



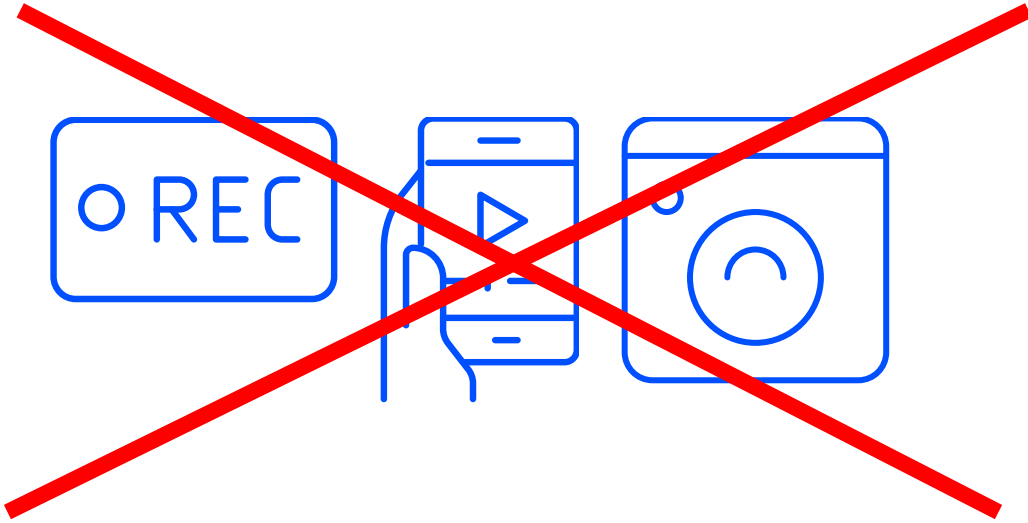
Building an Effective Base Compensation Plan:

Internal Equity Analysis

Trainer: Julia Johnson, MA, CEC, Director, Organization Performance

WIPFLI

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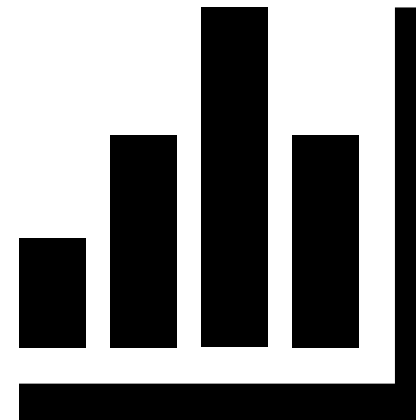
Learning objectives

1. Summarize the Talent Management Effectiveness Loop
2. Share objectives of a compensation plan and the development of a compensation philosophy
3. Discuss the importance of a compensation committee
4. Share the importance of the role of job descriptions when conducting an internal equity analysis
5. Gain understanding of the internal equity process and how it can be used for compensation and other purposes

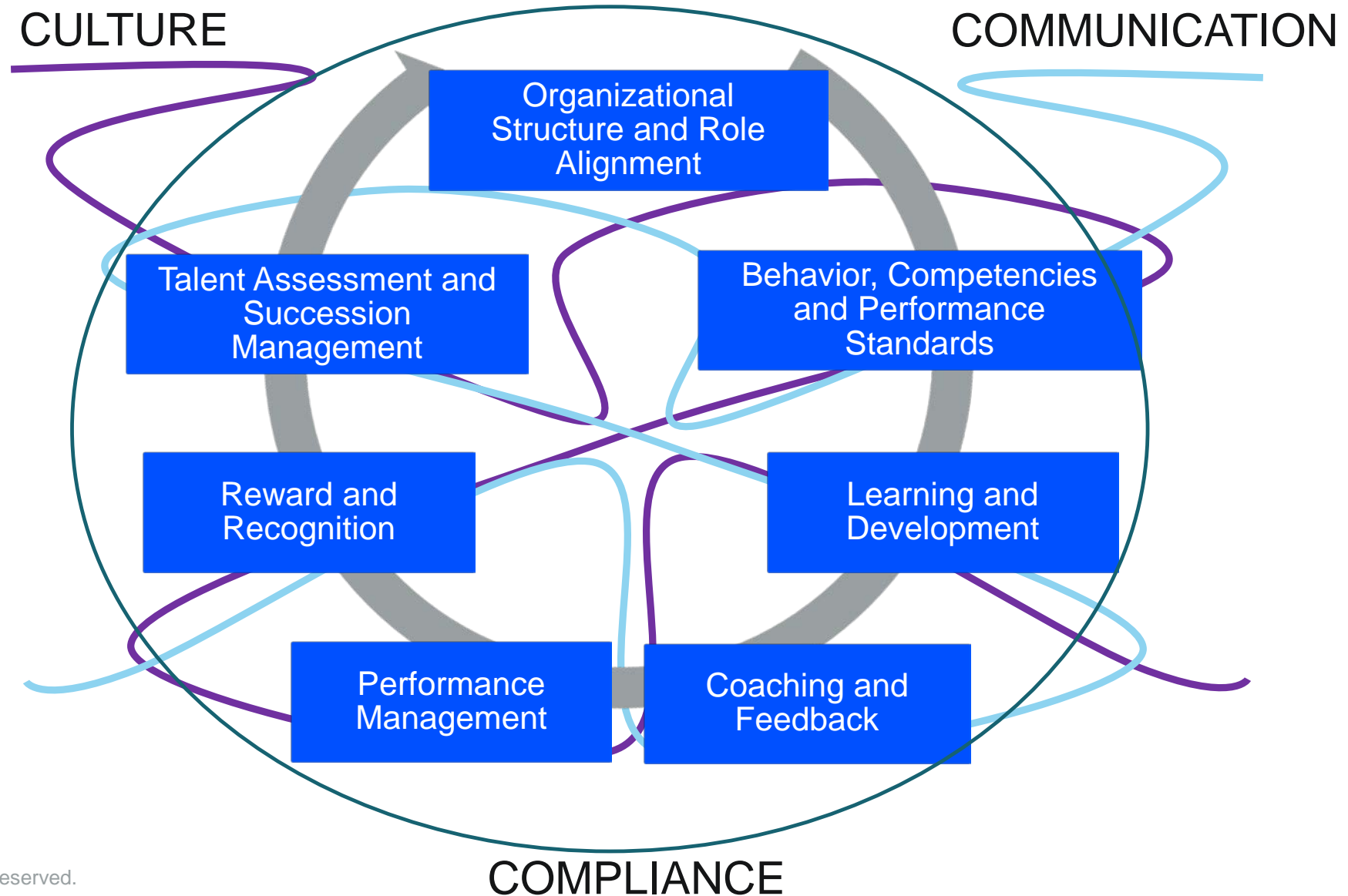


Polling question

- Did you participate in the session on conducting an external market analysis just prior to this session?
- Please respond:
 - ▶ Yesor
 - ▶ No



Talent management effectiveness loop



Objectives of a compensation plan

Strategic alignment

- Reflect organization's mission and values
- Support personnel recruitment and selection strategies
- Motivate employees to help achieve program and organizational goals

Fair and equitable

- Recognize the value each position brings to the organization
- Pay salaries equitable for work being performed
- Ensure equitable pay across departmental lines

Top talent

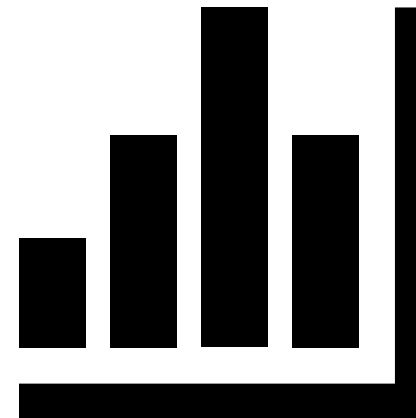
- Attract and retain qualified employees
- Ensure wages are comparable to similar work in organizations you compete with for employees

Consistency and accountability

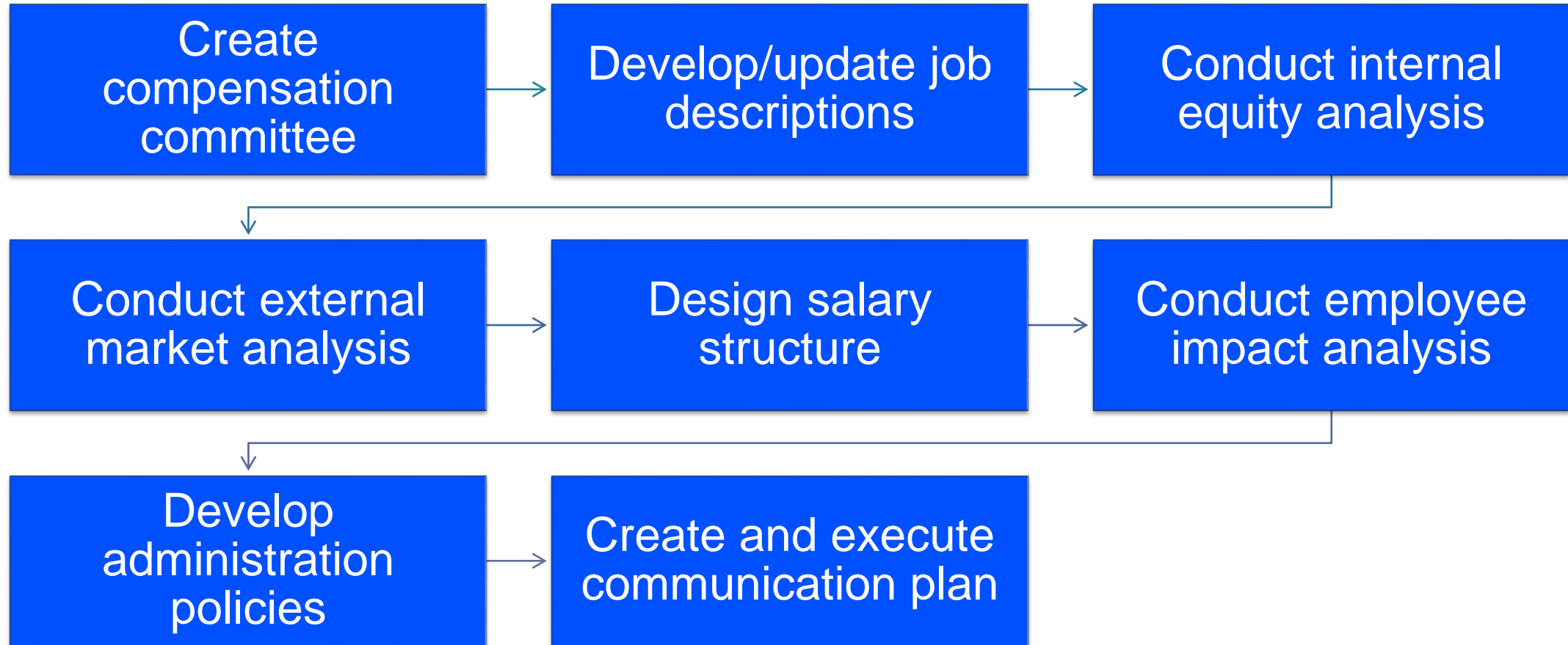
- Increase understanding of pay administration
- Minimize inconsistent administration of pay
- Increase manager accountability

Polling question

- Does your agency have a formal, written compensation philosophy?
- Please respond:
 - ▶ Yes
- or
- ▶ No



Compensation system



Compensation committee

- Consists of:
 - ▶ Three or five members (odd)
 - ▶ Management personnel
 - ▶ Non-supervisory leaders
 - ▶ Cross-section of the organization
- Must make a long-term commitment to the committee and be willing to work together and make tough but fair decisions
- Evaluate *jobs* not *people*; no dollar amounts should be assigned to any position at this point in the process



Create
compensation
committee

Job descriptions

Well designed compensation systems begin with clear definitions of job responsibilities and qualifications

- Title
- Exemption status (FLSA considerations)
- Salary grade/range
- Position summary
- Essential job functions
- Secondary responsibilities
- Competencies (knowledge, skills and abilities)
- Working conditions
- Employee acknowledgement

Develop/update
job descriptions

Job descriptions

Also used for...

- New employee orientation
- Performance management
- Recruitment and selection
- Training and development
- Succession planning
- Compliance

Create/update
job descriptions

Internal equity analysis

What

- Determines the relative value of each position to every other position within the organization on the basis of compensable factors

When

- Establishes a position's relative worth *within* the organization before or at the same time as the external analysis

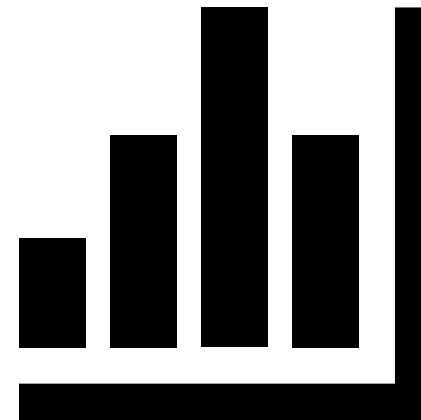
Who

- Conducted by the compensation committee or an independent third party

Conduct
internal
equity
analysis

Polling question

- Does your agency use an internal equity analysis?
- Please respond:
 - ▶ Yes
- or
- ▶ No



Internal equity analysis

The most common approach to evaluating positions is the:

Point Factor Evaluation Method



Conduct
internal equity
analysis

Point factor evaluation method

Breaks jobs down into identifiable compensable factors by assigning levels and points within the evaluation criteria

- ▶ Uniformity of evaluations
- ▶ Determines relative value of different positions
- ▶ Addresses comparable worth issues



Conduct
internal equity
analysis

Point factor evaluation method

Choose and define compensable factors:

Skills	Responsibilities	Effort	Job Conditions
<ul style="list-style-type: none">• Education• Experience• Complexity• Initiative• Ingenuity	<ul style="list-style-type: none">• Contacts• Process or Equipment• Confidential information• Safety of others• Supervision of others	<ul style="list-style-type: none">• Physical demands• Mental or visual demands	<ul style="list-style-type: none">• Working conditions• Unavoidable hazards

Establish and define levels within factors

Conduct internal equity analysis

Point factor evaluation factors and levels

Assign points to factors and levels

FACTORS	WEIGHT	LEVELS						
		1	2	3	4	5	Maximum	
1. SKILLS	25.0%							
a. Education	10.0	20	40	60	80	100	100	
b. Experience	15.0	30	60	90	120	150	150	
2. RESPONSIBILITY	65.0%							
a. Administrative	15.0	30	60	90	120	150	150	
b. Complexity/Decisions	15.0	30	60	90	120	150	150	
c. Contacts	10.0	20	40	60	80	100	100	
d. Equipment or Process	10.0	20	40	60	80	100	100	
e. Confidential Information	5.0	10	20	30	40	50	50	
f. Supervision of Others	10.0	20	40	60	80	100	100	
3. EFFORT	10.0%							
a. Mental or Visual Demand	10.0	20	40	60	80	100	100	
		100.0%	Total Points:				1,000	

Conduct internal equity analysis

Responsibility: Administrative

This factor evaluates the requirement for organizing, coordinating, guiding, planning, budgeting, and controlling a variety of the administrative activities for a position, unit, department or division.

Level 1: Administrative responsibilities are simple and routine and generally related to one's own work. Position may involve minimal functional responsibility, generally limited to providing occasional functional advice and guidance to a limited group.

Level 2: Administrative responsibilities are moderately complex involving the same or similar moderately complex functions. Position involves frequent rendering of functional advice and guidance, but generally without responsibility for control or follow-up.

Level 3: Administrative responsibilities are moderately complex involving varied and moderately complex operations. Position may provide budget considerations and recommendations. Position involves provision of functional advice, counsel, and to diversified groups and may involve some functional control responsibilities.

Responsibility: Administrative (cont.)

Level 3: Administrative responsibilities are moderately complex involving varied and moderately complex operations. Position may provide budget considerations and recommendations. Position involves provision of functional advice, counsel, and to diversified groups and may involve some functional control responsibilities.

Level 4: Administrative responsibilities are complex, highly diversified and involve several major aspect of an operation. Responsibilities include developing and administering a department or division budget. Position involves very complex functional control responsibilities in relation to several major aspects of a function.

Level 5: Administrative responsibilities are very complex, highly diversified and involve all operating aspects of major organizational functions. Position involves ultimate functional control responsibilities relating to all aspect of business operations.

Point factor evaluation form

- Determine the appropriate level for each factor
- One factor at a time
- Make clear comments for reference
- Consistency is key
- Identify gaps or errors in job descriptions

**Remember! Consider the job requirements only, not the job incumbent

Conduct
internal equity
analysis

Point factor evaluation sample results

INTERNAL EQUITY ANALYSIS

Job Title	<u>Ed</u>	<u>Exp</u>	<u>Admin</u>	<u>Complex</u>	<u>Contacts</u>	<u>Process</u>	<u>Conf</u>	<u>Sup</u>	<u>Ment</u>	TOTAL
Chief Executive Officer	80	120	120	120	100	100	50	100	100	890
Chief Financial Officer	80	120	120	120	100	100	50	80	100	870
Human Resources Director	80	120	120	120	100	80	50	80	80	830
Head Start Director	80	120	120	120	80	80	40	100	80	820
Chief Programs Officer	80	90	120	120	80	80	40	60	80	750
Information Systems Manager	80	90	90	120	80	100	50	40	100	750
Accounting Manager	100	90	90	120	60	80	50	40	80	710
Executive Administrative Assistant	60	90	90	120	80	80	40	40	80	680
Purchasing/Inventory Manager	60	90	90	120	60	80	30	40	80	650
Center Director	40	60	90	90	60	80	40	80	60	600
Health Services Coordinator	80	90	90	60	60	60	30	20	60	550
Network Administrator	40	90	90	90	40	60	30	20	80	540
Lead Teacher	40	60	90	90	40	40	40	30	60	490

Conduct
internal
equity
analysis

Salary structure

- Evaluate the preliminary salary structure to determine if the pay groups make sense within the organization.
- Consider the internal equity analysis to make any necessary adjustments.
 - ▶ Does the value of the position internally differ from the external market?
 - ▶ Is external market data unavailable given the uniqueness of the position?



Design salary
structure

Salary structure sample

SAMPLE AGENCY Salary Structure

Pay Range	Job Title	Annual			Hourly		
		Min	Mid Point	Max	Min	Mid Point	Max

EXECUTIVE

20	Chief Executive Officer	\$112,640	\$140,800	\$168,960	\$54.15	\$67.69	\$81.23
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SENIOR MANAGEMENT

			(35% progression)				
19	Chief Financial Officer	\$83,200	\$104,000	\$124,800	\$40.00	\$50.00	\$60.00
			(10% progression)				
18	Chief Programs Officer	\$75,600	\$94,500	\$113,400	\$36.35	\$45.43	\$54.52
	Human Resources Director						

MANAGEMENT

			(10% progression)				
17	Head Start Director	\$68,720	\$85,900	\$103,080	\$33.04	\$41.30	\$49.56
	Information Systems Manager						
			(6% progression)				
16	Accounting Manager	\$62,480	\$78,100	\$93,720	\$30.04	\$37.55	\$45.06
			(10% progression)				
15	OPEN		\$71,000				
			(10% progression)				
14	Purchasing/Inventory Manager	\$51,600	\$64,500	\$77,400	\$24.81	\$31.01	\$37.21
			(10% progression)				
13	Network Administrator	\$46,880	\$58,600	\$70,320	\$22.54	\$28.17	\$33.81

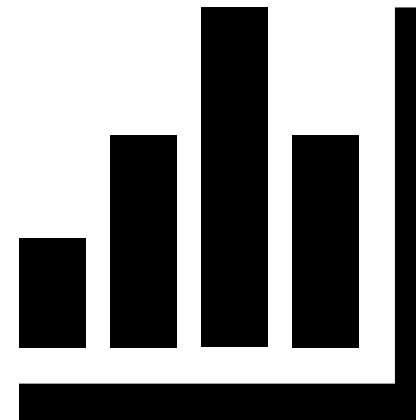
Design salary structure

Uses of the internal equity analysis

- Make agency specific adjustments to the base compensation structure (which is typically market-based) to ensure it reflects the current environment.
- Assess the consistency of information provided within the job description
- Excellent tool to spark discussion when considering staffing changes

Polling question

- Do you think the internal equity analysis process would be an effective approach in your agency?
- Please respond:
 - ▶ Yesor
 - ▶ No



Questions



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A group of people are shown from behind, hugging each other in a circle. The image is overlaid with a solid blue color. In the upper left, there is a white rectangular box containing the text "Thank you!" in blue font.

Thank you!