

Compensation Management - Best Practices -

A comprehensive assessment for extracting value
from compensation analysis and practice.



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INTRODUCTION

BEST PRACTICE DEFINED – A technique, or methodology that innovatively uses resources (technology, equipment, personnel, data, etc.) resulting in *significant* and *measurable* improvement in the operation or performance of a business process.

Any *best practice* will demonstrate success through validated improvement of such factors as cost, quality, performance, or integration with other business processes and systems.

A *best practice* will be repeatable to allow other business units to adapt this practice and realize success in their own environment.

Compensation management is a collection of activities that establishes an internally equitable and externally competitive philosophy and practice for paying employees. Salaries and wages are often the largest cost to a firm and can be up to 70% of a company's annual operating costs. Creating a comprehensive and impartial structure is key to attracting and retaining talent, and therefore fundamentally strategic to the organization.

STRATEGIC ORIENTATION

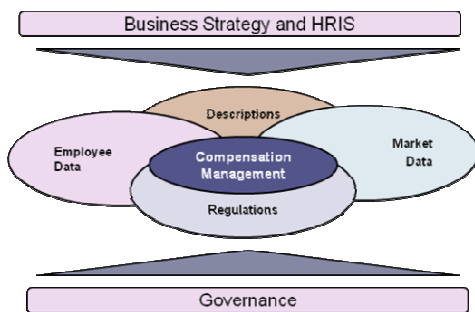
Every business leader knows that strategic advantage is founded on a strong culture of organizational learning and growth.

Strong cultures epitomize fair and equitable opportunity for employee stakeholders.

Committed and ambitious employee acquisition and retention begins with compensation management.

Best-in-class compensation management requires comprehensive and systemic understanding of:

- External factors
 - Applicable regulations
 - Market salary data
- Internal Factors
 - Employee data
 - Job analyses and descriptions



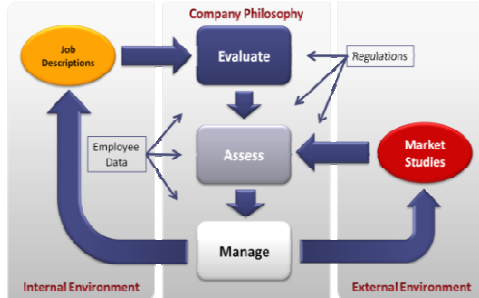
The planned application within a comprehensive and integrated system enables HR organizations to fulfill their primary responsibility to the organization of delivering the best and the brightest at competitive rates.

Strategic orientation anchors the HR development process. Strategy alignment begins with translating operational processes into the critical job descriptions required by the organization to achieve their objectives. Compensation management data is fundamental information required by HR to complete key processes of organizational structuring, capacity planning and performance management. It is also the cornerstone data for an effective, comprehensive and integrated HRIS.

ELEMENTS OF Best-In-Class (BIC)

COMPENSATION MANAGEMENT

Simply listed the essential elements of a best-in-class compensation management program include:



1. Comprehensive Position Analysis Questionnaires / Reviews / Interviews
2. Compliant and Consistent Job Descriptions
3. Internal and Validated Job Rating System
4. Employee Data Integration
5. Market Salary Data
6. Action-oriented Analysis Capabilities (Pay Equity, Performance, Pay Policy, Human Capital Planning).

However, the elements must be considered in the context of appropriate technology architecture and a repeatable process framework. The process framework we employ includes:

- Primary elements of your firm's compensation philosophy driven and aligned with company objectives
- Internal equity insured by balanced assessment and analysis.
- External competitiveness driven by accurate market comparisons.

The key cornerstone data elements for compensation management come directly from the information backbone of a state-of-the-art HRIS system architecture.

POSITION ANALYSIS

Job evaluation is the structural foundation for any successful business. It is the fundamental alignment of business needs to specific job duties and responsibilities, and the basis of an internal audit of a firm's positions. In order to effectively rank your positions, a consistent framework for assessment is required. There are numerous approaches available, but our 15-factor job rating system is copyrighted and validated over tens of thousands of applications.

The form used is our Position Analysis Questionnaire (PAQ) that captures the key elements for analysis. It was developed from a desire to provide a more comprehensive and objective job rating process than other commercially available methods offering more specificity with factor and degree language and a greater job evaluation breadth.

KNOWLEDGE & SKILL REQUIREMENTS

1. Experience – General
2. Experience – Management
3. Education
4. Initiative and Ingenuity
5. Mental Demand
6. Analytical Ability/Problem Solving

RESPONSIBILITIES

7. Responsibilities for Work of Others (Supervision)
8. Responsibilities for Funds, Equipment, Property, etc.
9. Responsibilities for Accuracy
10. Accountabilities (End Results)

CONTACTS/HUMAN RELATIONS

11. Contacts with Public
12. Contacts with Employees

EFFORTS

13. Machine and Computer Operations
14. Working Conditions/Hazards
15. Physical Demands

JOB DESCRIPTIONS

Each element of a best practices methodology should enable and support other elements. Beginning with a comprehensive analysis allows our automated methodology to generate a consistent and compliant job description for each position.

The benefits of a job description are numerous and include:

- Provide a general guideline of a job/position
- Create an internal job posting or external posting/ad
- Facilitate annual position reviews
- Guide during interviews – skills/knowledge/qualifications
- Review as a part of the on-boarding/orientation process

- Basis of comparison for an individual's actual performance to the job requirements
- Differentiate one position over another – job value/rating and compensation level.

Today however, organizations are being required to implement better employee-related programs and documentation due to changes in existing laws and regulations and recently passed new legislation. The American with Disabilities Act (ADA), the Family Medical Leave Act (FMLA) and their recent amendments plus the new Lilly Ledbetter law are causing organizations to move the priority of creating and maintaining job descriptions from the back burner to the front burner.

The general process for creating an ADA compliant job description is:

1. Complete a PAQ (This can be done by the employee, management, HR or some combination)
2. Management review for content
3. HR final review for objectivity, accuracy and compliance.

JOB RATING

Assigning a rating to each position completes the internal audit aspect of job evaluation. This anchoring point provides the only appropriate context for externally comparing salary and compensation figures. Arriving at the specific ratings for each position in the past may have been complex without sound technology. The picture illustrates our completely automated capability to suggest baseline ratings for all 15 factors derived from our entire database of experience.

The screenshot shows a software application window with a table of job ratings. The table has many columns, likely representing different job factors or positions, and several rows. A dropdown menu is visible in the lower-left corner of the table area, suggesting an interactive interface for selecting or filtering data.

More important than providing a baseline is the capacity to collaborate with management and HR professionals to drive toward a consensus value for each position within the enterprise. This capability refocuses your teams' expertise on defining real value instead of performing administrative tasks.

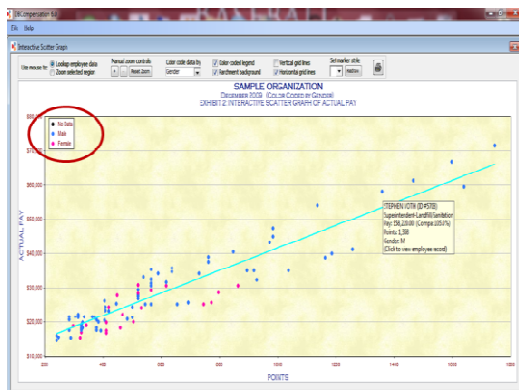
DATA INTEGRATION

Once relative internal position value is established, employee data can be merged to understand the full compensation picture. Employee data typically includes mandatory attributes such as:

- Name
- Position
- Rate of pay
- Unique ID number.

Additional attributes needed to manage compensation for equity, competitiveness and compliance include:

- Experience
- Date of birth
- Date of hire
- Gender
- Race
- Work location
- Etc.



Your best practices-based approach should allow for an easy seamless download from a payroll or HRIS system. Actual employee data can now fuel internal analyses for compliance and equity. Initially a regression line analysis of salary to job rating establishes your company baseline.

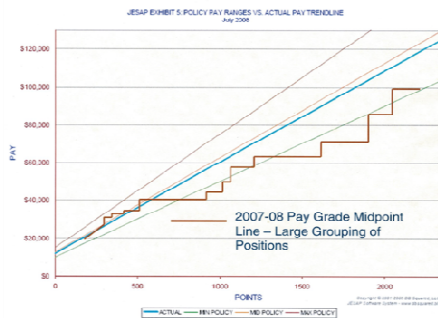
The figure illustrates one such analysis that color codes the data points for gender. This provides dramatic visual assessment of a firm's salary line with additional gender reporting. Additional capabilities should include race and age for complete protected class visibility.

While important for compliance reporting reasons, this kind of real-time best practice information is critical to proactive management and decision making.

MARKET SALARY DATA

Internal equity is important to your staff and critical to compliance. Market pricing on the other hand allows management to understand critical external elements that may be driving salary and benefit expectations affecting retention and recruiting. Certainly technology has provided more and more available external data. However, across all companies and industry sectors easily obtained data adheres to a definite Pareto effect that analyzed without sufficient context can ultimately lead to inflated salaries and expectations.

Market data is good. Knowing how to apply it to unique or varying circumstances is better. This takes skill and expertise to establish initially, but is certainly sustainable once the initial philosophy is embedded in the company culture, and a technology base allows effective and efficient combination with job valuations. The combined information drives best practice informed decision making and policy planning.

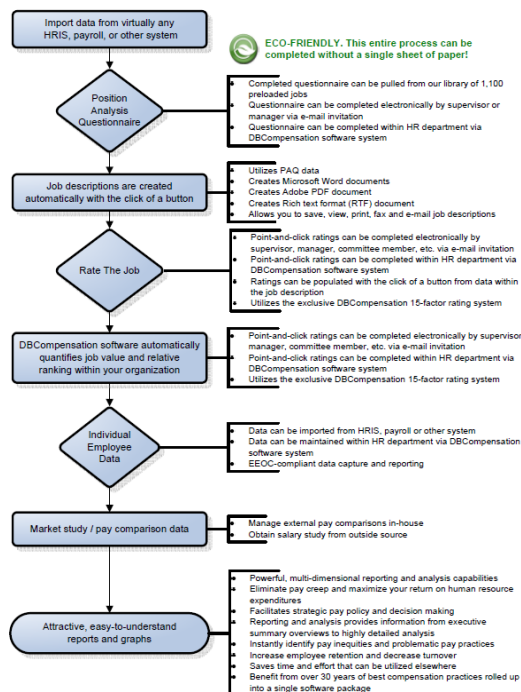


ACTION-ORIENTED ANALYSIS

The proof of any best practice method is in repeatable and sustained performance. The technology employed must support a validated process. At DBSquared™ we pride ourselves on our intimate knowledge and experience with strategic compensation management. The following section illustrates DBCompensation® and its application through a quick overview of some of the reporting and output capabilities based on the following process diagram.

This process flow identifies the key elements that establish best practice compensation management.

The process can begin with data import from any number of HR-related systems, but doesn't have to. It should focus on completion of the PAQs for each position in the firm.



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Completed questionnaires should be available from a library or part of a turnkey implementation approach. As with all best practices, the technology architecture should allow significant collaboration that encourages involvement of employees and their managers with oversight by the HR department. Sufficient flexibility should be available to allow a combination of resources to complete the process.

An often neglected advantage of this approach is the automatic creation of fully compliant job descriptions that are available for output in numerous formats to accommodate and support any internal HR process that is part of the talent management of the organization. An example of a job description output in Adobe format is included in Appendix A.

Rating the position is also highly interactive and collaborative. Default ratings for each factor are provided for positions included in libraries, but they should be enhanced by easy electronic completion of ratings by management or committee members. The system drives consensus and provides an informative context for participants. The results of the rating process are illustrated below. This is the report that is produced after you complete your job ratings. Within this report, you can conduct your final analysis of every position and the point value assigned with those positions. This is to ensure that internal equity is the basis for the outcome from the job ratings assigned.

Another critical function is the ability to do what we call ‘sore-thumbing’ of the totals to enable fine tuning and after the fact adjustments based on new information.

SAMPLE ORGANIZATION
DB/COMPENSATION Exhibit 1: Rating Evaluation Chart
DECEMBER 2009

POSITIONS	RATING FACTORS	RATING FACTORS														Total
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Director of Finance	20-001	12	4	7	8	7	3	8	6	11	4	4	4	2	2	1688
Chief of Police	10-000	12	8	4	7	5	7	3	8	6	11	5	5	4	3	1588
Superintendent Electric Distribution	25-004	10	5	7	5	7	3	7	5	11	5	5	4	7	5	1446
City Clerk - President	40-010	10	5	7	5	7	3	7	4	10	6	5	4	2	3	1440
Superintendent Sewer/Sanitation	10-001	10	5	7	5	7	3	7	5	11	5	5	4	7	5	1411
Fire Chief	30-002	8	5	7	5	7	4	5	4	11	4	4	4	7	5	1310
Water Treatment Plant Superintendent	10-002	10	7	5	5	7	4	7	4	11	4	4	4	7	5	1235
Wastewater Plant Superintendent	10-004	9	7	5	4	7	4	4	5	10	3	4	4	7	5	1205
Police Major	10-005	8	7	5	5	6	4	5	5	10	4	4	4	7	5	1192
Superintendent Street	30-001	8	5	7	4	5	3	5	5	10	4	4	4	5	6	1126
Superintendent Parks	10-003	7	7	4	4	5	4	4	5	10	4	3	3	5	5	1021
Superintendent Water S&W/Wastewater Ctl	10-002	8	4	7	4	6	2	5	3	10	4	4	3	5	5	1007
Police Captain	10-006	8	4	6	4	4	3	5	5	9	4	4	3	5	5	994
Accountant	30-000	7	5	5	4	5	1	5	5	9	4	3	4	2	2	966
Sanitation Chief	10-008	8	4	5	5	5	3	5	4	9	3	4	4	7	5	953
Leisure Crew Leader	30-043	5	5	5	5	2	5	4	5	8	4	3	4	7	5	919
Personal Coordinator Administrative Secretary	40-005	5	5	5	5	1	4	4	3	5	3	3	4	2	2	893
Dispatcher Call Supervisor	10-007	4	5	5	4	5	3	3	3	4	3	4	4	3	4	867
Superior Equipment and Fleet Maintenance	10-001	8	5	4	6	3	5	4	3	2	4	4	4	4	3	861
Code Administrator	10-011	8	5	4	6	4	5	2	4	4	3	3	3	2	2	848

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All Rights Reserved. DB/COMPENSATION Exhibit 1: Rating Evaluation Chart - December 2009

The latest edition of the software includes this capability as well as the updating of the constituent factors based on our extensive database and experience as illustrated in the figure below.

Once the positions are rated and approved significant support for decision making can begin. Integrating specific employee data again from any number of payroll or HRIS systems is easily accomplished.

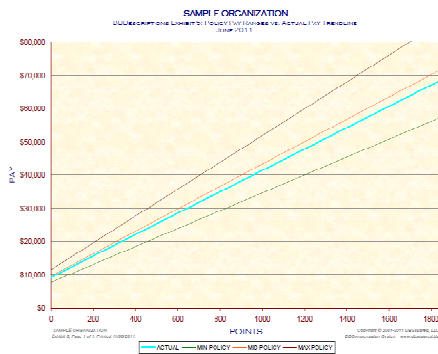
only. The graph to assist you with compliance would be exhibit 2, the internal picture.

Statistical data for the above report offers a quick overview of the percent variance difference from your organization to the market comparisons entered into the system, which is determined by the client organization. This report also provides information in regard to the number of benchmark positions that you had from each comparison and the correlation.

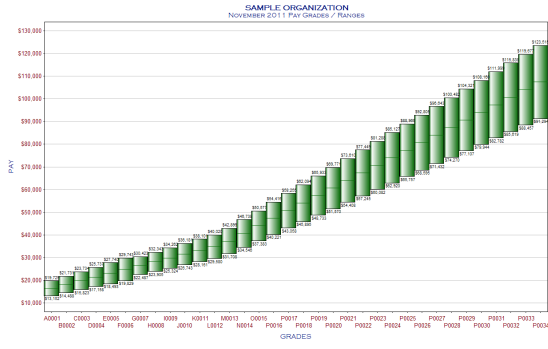
Definition of salary policy and determination of economic consequences can now be accomplished with interactive ease.

For example graphic depiction of the current policy versus the trend midpoint, max and min helps determine the direction for future policy decisions. The blue line is your current pay line, the orange line is the new midpoint that you are working towards, the green line will be your new minimum for the salary range and the red line is your new maximum for the salary range.

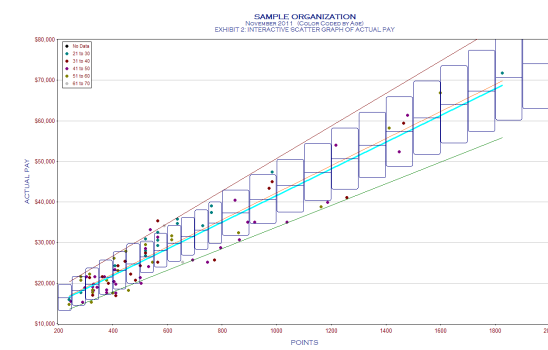
Intercept and slope parameter manipulation using the tool illustrated offers an easy interactive method to develop or revise salary ranges. For example, this screen allows the management team to develop any number of 'what-if' scenarios that help support timely decision making that aligns with corporate goals and supports individual advancement.



This chart allows you to see where your employees fall in regard to the minimum, midpoint and maximum of the salary range. It allows you to see all of the positions at your organization, the point-value for each position, the employee(s) in that position, the minimum, midpoint and maximum of your current or future pay policy and where each employee falls within those quartiles (you can plug-in different percentages to see what a certain percentage increase would look like across the board) and much more.



Comprehensive tools support multiple frames of reference. No set of best practices is complete without the ability to view salary information as a function of rating and pay. Many companies prefer to implement grade structures. Salary grade structures should be driven by the point values of your job ratings, but illustrate the effective pay ranges as illustrated here.



Another key analysis function is the ability of your tools to bring together different views of all the information that support your compensation philosophy. The picture at left confirms numerous aspects of the salary administration planning for the organization. This feature brings together the:

- Central tendency of your current pay policy
- Max and min ranges for that policy
- Grade definition with respect to point value (width) and salary range (height)
- Position and compliance characteristics for individuals.

Number of Employees	Pay Range	Pay Rate	Pay Band	Pay Step	Pay Grade	Pay Point	Pay Range	Pay Rate	Pay Band	Pay Step	Pay Grade	Pay Point	Pay Range	Pay Rate	Pay Band	Pay Step	Pay Grade	Pay Point
100	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00

A final illustration breaks down the employee count within the different quartiles of the new proposed salary ranges. In addition, the compa-ratio is shown for the organization. The purpose of this calculation is to show where the organization stands overall to the midpoint salary ranges. There is also an area for budget planning. This function allows the client organization to enter a percentage adjustment for salary ranges for the upcoming year, and DBCompensation calculates the impact that would have to the client's bottom line.

Of course this offers an excellent entrée into many performance management systems that help line management interactively apportion annual salary improvements.

SUMMARY

Best practices should be analyzed and applied with a keen sense of the individual company context. They are indicative and

directional, but not necessarily mandatory in every case. Over thirty years of compensation management practice and experience is pervasive throughout DBCompensation®. Regardless of the individual technology framework or any specific procedural context, best practices in compensation management should:

- **Reduce operating costs**
 - Eliminate position and pay creep
 - Improve retention - reduce cost of replacement
- **Ensure compliance and eliminate business risk**
 - Minimize audit and examination costs
 - Limit liability and exposure to legal costs
- **Increase operating efficiency**
 - Integrate existing systems and processes
 - Develop unique value from internal job descriptions
 - Focus HR resources on more value-added concerns (i.e. talent management)

Additionally best practices should facilitate an integrated technology framework and enable HR department process improvement. The resulting system should offer:

- **Powerful, multi-dimensional reporting and analysis capabilities**
- **Strategic pay policy and decision making**
- **Diverse informational views**
- **Integrated technology environment**
- **Minimized IT support and total cost of ownership.**