for uncommon jobs in a specific organization (such as the security guard job in this case) and for jobs where competitive pay is critical to attracting and retaining talent (such as the director of regional operations job). After the pay structure is developed, these jobs would be slotted in later based mostly on relevant external competitors' pay rates.

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Company representatives from various job levels and families will periodically provide you with input during the job evaluation process. This will help you gain acceptance of the established job structure. You ask this job evaluation committee whether they agree with the specific benchmark jobs identified in the job analysis step (see below).

Office Support	Operations	HR
		HR Director
Assistant to the director of operations	Director of regional operations	*Benefits manager
*Admin assistant (HR)	*Operations analyst	Benefits counselor
*Front desk receptionist	Operations trainee	*Payroll assistant

\* Benchmark job.

The committee studies the various job titles and asks why the administrative assistant in HR is not included in the HR job family. You explain that administrative assistants perform similar tasks across departments and do not handle function-specific tasks (e.g., HR). You suggest grouping the front-line administrative jobs in a separate job family called office support. The other job families that will be evaluated are operations and HR.

## Teaching Note

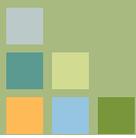
There are a number of ways to design a pay structure. The organization should determine what approach is best for them based on business strategy, culture and work content. For example, students may recommend that if the administrative assistant in operations and the administrative assistant in HR perform functional tasks (e.g., operations tasks, HR tasks), that they be included in the respective job family. That would be fine. The front desk receptionist job would then likely be slotted later into the pay structure.

Benchmark jobs should be identified throughout the internal structure as much as possible, not just at low or high levels of the organization, or else the pay structure may be biased toward the lower or higher job levels.

It is important for students to understand that a pay structure should not be developed by one person (e.g., the HR manager) in isolation; input from internal stakeholders is useful in creating buy-in of the final pay structure. That is why a job evaluation committee is created in this case.

You decide to use the point method for job evaluation for operations, HR, and office support job families because it is the most commonly used job evaluation method. Next, the compensable factors, degrees and weights of each factor must be determined. With input from the job evaluation committee and your knowledge of the organization's mission and work content, three common compensable factors are selected: skill, responsibility and effort, each having two specific sub-factors. For example, the compensable factor of skill is comprised of education level and the degree of technical skills.

You recommend weighting the skill compensable factor at 50 percent because the organization is very knowledge-intensive and depends heavily on its human capital. Responsibility is weighted 30 percent because each job has the potential to affect other jobs, and effort is assigned 20 percent because problem solving and task complexity are integral across jobs in the organization.



# Designing A Pay Structure

Four degrees should be sufficient for rating the various jobs. For example, the four degrees for education level are identified as:

1=High School/GED

2=Associates

3=Bachelors

4=Masters/Graduate

Points are then calculated by multiplying the degrees by the weights.

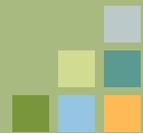
You present an example of how this point scheme is applied to the front desk receptionist benchmark job (see below). The committee agrees with the approach.

## Compensable Factor      Job evaluation for front desk receptionist

	Degree (1, 2, 3, 4)	Weight	Points
<b>Skill (50%)</b>			
-Education Level	1	25%	25
-Degree of Technical Skills	1	25%	25
<b>Responsibility (30%)</b>			
-Scope of Control	1	10%	10
-Impact of Job	2	20%	40
<b>Effort (20%)</b>			
-Degree of Problem Solving	1	10%	10
-Task Complexity	1	10%	10
			<b>120 points</b>

The next task is to calculate the job evaluation points for the remaining benchmark jobs using the established compensable factors and specified weights above. In other words, the degrees of each remaining benchmark job must be determined based on a logical rationale and then the total job evaluation points for each benchmark job can be calculated. To do so, consult the job descriptions in Appendix A.

# Designing A Pay Structure



- » **Task B: Calculate the job evaluation points for the administrative assistant, payroll assistant, operational analyst, and benefits manager jobs. Provide a rationale for assigning specific degrees to the various jobs.**

## Teaching Note

Students' answers will vary based on the degrees (1 – 4) they assign to various factors for each benchmark job. See the proposed solution for possible answers for Task B.

Instructors should ensure that students' rationales for assigning points are logical and reasonable and that their basic math calculations are correct. Points are determined by multiplying the weights by the degrees. So in the above example, under the compensable factor of education level, a degree of 1 for the receptionist job multiplied by a weight of 25 percent leads to 25 points (1 \* 25).

A few important notes to highlight to students about the specific point scheme created above include:

**The high weight for the skills factor:** Skills account for much of the variance in job content\* and should probably be assigned a significant weight in a point method.

**The total number of compensable factors:** Three factors should be sufficient for capturing variance in most job content.\* Three are used here, but each is broken down into 2 sub-factors to capture the nuances of the various benchmark jobs.

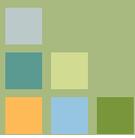
**The number of degrees used:** The number of degrees can vary for each compensable factor, as needed (e.g., 4 to 8 degrees or levels) based on the extent to which the respective factor varies across jobs.\* For simplicity, four degrees are used for each factor in this job evaluation plan.

To add a level of complexity to the case, instructors could require that students produce a degree key so that the assignment of degrees to various jobs is clearly thought-out and applied consistently (see the degree key for education presented in the case).

\*For general guidelines or further information regarding the point method, see Milkovich, G., & Newman, J. (2008) *Compensation*, McGraw-Hill Irwin, or any other basic compensation text.

After determining the job evaluation points for the remaining benchmark positions, you meet with the president, the head of corporate HR in Indianapolis and the director of regional operations in Chattanooga to discuss a pay level strategy for each job family. One decision resulting from these meetings is that your organization will pay 3 percent above the market in base pay for the HR, operations and office support job families. The group realizes that this lead pay policy will help meet the firm's customer-focus business strategy by attracting and retaining high-potential employees without incurring labor costs too far above their competitors.

Top management also decides to match the market in benefits to contain benefit costs (e.g., health care costs). After analyzing web-based data about benefits offered in your industry by smaller organizations (retrieved from BenefitsLink, SHRM, and Employee Benefits Research Institute) you discern that on average, employee benefits costs are approximately 25 percent of total compensation. Once the pay structure is finalized, you will set benefits at a similar ratio of total compensation to achieve a matching benefits policy.

**Teaching Note**

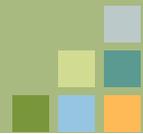
This case mentions various compensation and benefits decisions that must be made, even if students do not have to perform a relevant task in the designed application exercises. Some pieces of information (like pay level strategy) will inform other tasks they will use in the case, thus providing necessary “context” for the case. Others represent related decisions that organizations make (e.g., benefit strategy). By including these decisions, students will begin to understand the complexity of compensation and benefit design.

To ensure that the pay structure is externally competitive, a pay survey will be conducted. For the results of a survey to be valid, the market pay data must be from the relevant labor market for each benchmark job. That is, regional pay data should be gathered because most of the office support, HR and operations jobs will be filled by regional candidates (i.e., within a 90-mile radius of Chattanooga).

You develop a streamlined pay survey and administer it to industry competitors. Descriptive organization data (e.g., size, industry, annual revenue) is gathered as well as compensation data for each of the benchmark jobs, including base pay, bonuses, stock options and benefits. [Note: All participating organizations will receive the survey results.]

Surveys are completed and returned by six organizations (referred to as companies A, B, C, D, E, and F) who recruit and hire similar benchmark jobs in the surrounding region. Base pay salary data from the responding organizations are reflected in the following table (pp. 10–14). You have already checked to ensure that summary job descriptions for the benchmark jobs (in the sample data) are appropriately similar to those in your organization (to ensure you are comparing “apples to apples”). The next step is to analyze the pay data and generate weighted means for each benchmark job to use in future parts of the case.

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- » **Task C: If there were any outliers (i.e., extreme data points) in these data, what would you recommend doing with them? [From this point forward, assume no extreme data points exist in the dataset.]**

Second, calculate the weighted means (for base pay) for each benchmark job.

## Teaching Note

Students may be surprised that organizations would respond to a survey of this nature, so it can be helpful to remind them that participating organizations will get useful market data to use for their internal pay structure design and development. Pay data can also be purchased from HR consulting firms and other vendors. Purchasing the data could help avoid “price fixing” lawsuits in which organizations are alleged to have worked together to set labor prices.

Survey base pay data from the responding companies for each benchmark job are located in the next table -- you should choose just enough organizations to meet your goals; too much data will be overwhelming. For Task C, students should first identify what they would do with any extreme data points (outliers) in the salary data. Outliers are addressed by examining the number of job incumbents and the min/max pay data. For example, if one of the employers had 240 administrative assistants, that would not be representative of other organizations' numbers of job incumbents in this job category. Or if one employer had salaries for operations analysts that ranged from a minimum of \$35,000 to a maximum of \$129,000, that would not be representative of other pay ranges for this job in the pay data.

Outliers should be eliminated because they would not be representative of the sample; i.e., they would be extreme data points to be considered separately, if at all. In this set of data, there are no extreme outliers to be concerned about. [If instructors would like to add another layer of complexity to this case, they could add some extreme outliers to test students' ability to identify and eliminate them.]

Weighted means of base pay should be calculated for each benchmark job from the survey data. Weighted means, as compared to simple means, are calculated to better represent the market data (Milkovich & Newman, 2008). A simple mean would be calculated by adding up the average base pay rates and dividing by the number of organizations (six in this case); but small and large companies would both be given the same weight if using a simple mean. A weighted mean gives equal weight to each job incumbent's wage and thus is more representative of the data. For example:

	Mean	# of employees
<b>Co. A</b>	\$30,000	2
<b>Co. B</b>	\$15,000	10

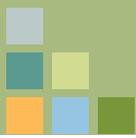
The *simple* mean salary is \$22,500.

$$[(30000 + 15000) / 2 = 22500]$$

But the *weighted* mean salary is \$17,500.

$$[(2/12 * 30000) + (10/12 * 15000) = 17500]$$

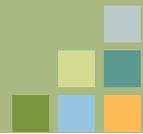
If we examine the raw data (i.e., the number of employees making various salaries), we can see that the weighted mean is more representative of the data presented. See the proposed solution for the weighted mean answers in this case.



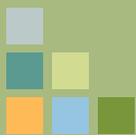
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Company	# of Job Incumbents		Base Pay
A			
Front Desk Receptionist	1	Average	\$21,000
		Minimum	
		Maximum	
B			
Front Desk Receptionist	2	Average	\$22,000
		Minimum	\$21,000
		Maximum	\$23,000
C			
Front Desk Receptionist	1	Average	\$18,000
		Minimum	
		Maximum	
D			
Front Desk Receptionist	2	Average	\$21,000
		Minimum	\$20,000
		Maximum	\$22,000
E			
Front Desk Receptionist	2	Average	\$18,500
		Minimum	\$18,000
		Maximum	\$19,000
F			
Front Desk Receptionist	1	Average	\$17,500
		Minimum	
		Maximum	

# Designing A Pay Structure



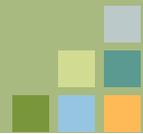
Company	# of Job Incumbents		Base Pay
A			
Administrative Assistant	4	Average	\$25,000
		Minimum	\$21,000
		Maximum	\$28,000
B			
Administrative Assistant	4	Average	\$31,000
		Minimum	\$27,000
		Maximum	\$34,500
C			
Administrative Assistant	3	Average	\$30,000
		Minimum	\$29,000
		Maximum	\$32,000
D			
Administrative Assistant	5	Average	\$33,000
		Minimum	\$28,000
		Maximum	\$34,000
E			
Administrative Assistant	4	Average	\$29,000
		Minimum	\$27,000
		Maximum	\$30,000
F			
Administrative Assistant	4	Average	\$28,000
		Minimum	\$27,000
		Maximum	\$30,000



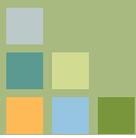
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Company	# of Job Incumbents		Base Pay
A			
Operations Analyst	2	Average	\$55,000
		Minimum	\$50,000
		Maximum	\$60,000
B			
Operations Analyst	4	Average	\$57,000
		Minimum	\$54,000
		Maximum	\$59,000
C			
Operations Analyst	3	Average	\$56,000
		Minimum	\$54,000
		Maximum	\$58,000
D			
Operations Analyst	5	Average	\$58,500
		Minimum	\$52,000
		Maximum	\$61,000
E			
Operations Analyst	3	Average	\$59,000
		Minimum	\$57,000
		Maximum	\$61,000
F			
Operations Analyst	3	Average	\$54,000
		Minimum	\$53,000
		Maximum	\$55,000

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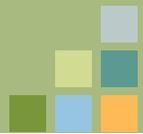
Company	# of Job Incumbents		Base Pay
A			
Payroll Assistant	2	Average	\$35,000
		Minimum	\$34,000
		Maximum	\$36,000
B			
Payroll Assistant	3	Average	\$34,000
		Minimum	\$32,000
		Maximum	\$35,000
C			
Payroll Assistant	1	Average	\$35,000
		Minimum	
		Maximum	
D			
Payroll Assistant	3	Average	\$35,000
		Minimum	\$33,000
		Maximum	\$37,000
E			
Payroll Assistant	2	Average	\$36,000
		Minimum	\$35,000
		Maximum	\$37,000
F			
Payroll Assistant	2	Average	\$29,000
		Minimum	\$27,000
		Maximum	\$31,000



# Designing A Pay Structure

Company	# of Job Incumbents		Base Pay
A			
Benefits Manager	1	Average	\$62,000
		Minimum	
		Maximum	
B			
Benefits Manager	2	Average	\$61,500
		Minimum	\$61,000
		Maximum	\$62,000
C			
Benefits Manager	1	Average	\$60,000
		Minimum	
		Maximum	
D			
Benefits Manager	3	Average	\$64,000
		Minimum	\$62,000
		Maximum	\$65,000
E			
Benefits Manager	2	Average	\$63,000
		Minimum	\$62,000
		Maximum	\$64,000
F			
Benefits Manager	1	Average	\$66,000
		Minimum	
		Maximum	

# Designing A Pay Structure



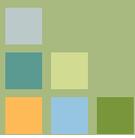
## Teaching Note

For this case, six organizations' base pay data are used. The number of organizations providing data in a pay survey will vary, but should be manageable as well as representative (Milkovich & Newman, 2008). Although various forms of compensation were collected in the pay survey described in the case, students will be asked to analyze only the data for base pay (as illustrated in the table) for simplicity.

The number of job incumbents is reported for each benchmark job so that the average, minimum and maximum pay rates can be analyzed more meaningfully. Employee names should not be reported or collected in pay surveys, but you also don't want data that is so aggregated it is useless.

No minimum or maximum base pay rates are reported in the table for jobs with only one incumbent, since only one salary is relevant. Also, the average salary for jobs with two incumbents will automatically be the average of the minimum and maximum. Students should find the same weighted averages for each benchmark job, because they have been given the same data and there are no outliers. If the instructor is concerned about students exchanging answers, multiple sets of salary survey data can be created.

Weighted averages for this dataset are located in the case solution (rounded to the nearest cent).



At this point in the case study, we have used job analysis to create job descriptions for our benchmark jobs. We created an internal hierarchy of jobs (i.e., an internal job structure) by using the point method to evaluate each of our benchmark jobs. After our pay strategy was determined for the three job families (HR, office support, and operations), we analyzed the pay survey information gathered from competitors in our relevant labor market. We now have internal job point data and externally gathered weighted average base pay for each benchmark job. We can now proceed to merge the internal and external data to create our market pay line.

The next task is to conduct a simple regression using Microsoft Excel to create a market pay line. Enter the job evaluation points (as X) and weighted average base pay rates (as Y) for each benchmark job and generate the regression results.

- » **Task D: Conduct a simple regression in Excel to create a market pay line by entering the job evaluation points (on the X axis) and the respective weighted average market base pay (on the Y axis) for each benchmark job.**

Identify the slope and y-intercept and write the equation for the market pay line.

### Teaching Note

Answers to Task D will vary depending on the assigned job evaluation points; a potential answer is presented in the solution set.

This exercise assumes that students are familiar with using Excel to run a simple regression (although instructors may need to remind students how to interpret Excel's regression results).

Regression creates a “line of best fit” by merging the job evaluation points (X) and the external salary data (Y). The resulting regression line is used to predict the base pay (Y) for a specific number of job evaluation points (X). The equation for the simple regression line (as it is for any line) can be represented as:  $y=mx+b$ ; in which:

**y** =the predicted base pay

**m** =the slope of the line

**x** =the job evaluation points

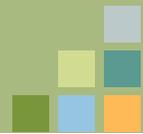
**b** =the y-intercept

So, for example, if the regression results show that  $m = 400$  and  $b$  is  $-20000$ , then the equation is  $y=400(x) - 20000$  and the predicted pay rate for a job assigned 100 points would be  $y= 400(100)-20000$ , or \$20,000.

The regression output will also show information about how good the regression line fits the data. Specifically, look at the “R squared” in the regression output. Generally, the R squared, referred to as variance explained, should be .95 or higher.

If R squared is significantly lower than this, there may be problems stemming from the job evaluation step. For example, the points assigned to certain benchmark jobs may be off – i.e., not make sense given the level of tasks, duties and responsibilities required for the job and the knowledge, skills and abilities needed by the job incumbent. If this is the case, re-examine the job descriptions and reconsider the points assigned to the benchmark jobs. Alternatively, there may be errors in the weighted average calculations. After conducting the regression again, examine the new R squared.

# Designing A Pay Structure



## » Task E: What is your R squared (variance explained)? Is it sufficient to proceed?

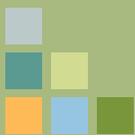
### Teaching Note

The multiple R squared will indicate the amount of variance explained in Y (pay) by X (job evaluation points). The variance explained should be sufficiently high to ensure that the regression line fits the input data fairly well. A multiple R of .98 would produce an R squared of .96 [.98\*.98 = .96.], indicating that X (i.e., your job evaluation points) explains about 96% of the variance in Y (i.e., the market pay).

The .95 guidepost for variance explained is a general guideline (see Milkovich, G., & Newman, J. (2008) *Compensation*, McGraw-Hill Irwin).

It is useful to note that the multiple R in a simple regression will be equal to the correlation coefficient between X and Y. Thus, if students want to double-check their regression output, ask them to run a simple correlation between X and Y in Excel; their correlation coefficient should be the same number as the Multiple R.

In Task E, students who haphazardly assigned points to the benchmark jobs (in the job evaluation step) may have a low R squared in their regression output. They may ask the instructor for help. Typically, a review of their point method will reveal problems and a lack of integrity (e.g., they may have the payroll assistant assigned more job points than any other benchmark job, or the operations assistant job may have significantly more points than the benefits manager job, which requires supervisory responsibilities). Discuss any questions you have about their assigned points and let them repeat that part to ensure learning.



Using the regression output (the slope and y-intercept), calculate the predicted market pay rate (using Excel) for each benchmark job.

» **Task F: Calculate the predicted base pay for each benchmark job.**

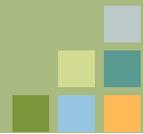
### Teaching Note

These calculations are pretty straightforward. Students should use their regression output, which will include a slope and y-intercept, and insert their job evaluation points for each benchmark job to determine the job's predicted base pay. Students' answers to this task will vary; the case solution set presents a possible response based on the inputs to earlier tasks.

For example, with a slope of 250 and y-intercept of -1200, the 120 points assigned to the Front Desk Receptionist job would translate into a predicted base pay rate of \$28,800.  $y=(250*120)-1200 = 28800$ .

Students must accurately calculate the base pay rate for the remaining benchmark jobs using their regression output. Excel automates this type of simple math with the use of formulas. Ask students to submit their Excel files electronically so you can see the equations used to generate their answers.

# Designing A Pay Structure



Next, adjust the market pay line based on the organization's lead pay level strategy; this will create the pay policy line. Since the organization wants to lead the market by 3 percent across the operations, office support and HR job families, adjust the market pay line accordingly (by 3 percent). In other words, each predicted pay rate can be multiplied by 1.03 to get a new base pay rate that is 3 percent above market.

- » **Task G: Because your company wants to lead in base pay by 3 percent, adjust the predicted pay rates to determine the base pay rate you will offer for each benchmark job.**

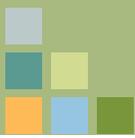
## Teaching Note

Students' answers to Task G will vary based on their earlier responses in the case, but the solution set presents a possible response.

To determine base pay rates given a 3 percent lead pay strategy across the job families, use Excel to multiply the predicted pay rates for each benchmark job by 1.03. This calculation will produce pay rates that are 3 percent above market.

Mathematically, the slope of the line will not change since the 3 percent pay lead strategy will apply to the operations, office support, and HR job families.

One thing to remember is that these new pay rates will become the midpoints of the established pay grades. A pay grade is a grouping of jobs that are considerably similar for pay purposes – in other words, they are of similar value to the organization. A pay line always runs through the midpoint of a pay grade.



Next, create pay grades for the pay structure. Pay grades represent groupings of jobs that are similar for pay purposes (i.e., of similar value to the organization). All the jobs in a pay grade share the same pay range (minimum and maximum pay rates).

Examine the benchmark jobs in this case again and determine which ones are sufficiently similar for compensation purposes. Do this by revisiting the job evaluation results.

- » **Task H: Create pay grades by combining any benchmark jobs that are substantially comparable for pay purposes. Clearly label your pay grades and explain why you combined any benchmark jobs to form a grade.**

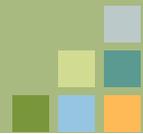
### Teaching Note

Similar to other case tasks, students' answers will vary based on their earlier responses. However, some pay grades may make more sense than others; see the proposed solution for a possible response.

Pay grades (e.g., Pay Grade A, Pay Grade B, Pay Grade C) represent groups of jobs that are substantially similar for pay purposes (Milkovich & Newman, 2008). That is, the jobs in one pay grade may have comparable job evaluation points (i.e., ratings on compensable factors) and be of similar value to the firm. **All** jobs in a pay grade share the same pay range (minimum and maximum pay rates).

For a more extensive discussion on pay grades and pay ranges, see Milkovich, G., & Newman, J. (2008) *Compensation*, McGraw-Hill Irwin, or any other basic compensation text.

# Designing A Pay Structure



The final step to designing the pay structure is to set the pay ranges for each pay grade. Pay ranges create upper and lower pay rates (on the Y axis) for each job in the pay grade. Each pay grade will have a minimum and maximum pay rate. It is important to remember that all jobs in a pay grade will have the same minimum and maximum pay rates.

Percent guidelines are used to determine how far above and below the midpoint the pay range will reach. For example, the maximum might be 10 percent above the midpoint and the minimum might be 10 percent below the midpoint.

The percent guidelines, based on input from the job evaluation committee, are:

**Clerical and office positions:** 10 percent above and below the midpoint.

**Entry to mid-level professional and management positions:** 30 percent above and below the midpoint.

- » **Task I: Use your answer to Task H to determine the pay range (i.e., minimum and maximum) for each pay grade.**

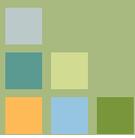
## Teaching Note

The percent guidelines used in this case for the various job categories are a judgment call, but are consistent with general guidelines presented by Milkovich, G., & Newman, J. (2008), *Compensation*, McGraw-Hill Irwin.

The size of pay ranges, reflected by the minimum and the maximum, can be influenced by several factors, such as the career and promotion path expected for jobs in a pay grade. A larger pay range (e.g., for management positions) presumes more pay growth potential and career opportunities for such positions.

Clerical jobs would be considered office/clerical positions and analyst jobs would be considered professional positions. There are no executive-level benchmark jobs in this case, but they would likely fall into a separate category with a larger pay range, e.g., 40-60 percent above and below the midpoint.

Note: Because all jobs in a pay grade share the same minimum and maximum pay, students can simply average the pay rates among the benchmark jobs for each grade and then determine the minimum and maximum.



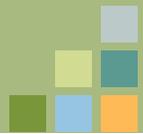
# Designing A Pay Structure

- » **Task J: Given the pay structure you have generated, consider the following:**
  - » **Does this pay structure make good business sense? Do you think it is consistent with the organization's business strategy?**
  - » **What are the implications of this pay structure for other HR systems, such as retention and recruiting?**

## **Teaching Note**

These last questions are designed to have students reflect on their case solution from a holistic HR and business perspective. Possible answers are provided in the case solution.

At this point, the instructor should review the learning objectives of the case and remind students of what they have accomplished.



## REFERENCES

Milkovich, G., and Newman, J. (2008). *Compensation*. McGraw-Hill Irwin.  
O\*NET. Available at <http://online.onetcenter.org>.

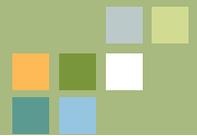
## OTHER COMPENSATION TEXTS

Bergmann, T., and Scarpello, V. (2002). *Compensation decision making*. Southwestern.  
Martocchio, J. (2006). *Strategic Compensation*. Pearson/Prentice Hall.

## RELEVANT WEBSITES

WorldAtWork: [www.worldatwork.org](http://www.worldatwork.org).  
Society for Human Resource Management: [www.shrm.org](http://www.shrm.org).  
Economic Research Institute: [www.eridlc.com](http://www.eridlc.com).





## Appendix A – Job Descriptions for Benchmark Jobs

[Created using O\*NET]

### Front Desk Receptionist

#### Job Summary

Answer inquiries and obtain information for general public, customers, visitors and other interested parties. Provide information regarding activities conducted at establishment; location of departments, offices, and employees within organization.

#### Essential Job Tasks

- Operate telephone to answer, screen and forward calls, providing information, taking messages and scheduling appointments.
- Greet persons entering establishment, determine nature and purpose of visit, and direct or escort them to specific destinations.
- Hear and resolve complaints from customers and public.
- Transmit information or documents to customers, using e-mail, mail or fax machine.
- Analyze data to determine answers to questions from customers or members of the public.
- Provide information about the establishment, such as location of departments or offices, employees within the organization, or services provided.

#### Job Context

Indoor, environmentally controlled; telephone; contact with others.

#### Knowledge, Skills and Abilities

- Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services and evaluation of customer satisfaction.
- Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, taking and organizing messages, and other office procedures and terminology.
- Awareness of others' reactions and understanding why they react as they do.
- Gives full attention to what other people are saying, taking the time to understand the points being made, asking questions as appropriate and not interrupting at inappropriate times.
- Actively looks for ways to help people.
- Manages one's own time and the time of others.
- Talks to others to convey information effectively.
- Knowledge of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.

## Administrative Assistant

### Job Summary

Provide administrative support by conducting research, preparing reports, handling information requests and performing clerical functions such as preparing correspondence, receiving visitors, arranging conference calls, and scheduling meetings.

### Essential Job Tasks

- Manage and maintain executives' schedules.
- Prepare invoices, reports, memos, letters, financial statements and other documents, using word processing, spreadsheet, database, or presentation software.
- Read and analyze incoming memos, submissions and reports to determine their significance and plan their distribution.
- Open, sort and distribute incoming correspondence, including faxes and e-mail.
- File and retrieve corporate documents, records and reports.
- Greet visitors and determine whether they should be given access to specific individuals.
- Prepare responses to correspondence containing routine inquiries.
- Perform general office duties such as ordering supplies, maintaining records, management systems and performing basic bookkeeping work.
- Make travel arrangements for executives.

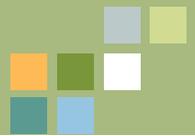
### Job Context

Indoor, environmentally controlled; telephone; contact with others.

### Knowledge, Skills and Abilities

- Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, designing and completing forms, and other office procedures and terminology.
- Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.
- Knowledge of computer hardware and software.
- Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition and grammar.
- Gives full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.
- Monitors/assesses performance of self, other individuals or organizations to make improvements or take corrective action.
- Manages one's own time and the time of others.
- Talks to others to convey information effectively.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.
- Adjusts actions in relation to others' actions.

# Designing A Pay Structure



## Payroll Assistant

### Job Summary

Compile and post employee time and payroll data. Compute employees' time worked, production and any commission. Compute and post wages and deductions.

### Essential Job Tasks

- Process and issue employee paychecks and statements of earnings and deductions.
- Compute wages and deductions and enter data into computers.
- Compile employee time, production and payroll data from time sheets and other records.
- Review time sheets, work charts, wage computation and other information to detect and reconcile payroll discrepancies.
- Verify attendance, hours worked and pay adjustments, and post information to records.
- Record employee information, such as exemptions, transfers and resignations to maintain and update payroll records.
- Issue and record adjustments to pay related to previous errors or retroactive increases.
- Complete time sheets showing employees' arrival and departure times.

### Job Context

Indoor, environmentally controlled; telephone; contact with others.

### Knowledge, Skills and Abilities

- Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, designing and completing forms, and other office procedures and terminology.
- Knowledge of principles and processes for providing customer service.
- Knowledge of math, arithmetic, statistics to analyze data and solve problems and use of Microsoft Excel.
- Uses logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions or approaches to problems.
- Knowledge of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Understands written sentences and paragraphs in work-related documents.
- Gives full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.
- Talks to others to convey information effectively.
- Communicates effectively in writing as appropriate for the needs of the audience.

## Operations Analyst

### Job Summary

Formulate and apply mathematical modeling and other optimizing methods using a computer to develop and interpret information that assists management with decision making or other managerial functions. Frequently concentrates on collecting and analyzing data using decision support software.

### Essential Job Tasks

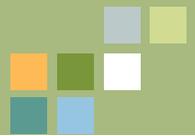
- Analyze information obtained from management to conceptualize and define operational problems.
- Collaborate with senior managers and decision makers to identify and solve a variety of problems and to clarify management objectives.
- Define data requirements and then gather and validate information, applying judgment.
- Study and analyze information about alternative courses of action to determine which plan will offer the best outcome.
- Prepare management reports defining and evaluating problems and identifying solutions.
- Formulate mathematical or simulation models of problems, relating constants and variables, restrictions, alternatives, conflicting objectives and their parameters.

### Job Context

Indoor, environmentally controlled; telephone; contact with others.

### Knowledge, Skills and Abilities

- Knowledge and application of arithmetic, algebra, geometry, calculus and statistics.
- Knowledge of the practical application of engineering science and technology. This includes applying principles, techniques, procedures and equipment.
- Knowledge of computer hardware and software including applications and programming.
- Identifies complex problems and reviews related information to develop and evaluate options and implement solutions.
- Uses logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions or approaches to problems.
- Analyzes needs and product requirements to create a design.
- Determines how a system should work and how changes in conditions, operations and the environment will affect outcomes.
- Considers the relative costs and benefits of potential actions to determine course of action.
- Understands the implications of new information for both current and future problem solving and decision making.
- Knowledge of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.



## Possible Solution for Each Case Task

» **Task A: Create a complete job description for the Benefits Manager position, using O\*NET.**

### Benefits Manager

#### Job Summary

Plan, direct and coordinate benefits activities in an organization.

#### Essential Job Tasks

- Supervise all benefits associates, analysts or clerical workers.
- Direct preparation and distribution of written and verbal information to inform employees of benefits, compensation and other personnel policies.
- Administer, direct and review employee benefit programs.
- Plan and conduct new employee orientations to foster positive attitude toward organizational objectives and enroll employees in benefit programs.
- Plan, direct, supervise and coordinate work activities of subordinates and staff relating to employment, benefits and compensation.
- Identify and implement benefits to increase the quality of life for employees by working with brokers and researching benefits issues.
- Design, evaluate and modify benefits policies to ensure that programs are current, resilient, cost effective, competitive and in compliance with legal requirements.
- Administer COBRA, FMLA, HIPAA and ERISA in full compliance with the law and other relevant benefits regulations at the state and federal levels.
- Mediate between benefits providers and employees. For example, assist in handling employees' benefits-related questions or suggestions.

#### Job Context

Indoor, environmentally controlled; telephone; contact with others.

#### Knowledge, Skills and Abilities

- Knowledge of principles and procedures for compensation and benefits and human resource information systems.
- Knowledge of laws, legal codes, statutes, precedents, government regulations and executive orders as related to employee benefits.
- Knowledge of arithmetic, statistics and the use of Microsoft Excel.
- Determines how benefit dollars are spent and accounts for these expenditures.
- Uses logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions or approaches to problems.
- Motivates, develops and directs people at work, identifying the best people for the job.
- Knowledge of principles and processes to provide customer and personal services.
- Knowledge of the English language including the meaning and spelling of words, rules of composition and grammar.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.
- Talks with others to convey information effectively.

# Designing A Pay Structure

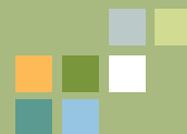
- » **Task B: Calculate the job evaluation points for the administrative assistant, payroll assistant, operational analyst, and benefits manager jobs. Provide a rationale for assigning specific degrees to the various jobs.**

There are multiple solutions to Task B. If students totally disregard the job descriptions, their job evaluation points will not make sense. One possible solution for this is as follows:

## Administrative Assistant

	<b>Degree (1, 2, 3, 4)</b>	<b>Weight</b>	<b>Points</b>
<b>Skill (50 percent)</b>			
-Education level	1	25%	25
-Degree of technical skills	2	25%	50
<b>Responsibility (30 percent)</b>			
-Scope of control	1	10%	10
-Impact of job	2	20%	40
<b>Effort (20 percent)</b>			
-Degree of problem solving	1	10%	10
-Task complexity	1	10%	10
			<b>145 points</b>

# Designing A Pay Structure

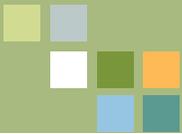


## Payroll Assistant

	Degree (1, 2, 3, 4)	Weight	Points
<b>Skill (50 percent)</b>			
Education level	2	25%	50
-Degree of technical skills	1	25%	25
<b>Responsibility (30 percent)</b>			
-Scope of control	1	10%	10
-Impact of job	3	20%	60
<b>Effort (20 percent)</b>			
-Degree of problem solving	2	10%	20
-Task complexity	1	10%	10
			<b>175 points</b>

## Operations Analyst

	Degree (1, 2, 3, 4)	Weight	Points
<b>Skill (50 percent)</b>			
-Education level	3	25%	75
-Degree of technical skills	2	25%	50
<b>Responsibility (30 percent)</b>			
-Scope of control	1	10%	10
-Impact of job	2	20%	40
<b>Effort (20 percent)</b>			
-Degree of problem solving	2	10%	20
-Task complexity	2	10%	20
			<b>215 points</b>



# Designing A Pay Structure

## Benefits Manager

	Degree (1, 2, 3, 4)	Weight	Points
<b>Skill (50 percent)</b>			
-Education level	3	25%	75
-Degree of technical skills	2	25%	50
<b>Responsibility (30 percent)</b>			
-Scope of control	2	10%	20
-Impact of job	3	20%	60
<b>Effort (20 percent)</b>			
-Degree of problem solving	2	10%	20
-Task complexity	2	10%	20
			<b>245 points</b>

Students' assigned points may vary for each job, but the ranking of overall job evaluation points across jobs will probably follow in order from lowest to highest: front desk receptionist, administrative assistant, payroll assistant, operations analyst, benefits manager.

Instructors should analyze the rationale provided by students for assigning degrees to ensure that they are logical. In this case, for example, the four degrees for education level are identified as:

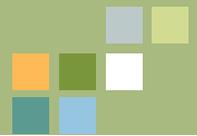
1=High School/GED

2=Associates

3=Bachelors

4=Masters/Graduate

# Designing A Pay Structure



- » **Task C: If there were any outliers (i.e., extreme data points) in these data, what would you recommend doing with them? [From this point forward, assume no extreme data points exist in the dataset.]**

It could be reasonably argued that there are no extreme data points in these case data. An outlier would be an extreme data point that would stick out and need to be eliminated and/or analyzed because it would not be representative of the sample data. For example, if Company B's average base pay for the benefits manager position was \$145,000, that would be an outlier.

**Second, calculate the weighted means (for base pay) for each benchmark job.**

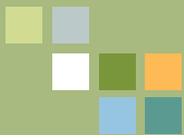
Weighted means are calculated to better represent the labor market data. A simple mean would be calculated by adding up the average base pay rates and dividing by the number of companies. In a simple mean, small and large companies are given the same weight. A weighted mean gives equal weight to each job incumbent's wage and thus is more representative of the data. [Note: Milkovich and Newman (2008) also recommend the use of a weighted mean.]

To find the weighted average base pay using the front desk receptionist job as an example, in which there are nine job incumbents across the six companies surveyed, the calculation is:

$$(1/9 * 21000) + (2/9 * 22000) + (1/9 * 18000) + (2/9 * 21000) + (2/9 * 18500) + (1/9 * 17500) = \$19944.44.$$

[The simple mean for the front desk receptionist is \$19,666.66.]

<b>The weighted means for the sample data in this case are:</b>	
Front desk receptionist	\$19,944.44
Administrative assistant	\$29,458.33
Operations analyst	\$56,875.00
Payroll assistant	\$34,000.00
Benefits manager	\$62,900.00



# Designing A Pay Structure

- » **Task D: Conduct a simple regression in Excel to create a market pay line by entering the job evaluation points (on the X axis) and the respective weighted average market base pay (on the Y axis) for each benchmark job.**

Identify the slope and y-intercept and write the equation for the market pay line.

Students' answers will vary based on their input data to the regression. The slope of the market pay line is located in the Excel regression output as the "Coefficient of the X Variable." The y-intercept is located in the regression output as the "Coefficient of the Intercept." Be sure students accurately identify these two numbers in their regression output and write out their regression equation appropriately.

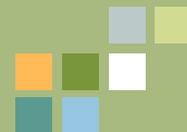
Excel output generated using the job evaluation points proposed in Task B and the weighted mean base pay rates in Task C is located on the next page. Using this Excel output, the regression equation for the market pay line is represented as:

$$Y = m(x)+b$$

$$Y = 360.33(x) - 24324.19$$

This means that each job evaluation point is worth \$360.33.

# Designing A Pay Structure



## Regression Analysis

	<b>Job Evaluation</b>	<b>Weighted</b>
	<b>Points</b>	<b>Avg \$</b>
	<b>X</b>	<b>Y</b>
Recept.	120	19944.44
Admin. Asst.	145	29458.33
Pay Asst.	175	34000
Ops. Analyst	215	56875
Ben Mgr.	245	62900

### SUMMARY OUTPUT

#### Regression Statistics

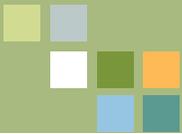
Multiple R	0.98488423
R Square	0.969996946
Adjusted R Square	0.959995928
Standard Error	3683.268058
Observations	5

#### ANOVA

	df	SS	MS	F	Significance F				
Regression	1	1315808883	1315808883	96.98982161	0.002225831				
Residual	3	40699390.76	13566463.59						
Total	4	1356508274							
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%	
Intercept	-23699.88959	6737.090029	-3.517822901	0.038978132	-45140.33698	-2259.442208	-45140.33698	-2259.4422087	
X Variable 1	357.4191311	36.29231857	9.848341059	0.002225831	241.9206676	472.9175946	241.9206676	472.9175946	

#### RESIDUAL OUTPUT

Observation	Predicted Y	Residuals
1	19190.40614	754.0338641
2	28125.88441	1332.445587
3	38848.45834	-4848.458345
4	53145.22359	3729.776413
5	63867.79752	-967.7975194



# Designing A Pay Structure

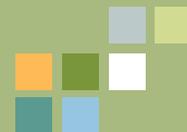
» **Task E: What is your R squared (variance explained)? Is it sufficient to proceed?**

For the regression output used here, the R squared or variance explained is 97.1 percent. Yes, it is sufficient to proceed.

Students' answers will vary but the variance explained (i.e., R squared) from the Excel output should be around .95 or higher. [See Milkovich, G., and Newman, J. (2008) Compensation. McGraw-Hill Irwin].

Dissuade students from just plugging in various numbers to get a variance explained of .95 or higher. There should be a method or logical rationale for changes they make in their assigned points to benchmark jobs. Typically, a review of their initial point method will reveal problems and a lack of integrity – for example, students may assign the payroll assistant more job points than other benchmark jobs in the case. The tasks, duties, responsibilities and KSAs (knowledge, skills and abilities) associated with the payroll assistant job are not the most extensive of the jobs listed, however, and this would create problems in the integrity of their job evaluation plan.

# Designing A Pay Structure

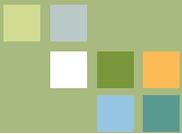


» **Task F: Calculate the predicted base pay for each benchmark job.**

Answers will vary depending on the market line created in the student's regression output. Be sure the basic math is done accurately,  $y=mx+b$ , where  $x$  is the job evaluation points,  $b$  is the  $y$ -intercept, and  $m$  is the slope coefficient. You may also want to require students to submit their Excel file electronically so you can view their calculations of the base pay for each benchmark job.

For the regression output in this case solution, and applying the formula  $Y = 360.33(x) - 24324.19$ , the predicted base pay for each benchmark job is as follows:

<b>Job</b>	<b>Predicted Pay (\$)</b>	<b>Calculations</b>
Receptionist	19190.51	$Y = 357.42(120) - 23699.89$
Administrative Asst.	28126.01	$Y = 357.42(120) - 23699.89$
Payroll Asst.	38848.61	$Y = 357.42(120) - 23699.89$
Operations Analyst	53145.41	$Y = 357.42(120) - 23699.89$
Benefits Mgr.	63868.01	$Y = 357.42(120) - 23699.89$



# Designing A Pay Structure

- » **Task G: Because your company wants to lead in base pay by 3 percent, adjust the predicted pay rates to determine the base pay rate you will offer for each benchmark job.**

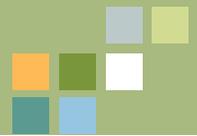
The easiest way to accomplish this in Excel is to multiply the predicted market pay rates by 1.03. In other words, you want to know pay rates your organization will pay based on a specific pay level strategy of 3 percent above market (i.e., 103 percent of the market).

Again, ensure the basic math is right for each student's response.

For the regression output presented in this case solution, and applying the formula of the job's predicted rate \* 1.03, the answers are:

<b>Job</b>	<b>Pay Lead Policy (\$)</b>	<b>Calculations</b>
Receptionist	19766.23	Job's Predicted Pay Rate * 1.03
Administrative Asst.	28969.79	Job's Predicted Pay Rate * 1.03
Payroll Asst.	40014.07	Job's Predicted Pay Rate * 1.03
Operations Analyst	54739.77	Job's Predicted Pay Rate * 1.03
Benefits Mgr.	65784.05	Job's Predicted Pay Rate * 1.03

# Designing A Pay Structure



- » **Task H: Create pay grades by combining any benchmark jobs that are substantially comparable for pay purposes. Clearly label your pay grades and explain why you combined any benchmark jobs to form a grade.**

Student responses may vary a bit, but some pay grades will likely make more sense than others. For example, putting the benefits manager job in the same pay grade as the front desk receptionist job is problematic, because of the difference in job content and relative value to the organization. These jobs also have widely different pay rates.

More typical solutions might be the following suggested pay grades:

**Pay Grade A** – Front Desk Receptionist

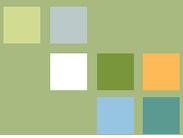
Rationale: This is a front office job with little technical skill required.

**Pay Grade B** – Administrative Assistant, Payroll Assistant

Rationale: These are clerical jobs of comparable value to the organization, i.e., with comparable job evaluation points.

**Pay Grade C** – Operations Analyst, Benefits Manager

Rationale: Both of these jobs are professional-level jobs, have comparable job evaluation points, are more technical than jobs in Grade B and are of similar value to the organization.



# Designing A Pay Structure

» **Task I: Use your answer to Task H to determine the pay range (i.e., minimum and maximum) for each pay grade.**

The solution provided below presumes the pay grades identified in Task H:

**Pay Grade A:** Front Desk Receptionist

**Pay Grade B:** Administrative Assistant, Payroll Assistant

**Pay Grade C:** Operations Analyst, Benefits Manager

Because all jobs in a pay grade have the same minimum and maximum, first average the pay rates among the benchmark jobs for each grade.

**There is only one benchmark job in pay grade A:**

Front Desk Receptionist	\$19,766.23
	AVERAGE: \$19,766.23

**The average pay rate for pay grade B:**

Administrative Asst.	\$28,969.79
Payroll Asst.	\$40,014.07
	AVERAGE: \$34,491.93

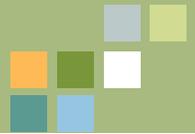
**The average pay rate for pay grade C:**

Operations Analyst	\$54,739.77
Benefits Mgr.	\$65,784.05
	AVERAGE: \$60,261.91

Next, apply the percent guidelines provided in the case to determine the pay ranges:

- Pay grades A and B include clerical/office positions, so the pay range for each will be 10 percent above and below the midpoint.
- Pay grade C includes professional and management positions, so the pay range will be 30 percent above and below the midpoint.

# Designing A Pay Structure



## Pay Range for Pay Grade A:

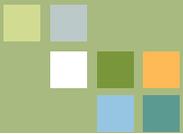
Maximum (10 percent above):	\$21,742.85 [110 percent of the midpoint]
Midpoint:	\$19,766.23
Minimum (10 percent below):	\$17,789.60 [90 percent of the midpoint]

## Pay Range for Pay Grade B:

Maximum (10 percent above):	\$37,941.12 [110 percent of the midpoint]
Midpoint:	\$34,491.93
Minimum (10 percent below):	\$31,042.74 [90 percent of the midpoint]

## Pay Range for Pay Grade C:

Maximum (30 percent above):	\$78,340.48 [130 percent of the midpoint]
Midpoint:	\$60,261.91
Minimum (30 percent below):	\$42,183.34 [70 percent of the midpoint]



# Designing A Pay Structure

- » **Task J: Given the pay structure you have generated, consider the following:**
  - » **Does this pay structure make good business sense? Do you think it is consistent with the organization's business strategy?**
  - » **What are the implications of this pay structure for other HR systems, such as retention and recruiting?**

Students should be able to recognize how their pay structure supports the business strategy of providing customized client solutions. Students should realize that leading the market in pay will help retain employees, but can recommend monitoring turnover and conducting exit interviews to ensure this is the result. Lastly, a lead pay strategy can be emphasized in recruiting, to market the firm in what it has to offer applicants and to create a sense that they hire the best, expect the best, and create the best for clients.







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