



# Harnessing the Power of Precise Pay

## How Accurate Compensation Practices Empower Business Leaders

“Morning, boss!” says Joe. “Listen, my wife and I have been thinking I’ve been here for more than two years. I know the job, I’m never late for work, and I’ve only called out sick twice. I think it’s high time I get a raise. What can you do for me?”

This scenario has been played out countless times across the ages. Most of the time, this situation inspires a significant amount of panic, uncertainty, and frustration in the mind of a supervisor:

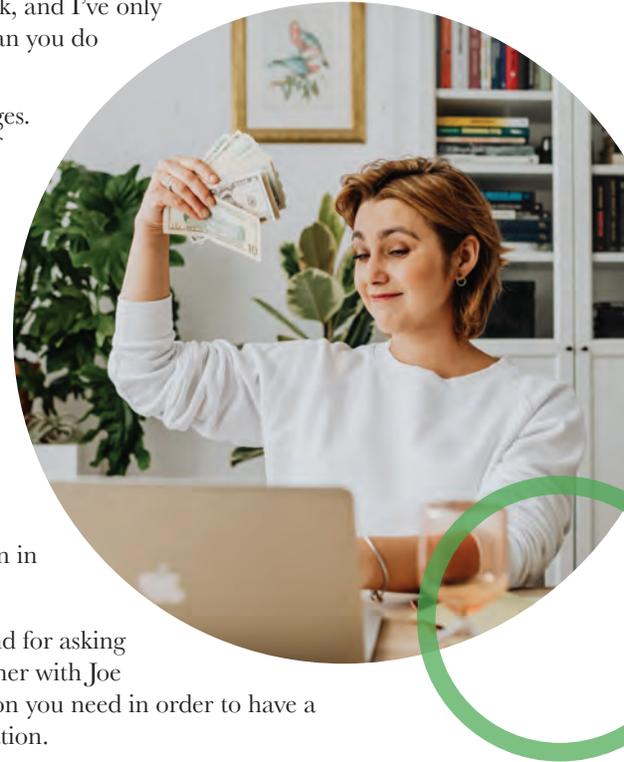
- “Why is Joe interrupting me at this moment?”
- “Why is his wife a part of the conversation?”
- “Has he really been here for two years already?”
- “Does he really perform that well at his job?”
- “How much is he currently being paid?”
- “Is his current pay reasonable?”
- “Are there other employers that would pay him more for what he does?”
- “If I give him a raise now, what do I do when he asks again in six months?”

In the near term, just smile and thank Joe for his good work and for asking this important question. After deciding on a time to speak further with Joe sometime in the next day or two, start gathering the information you need in order to have a reasoned, intelligent conversation with Joe about his compensation.

The information you will need to compile includes the following:

- Attendance records.
- Recent performance reviews.
- A current, approved job description for Joe’s position.
- A current salary structure, including pay grades and ranges for Joe’s position.
- Joe’s current position in the salary structure and the potential pay increases he would be eligible for in his current position.

Armed with this information, you will be prepared to have an informed conversation with Joe that explores his recent performance, his career growth plans within the company, and his short-term goals for expanded contribution to the team. With those evaluations and projections, you can then discuss the value of those contributions in terms of Joe’s compensation.



Unfortunately, managers do not always have access to all of these tools. This can lead to uncertainty about whether Joe is being compensated properly, or even mistrust about Joe's motives and tactics. More importantly, decisions without adequate information will almost always lead to inconsistent pay practices, resulting in plummeting productivity, troublesome turnover, and potential legal liability.

## Practical Application

Bolinder Resources is a forward-thinking mining company in Utah who was experiencing uncertainty around their compensation practices. Employee claims of low compensation were plentiful, and allegations of outside job opportunities at higher pay caused doubt internally about Bolinder's pay practices. With nothing but anecdotal information, however, the company was reluctant to blindly alter their pay practices.

As with other areas of operations, Bolinder chose to utilize a data-driven approach to evaluating their pay practices. Here follows a summary of their efforts.

## Job Descriptions

Accurate, comprehensive, and well-written job descriptions make everything better. A good job description positively impacts all aspects of employment. Most people (mistakenly) assume that job descriptions are only good for recruiting efforts. How much richer their lives can be! Good job descriptions support:

- Workforce planning
- Screening and recruitment
- Interviewing
- Candidate selection
- Compensation levels
- Performance reviews
- Corrective action
- Regulatory compliance
- Succession planning

Bolinder Resources began by reviewing every position and thoroughly documenting that position's expectations. Once drafted, each job description was reviewed by the supervisor responsible for that position, local Human Resources, and company executives. This iterative process, although time consuming, provided confidence that the job descriptions completely and accurately represented the company's intentions for that position.

It is worth noting that, despite the high level of confidence in their new job descriptions, Bolinder Resources plans to review these job descriptions regularly, at least annually, in an effort to capture any incremental changes to job requirements.



## Compensation Strategy

Most organizations like to believe and often proclaim that their pay practices are highly competitive. (We often wonder how they arrive at that conclusion.) Contrary to popular belief, there are multiple potential compensation strategies that can align to organizational objectives and contribute to business growth.



### Leading the Market

Leading the market is what employers commonly feel they should be striving toward. It is not the only option, but is usually the assumed objective. When a company leads the market regarding compensation, they pay higher than the majority of other similar employers.



### Matching the Market

Matching the market, intuitively, describes the situation in which an employer normalizes median market pay as their target compensation.



### Lagging Behind the Market

Lagging behind the market is the third option. In certain situations, this can be a very effective solution, even though this strategy pays less than most other employers. Usually the lower compensation in this scenario is offset by other factors that employees consider to be of equal or greater value than money, such as culture, benefits, or altruistic aims.

After considering their desired relationship with their employees, Bolinder decided that an approach of leading the market aligns well with the culture they are building. They elected to compensate their employees at the 75th percentile, meaning that they pay their employees more than 75% of other similarly situated employers.

## Compensation Benchmarking

In the realm of well-informed decisions, data is king. When obtaining compensation data, it is important to consult reliable sources. Crowd-sourced data, while easy and cheap to access, very rarely reflects reality with any degree of accuracy. Employer-reported data, on the other hand, is highly reliable, but still must be reviewed carefully. Industry, company size, and location are important variables to consider when reviewing compensation data provided by other employers.

When Bolinder Resources reviewed validated, employer-provided compensation data, they made sure to include scaling factors to create equivalencies to a company of about 75 employees in the mining industry in Utah.



## Compensation Structure

A compensation structure organizes positions in a workplace into groups, or pay grades, according to their benchmarked compensation, FLSA status, geography, business unit, or other characteristics. Each pay grade has upper and lower tolerances, specifying employee compensation limits for each position. A compensation structure allows uniformity and internal pay equity. It also helps to outline career growth options for employees who wish to explore higher-paying jobs that they can grow into.

Armed with thoroughly-developed job descriptions, a compensation strategy supported by the executive committee, and some reliable and relevant data, Bolinder Resources created pay grades grouped by exempt or non-exempt status. Each job was assigned to a pay grade and its associated range, thus providing a framework for determining pay equity internally and their relative competitiveness in the talent marketplace externally.

## Compa Ratios

A compa ratio is a simple but important metric. It is simply the ratio of an employee's compensation to the benchmarked midpoint for their position as described by the company's compensation structure. This metric indicates whether an employee is underpaid, adequately paid, or overpaid.

Upon applying their compensation structure to their current employee pay data, Bolinder Resources was able to calculate a compa ratio for each employee. These ratios allowed the company to identify several employees that might be eligible for a compensation increase, depending on their individual performance. They also identified a few employees that were near or above the top of their pay range, indicating that the employee is a good candidate for skill training, thereby allowing the employee to move into a position that more closely aligns with their compensation.

## Performance Reviews

Compensation adjustments should always be heavily influenced by an employee's performance. Each employee should be evaluated objectively based on documented criteria. That documented criteria can be found in (you guessed it) the job descriptions! It is beautiful how everything comes full circle back to those foundational documents.

Once Bolinder Resources identified those employees that were underpaid, they decided to administer off-cycle performance reviews for those employees. An underpaid employee who was meeting or exceeding expectations was offered a compensation increase that moved them closer to benchmarked midpoints. Those employees were also given clear goals for performance so that they could continue to grow within the company for years to come.

## QED

Bolinder Resources now has the tools and data that will give them confidence that they are paying their employees equitably and competitively. They can now also be confident that proposed compensation is both fair and attractive when making external job offers, eliminating uncertainty and the discomfort of uninformed salary negotiations.

Blue Ivy Professional services is grateful to have partnered with Bolinder Resources for this project. Blue Ivy is a full-service human capital management consulting firm offering organizational support to companies seeking a better way to ensure regulatory compliance while increasing productivity by engaging with their workforce.

**Reach out today to talk about new ways to tackle your human capital challenges.**

