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Mercer SnapShot Survey The Fundamentals: Compensation philosophy, salary management and job evaluation

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Survey overview and top themes



Survey Overview

Over the past few years, firms have directed much of their focus to compensation program changes associated with a challenging regulatory and economic environment; the fundamentals of reward programs have often been overlooked.

As a result, we have seen renewed interest in examining the basics – compensation philosophy, base salary management and job evaluation – to ensure compensation programs remain:

- Competitive
- Aligned with business needs and strategic direction
- Compelling for employees

Recognizing the relevance of the issue, this survey investigates emerging trends and market practices with regards to getting back to the fundamentals.

160 firms across the US and Canada participated. (See participant list on page 24)

- **Type of Organization** - 75% of participants are US or Canadian corporate entities, while 18% are corporate global entities. The few remaining firms are subsidiaries or business units of US/Canadian or foreign-owned firms
- **Industry** – 18 different industries are represented. Those representing 8% or more of the population include: Healthcare (non-insurance), consumer/durable goods, insurance, non-durable goods, and service
- **Number of employees** – 15% of firms have 1 to 999 employees, 35% have 1,000 to 4,999 employees, 28% have 5,000 to 19,999 employees and the remainder have more than 20,000 employees
- **2007 revenues (USD)** – 27% of firms have less than \$500 million in revenue, 54% have between \$500 million and \$10 billion in revenue, and the balance (19%) have over \$10 billion in revenue



Top Survey Themes Compensation Fundamentals

Compensation Philosophy

- Formally articulated compensation philosophies prevail
- Half of firms communicate the philosophy to managers and executives only; others communicate it more broadly
- Market pay data is typically used by compensation/HR -- almost 40% of firms distribute market data to senior executives

Salary Budgets and Promotions

- Practices are mixed – half of firms have one budget for all increase types; others have separate budgets for merit and promotion
- Most firms define promotion as move to higher grade or band
- One-quarter of firms also recognize promotion as a lateral move within grade or band

Base Salary Management and Broad banding

- Traditional salary structures are used by two-thirds of firms, largely for the non-executive population
- For executives, market-based approaches are fairly common, with no formal structures
- 15-20% of firms use some form of broad banding – however broad banding is more prevalent among larger firms
- Top broad banding benefits are opportunity for lateral growth in job and increased job flexibility
- The leading broad banding caution is potential miscommunication of pay levels by managers

Job Evaluation and Leveling

- 50 – 60% of firms use market pricing as the basis for slotting jobs in grades/bands (particularly for executives)
- 35% use a formal job evaluation system (point factor or classification – prevalence is more common among larger or global firms)
- The leading driver for selecting a job evaluation/leveling approach is objectivity and fairness; other prime drivers include business model fit, simplicity and ease of communications
- Reward components that job levels most often determine are grade/band assignment, market pricing and incentive targets/ participation
- Top benefits of job evaluation are maintenance of competitive compensation levels, internal equity and paying based on value provided to the organization



Detailed survey findings



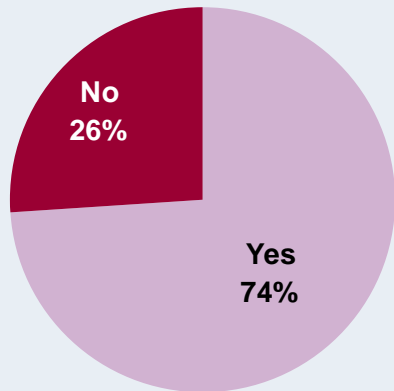
Compensation Philosophy

The wide majority of firms (74%) have a formally articulated compensation philosophy

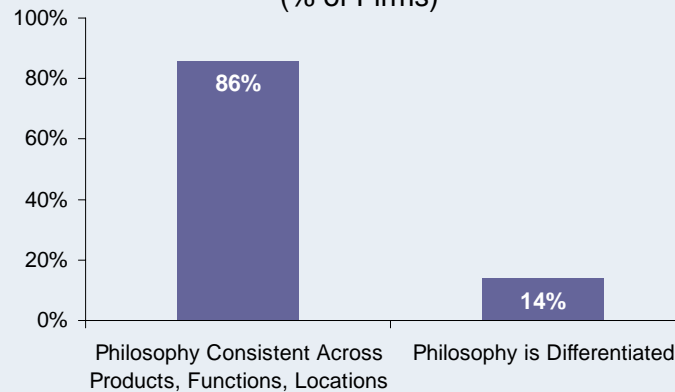
Many firms have a consistent philosophy across products, functions or locations. Where differentiation occurs is typically by business unit/product or job function (e.g., IT, Marketing, Finance, etc.)

Approximately half of firms communicate philosophy to managers and executives only, while the other half communicate it to a broader range of employees

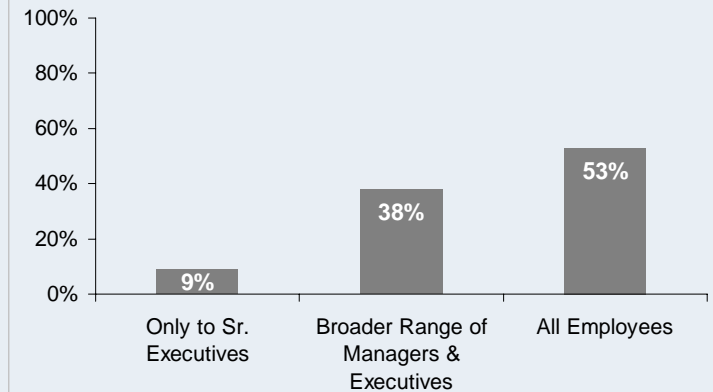
Prevalence of Formally Articulated Compensation Philosophy
(% of Firms)



Differentiation of Pay Philosophy
(% of Firms)



Communication of Pay Philosophy
(% of Firms)



Questions:

Does your organization have a formally articulated compensation philosophy?

If there is a formalized philosophy, describe the degree to which the pay philosophy is differentiated?

If there is a formalized philosophy, how widely is it communicated?

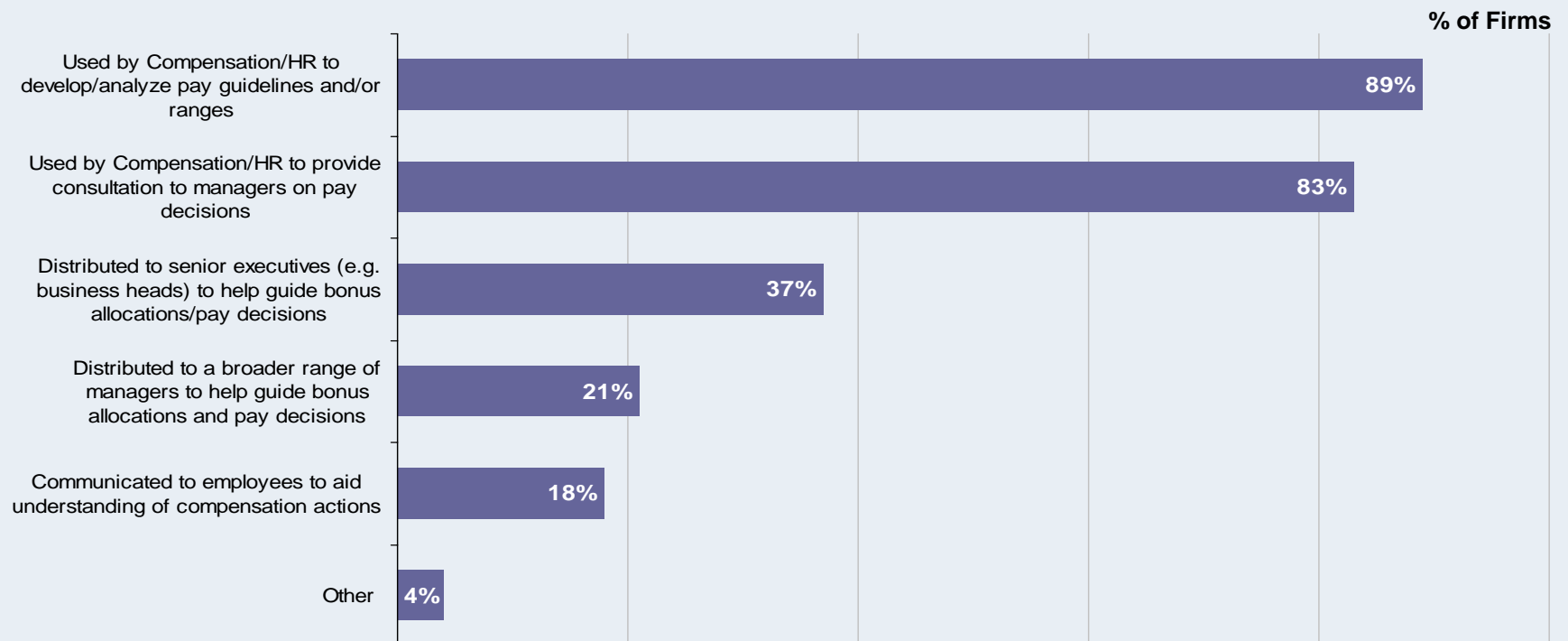


Use of Market Pay Data

Market pay data is typically used by compensation/HR to develop/analyze pay ranges and provide consultation to managers on pay decisions

Almost 40% of firms distribute market data to senior executives

Few firms (21%) distribute market data to a broader range of middle managers and employees



Question: Describe your company's approach to how market pay data is used?



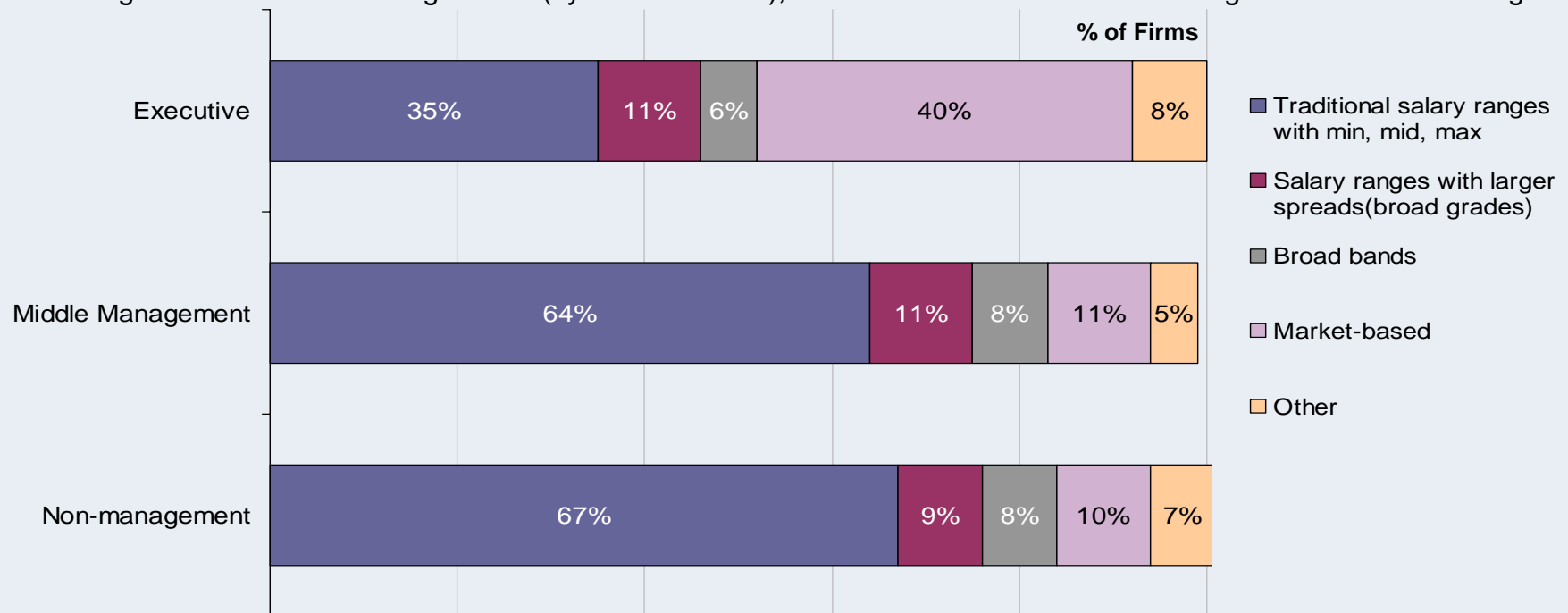
Approach for Base Salary Management

Approach varies by employee group

Executives: Approximately 40% of firms used market-based approaches with no formal structure, one-third of firms use traditional grades and 15-20% use some form of broad banding

Other employees groups: Traditional structures are used by two-thirds of firms and approximately 15-20% use some form of broad banding.

Broad-banding is more common in larger firms (by sales turnover), with 15% to one-third of firms using some form of banding



Question: Which of the following methods does your company use to manage base salaries?

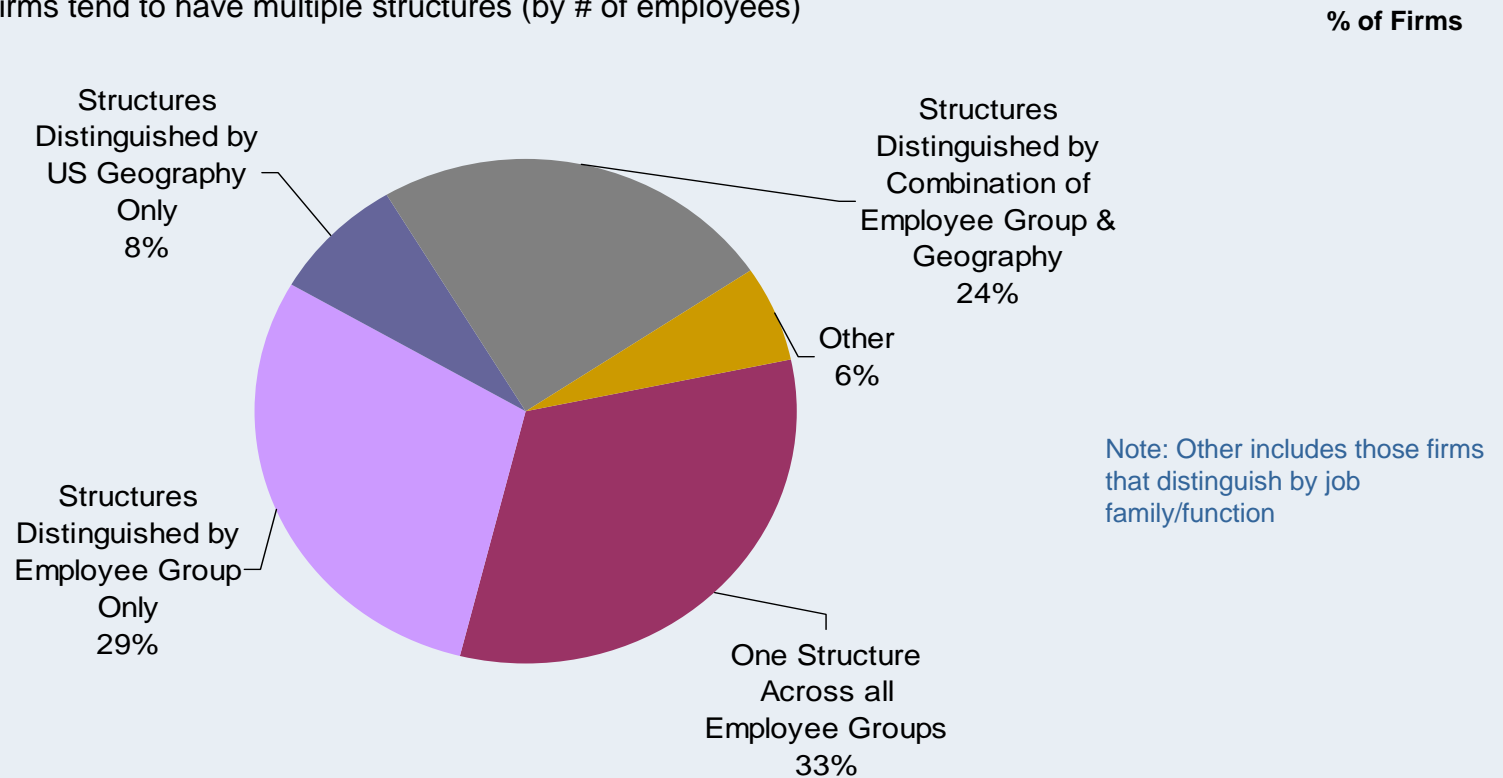


Number of US Salary Structures

Most firms have multiple US salary structures

Most firms distinguish US salary structures by employee group and/or geography

However, approximately one-third of firms have one structure across all employee groups -- smaller firms tend to have one structure, while larger firms tend to have multiple structures (by # of employees)



Question: How are your domestic US salary structures primarily distinguished?



Salary Budgets and Promotions

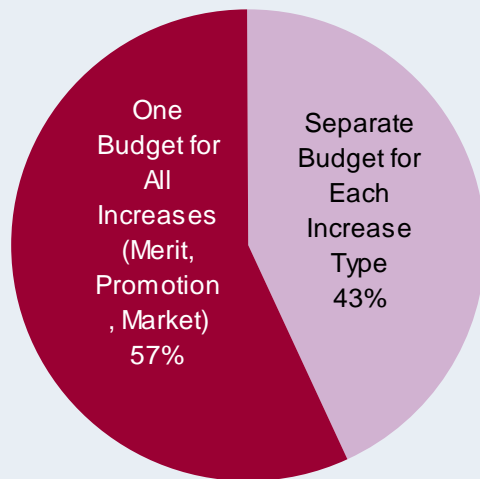
Salary budget practices are mixed – over half of firms have one budget for all types of increases (e.g., merit, promotion, market adjustments); the others have separate budgets for each increase type

The wide majority of firms (80% or more) define promotions as move to a job in a higher grade or band

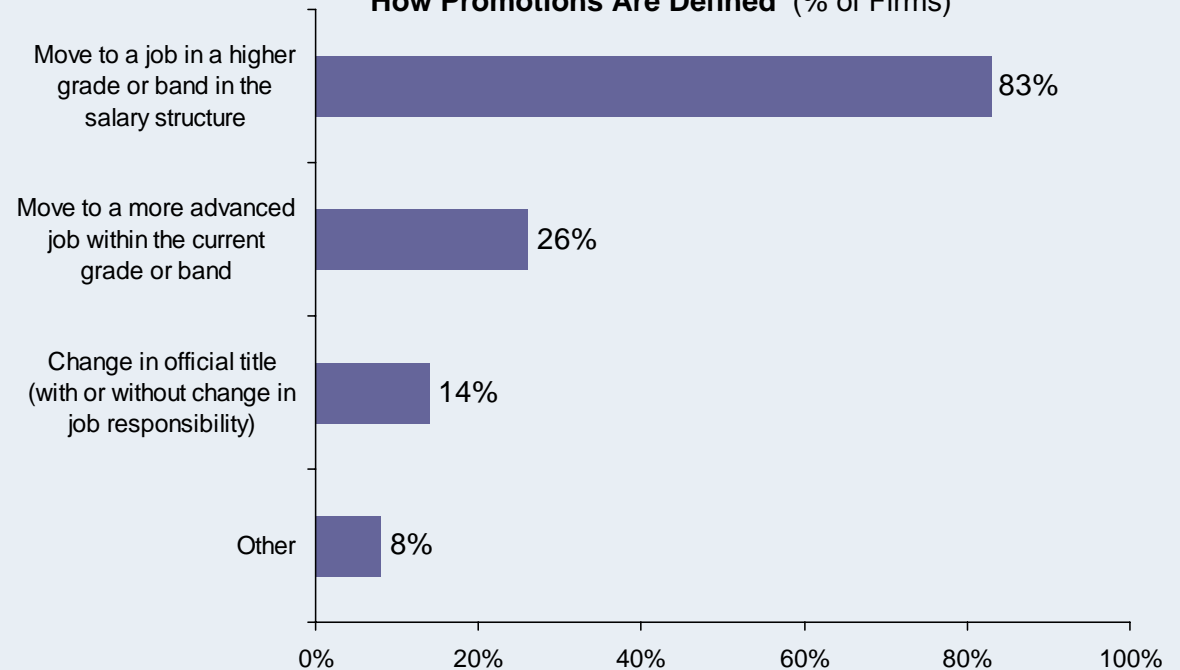
One-quarter also recognize promotion as move to a more advanced job within the current grade or band -- However this is more common in certain industries such as services, non-durable goods manufacturing and energy

Fewer firms define promotion solely as a change in official title (without change in job responsibility) – Although the practice is more common in smaller firms than larger firms

Determine of Salary Increase Budgets
(% of Firms)



How Promotions Are Defined (% of Firms)



Questions:

Which best describes how your salary budgets are administered?

How are promotions defined?



Characteristics of Broad Banding

Characteristics vary widely across firms

Range spreads between minimum and maximum typically vary from under 75% to over 125%

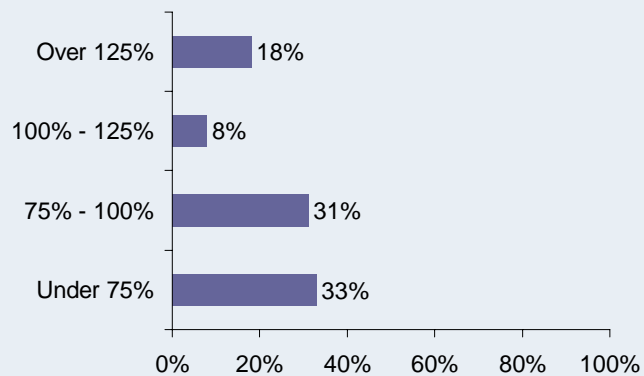
The number of bands varies widely from 4 to 10 or more

Structure control points typically contain either traditional minimums/midpoints/maximums, or market rates/ranges for similar jobs

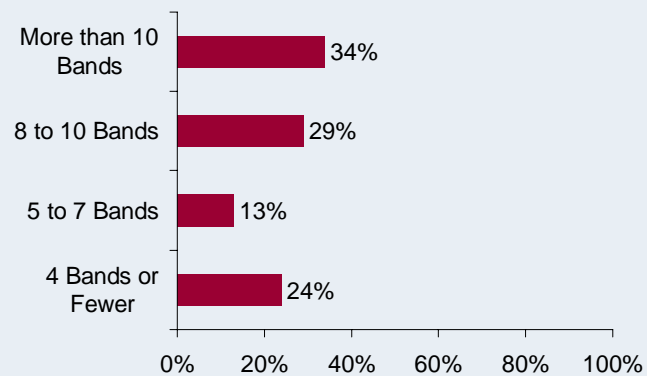
About 15% of firms use market rates that are specific to each job (individual job market pricing)

Larger firms employ greater use of zones or no control points

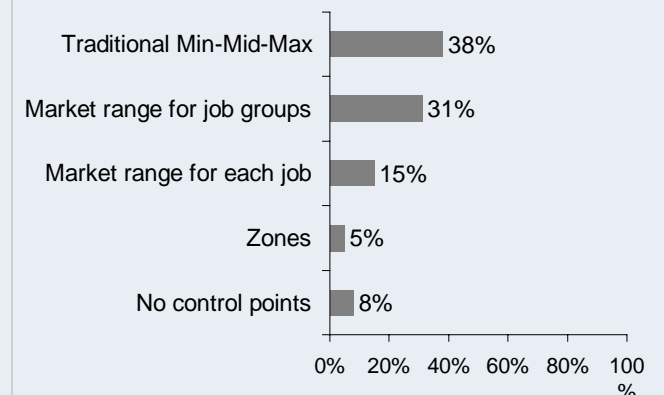
Spread Between Band Minimum and Maximum
(% of Firms)



Number of Bands Use
(% of Firms)



Type of Structure Control Points
(% of Firms)



Questions:

If you use broad bands or broad grades, what is the typical spread between band minimum and maximum?

If you use broad bands or broad grades, how many bands are used?

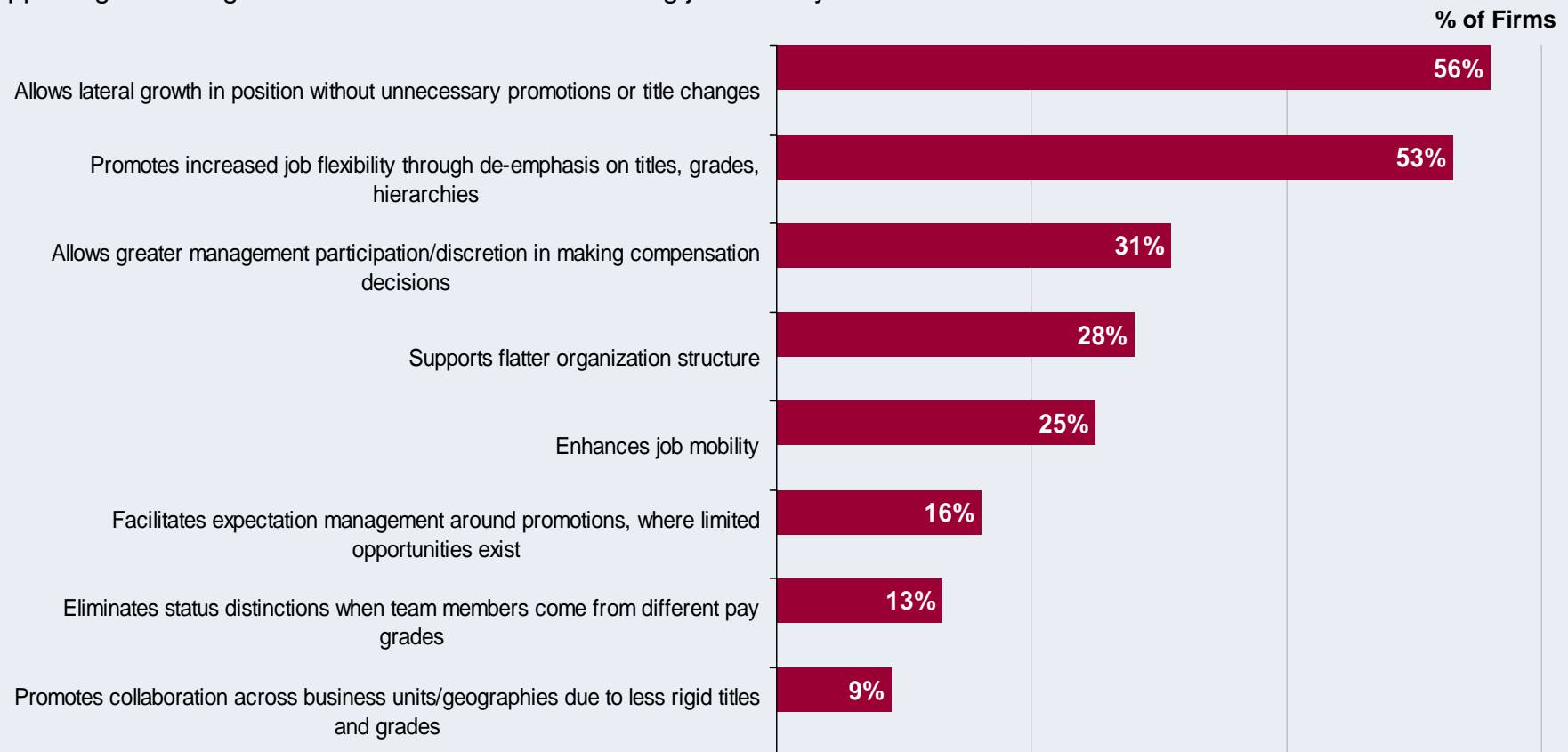
If you use broad bands or broad grades, what type of structure control points are used?



Broad Banding Benefits

Top broad banding benefits are an opportunity for lateral job growth and increased job flexibility

Other benefits mentioned by one-quarter of firms include promotion of greater management participation in pay decisions, supporting flatter organization structures and enhancing job mobility



Question: If your firm uses broad bands, what are the top 3 benefits of broad banding your firm has experienced?

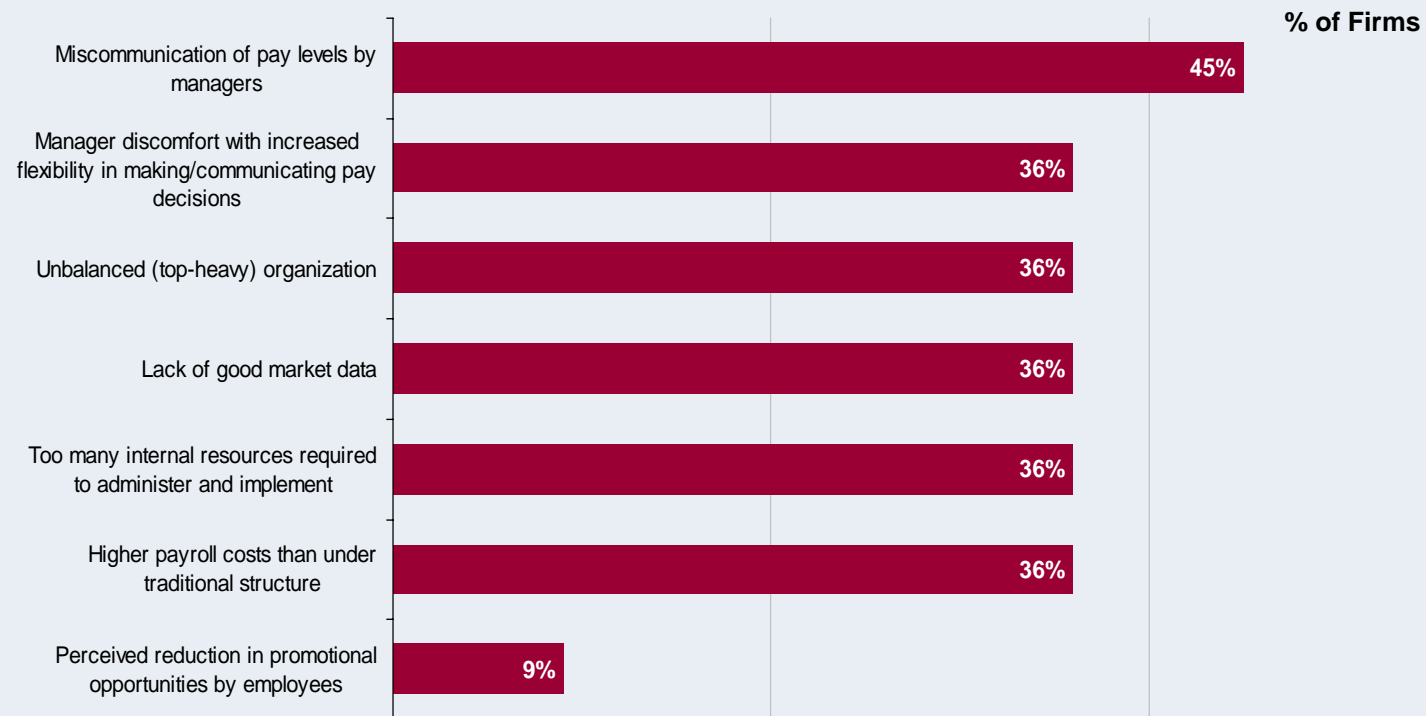


Broad Banding Cautions

Of firms using broad banding, approximately 20% have either moved away, or contemplated moving away from bands

The primary reason is miscommunication of pay levels by managers

Other reasons include manager discomfort with flexibility in making/communicating pay decisions, creation of an unbalanced (top-heavy) organization, lack of good market data, internal resource requirements and higher payroll costs than anticipated



Question: If your firm has moved away from broad banding (or is considering moving away) what are the top 3 reasons?



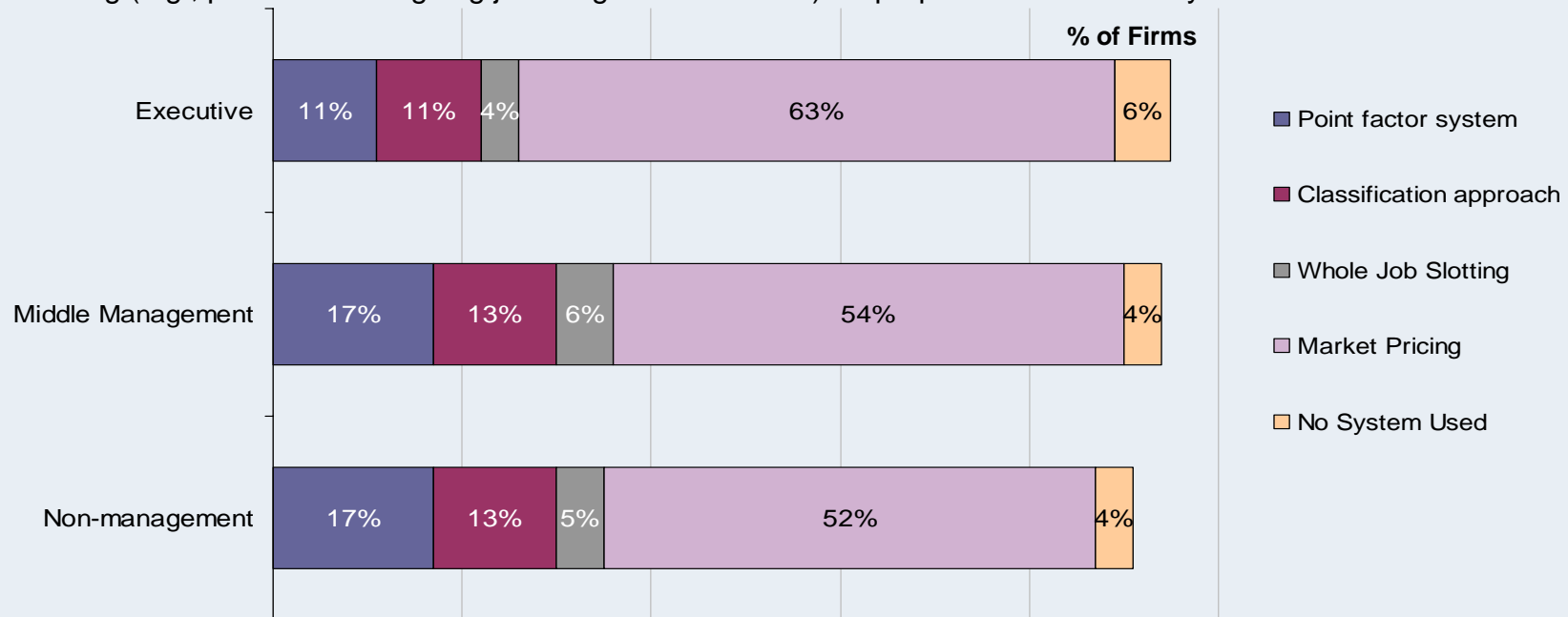
Job Evaluation Approaches

50 – 60% of firms use market pricing as basis for slotting jobs in grades/bands (particularly for executives)

Almost 20% of firms use a point factor system (mainly for non-executives), while another 15% use a classification approach that defines job levels by key characteristics

However, one quarter to one third of larger firms and/or global firms are more likely to use point factor systems across all roles

Despite the use of market pricing, global leveling has consistently been identified as a top propriety among multi-nationals seeking to globalize compensation practices, particularly for executive populations. Recently, there has been increased focus on job leveling (e.g., process of assigning jobs to grades or bands) for purposes of consistency in reward treatment



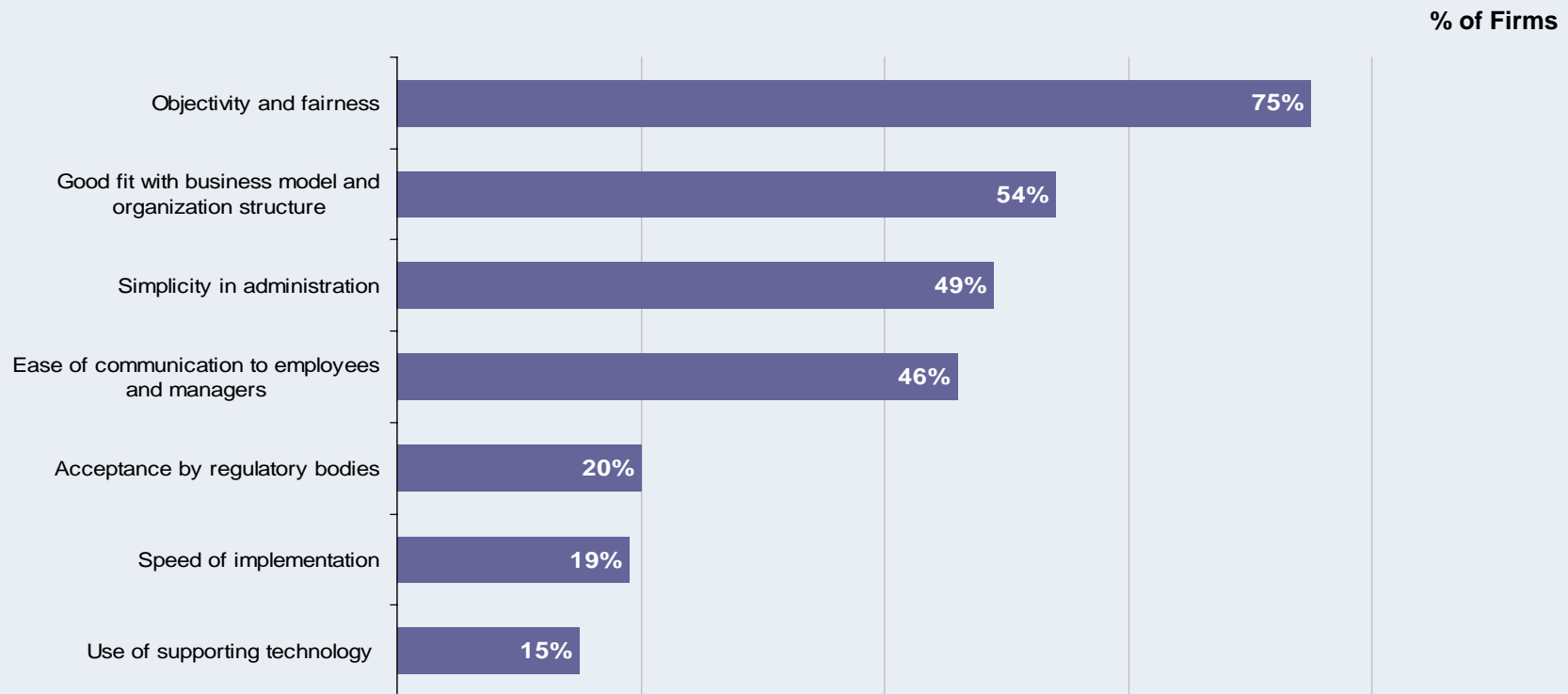
Question: Which of the following methods does your company use to level or evaluate jobs?



Key Drivers in Selecting Job Evaluation Approach

The leading driver for selecting a job evaluation/leveling approach is objectivity and fairness

Other prime drivers include business model fit, simplicity and ease of communications



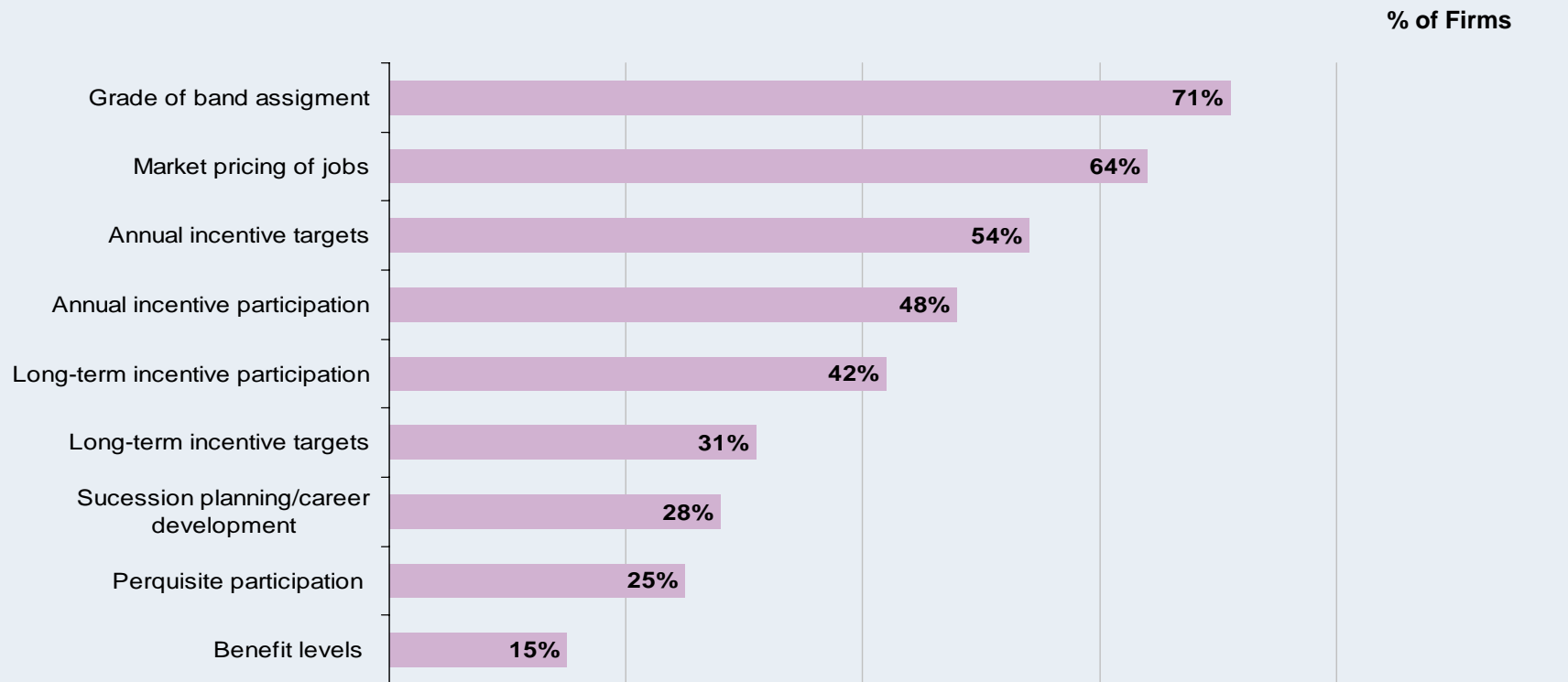
Question: What are the key drivers in adopting the job evaluation approach used?



Reward Elements Linked to Job Evaluation/Leveling

Reward components that job levels most often determine are grade/band assignment, market pricing and incentive targets/participation

Approximately one-quarter of firms link job levels to succession planning/career development and perquisite participation, which is more common among the larger firms.



Question: If your firm has a formal job evaluation process, what reward elements do job levels drive?



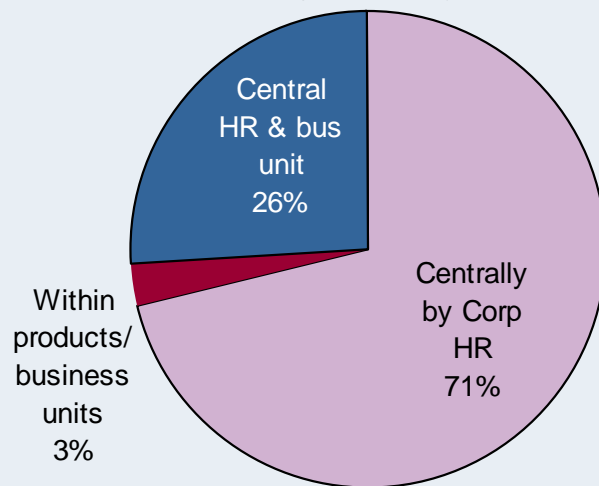
Job Evaluation Administration

In a majority of firms (70%), responsibility for evaluating jobs lies centrally with corporate HR

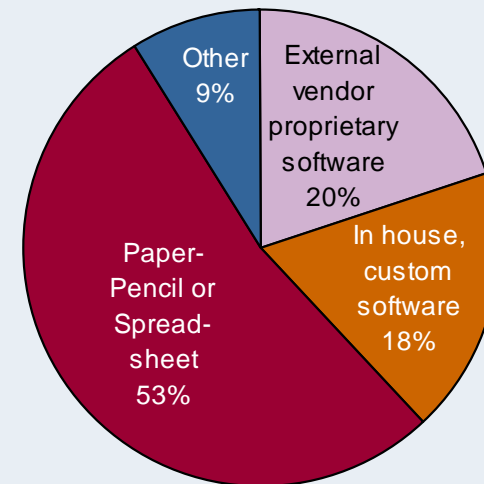
In the remaining firms, responsibility lies with both HR and the business units

About half of firms use paper/pencil or spreadsheets to administer their systems, while another 40% use either proprietary vendor software or custom software created in house. Larger firms and global firms employ greater usage of vendor software

Responsibility for Evaluating Jobs
(% of Firms)



Type of Job Evaluation Administration
(% of Firms)



Questions:

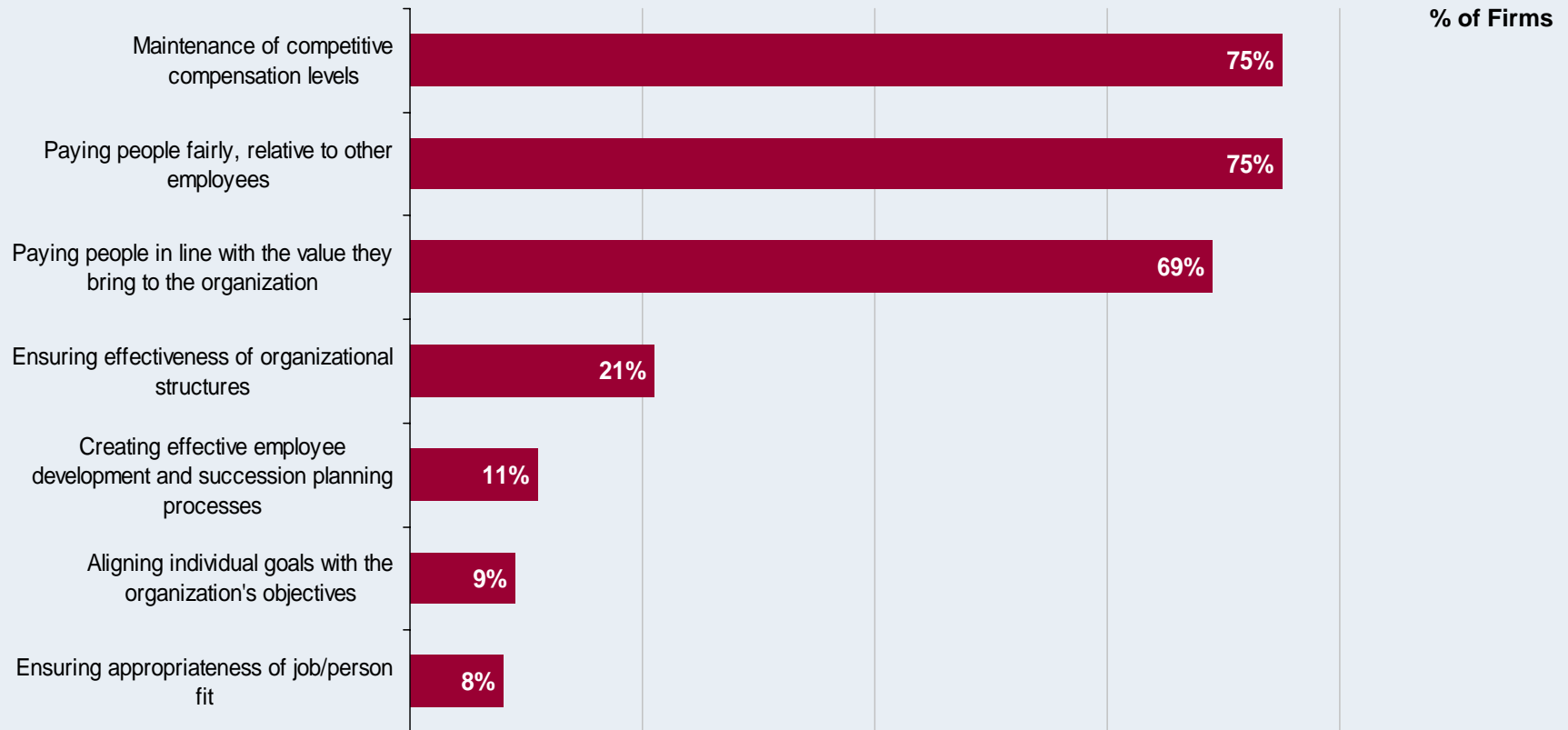
If your firm has a formal job evaluation process, where does responsibility for evaluating jobs lie?

If your firm has a formal job evaluation process, what kind of system is used to administer it?



Job Evaluation Benefits

Top benefits of job evaluation are maintenance of competitive compensation levels, internal equity and paying based on value provided to the organization



Question: What are the top 3 benefits you see from your job evaluation process (check all that apply)?

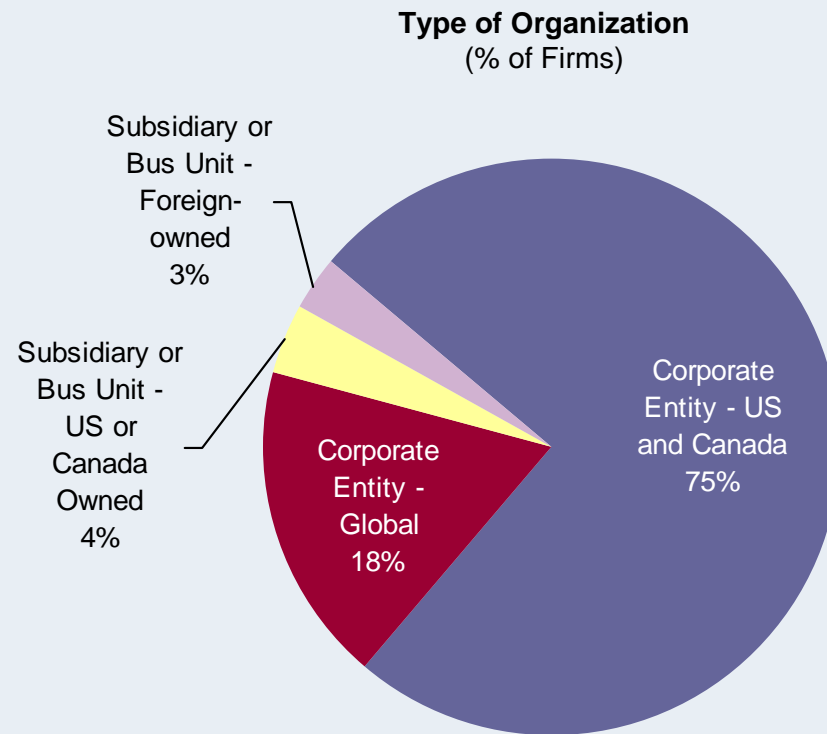


Participant profile



Profile of Participants

Most participants are US or Canadian corporate entities

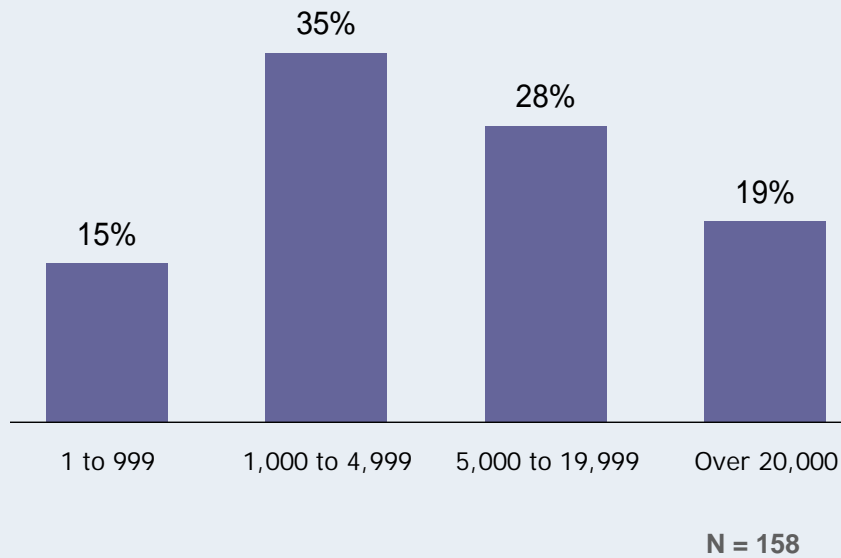


N = 160

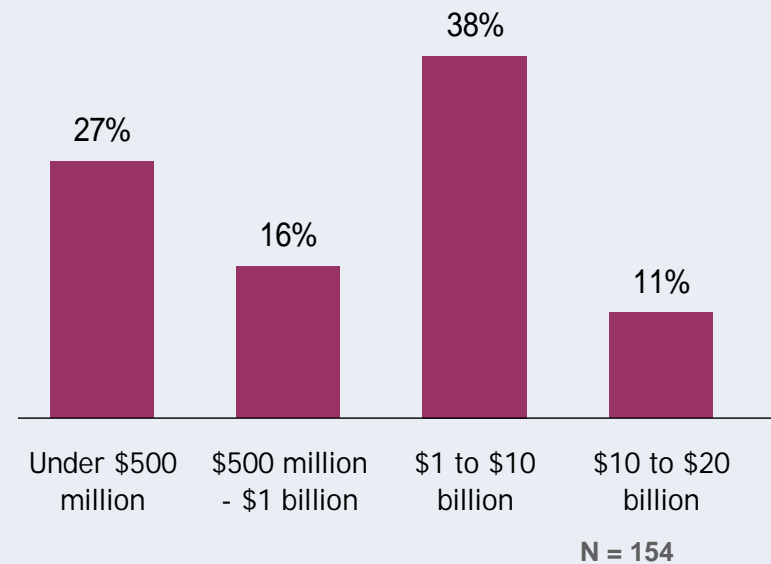


Profile of Participants Number of Employees and Revenue

Number of Employees
(% of Firms)

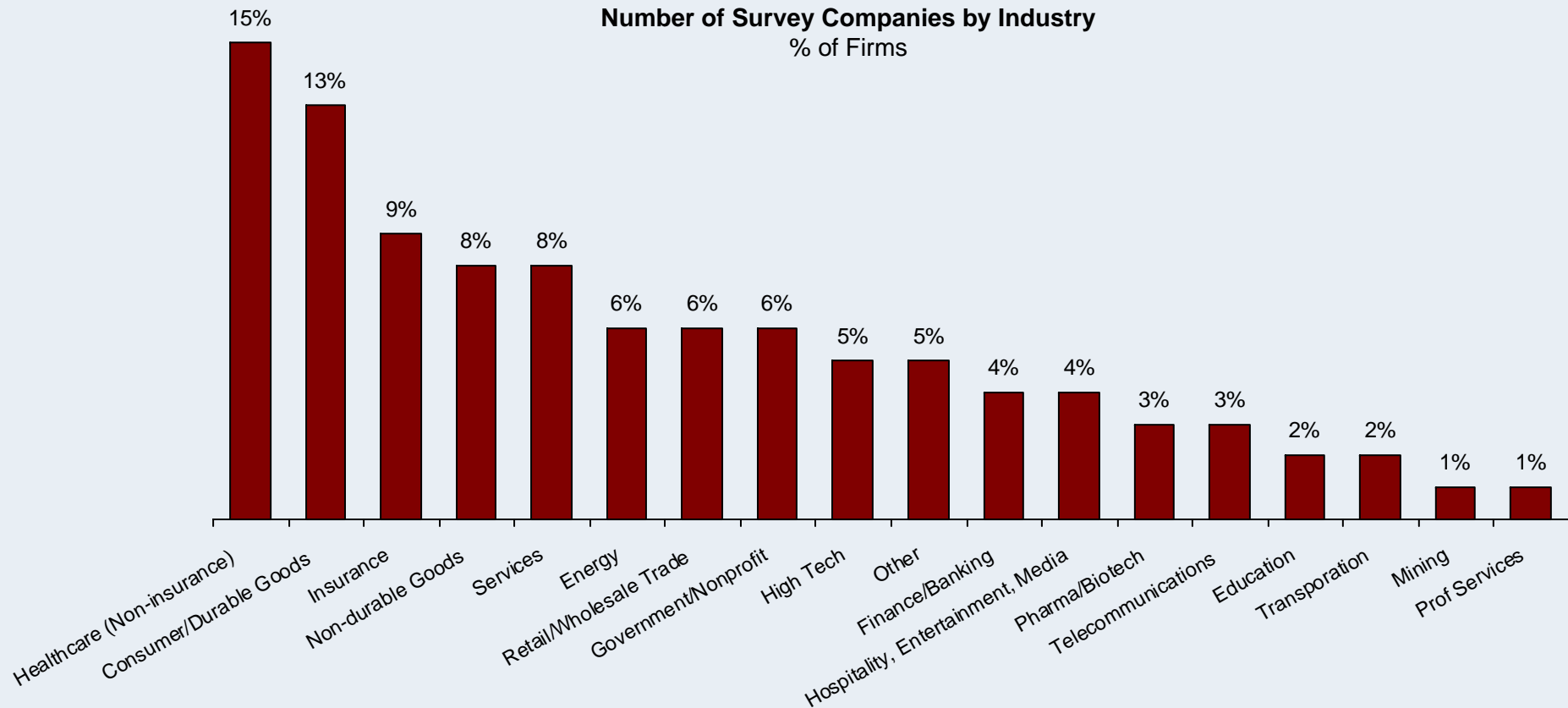


2007 Revenue (in billions USD)
(% of Firms)





Profile of Participants Industries



N = 160



Participant List

Adtran Inc.	CKE Restaurants, Inc.	Humility of Mary Health Partners	Qwest Communications	The Home Depot
Advanced Medical Optics, Inc.	Clarian Health	IKON Office Solutions, Inc.	Redcats USA	The Laclede Group
Air Products and Chemicals	Coeur d'Alene Mines Corporation	Indiana Farm Bureau Insurance	Reinsurance Group of America, Inc.	Timber Products Company
Akzo Nobel Inc.	Columbia St. Marys	Infirmiry Health System	Rensselaer Polytechnic Institute	Time Inc.
AL Inc.	Corporate Human Resources	John Knox Village	Roush & Yates Racing Engines, LLC	Tufts Health Plan
Alfa Insurance Companies	Cummins	Kansas Health Foundation	Salem Health	Union Pacific
American Transmission Company	D. A. Stuart	Kellogg Company	Sammons Corporation	Union Pacific Railroad
AORN	Dean Health Systems	Kinder Morgan	Sara Lee Corp	Univision
Arch Coal, Inc.	El Paso Corporation	Legacy Health System	Saudi Aramco	UNM Hospitals
Asahi Kasei Plastics North America	El Paso County	M&T Bank	Sazerac Company	ValueClick
AT&T	Electro-Motive Diesel, Inc.	Macy's, Inc.	Schreiber Foods	Vishay Intertechnology, Inc.
Aurora Health Care	Emerson Electric	Magee Rehabilitation Hospital	Seaboard Corporation	Waddell & Reed
Avanade	FBL Financial Group, Inc.	Mannington Mills	Sentry Insurance	Wendy's International, Inc.
Baker Hughes Incorporated	FPL Group, Inc.	MARTA	Service Net	Whirlpool Corporation
Bank of Commerce	Franklin Investments	MedCath Incorporated	Siemens Corp	Wilmington Housing Authority
Bannock County	Fred Hutchinson Cancer Research Center	Media General, Inc	Sigma-Aldrich Corporation	Wolseley
Blair, LLC	Freedom Communications	Memorial Health System	SITA	
Blockbuster	Geisinger Health System	Mississippi Lime Company	Solix Inc.	
Blue Cross Blue Shield of Florida	General Motors Corporation	Mutual of Omaha	Sonoco Products Company	
Blue Cross Blue Shield of Michigan	Genworth Financial	Nautilus, Inc.	Spancion Inc	
Blue Cross Blue Shield of Minnesota	Georgetown University	Novant Health	Sprint	
Blue Cross Blue Shield of Nebraska	Good Samaritan Society	NSTAR	St. Vincent Indianapolis	
BlueCross BlueShield of TN	Grange Mutual Casualty Company	Oregon University System	Starbucks Coffee Company	
Bright Now! Dental	Graybar Electric	Otter Tail Corporation	Stryker	
Brooks Automation	Great Clips, Inc.	Overlake Hospital Medical Center	Suburban Hospital	
BUCA, Inc.	Greater Baltimore Medical Center	Pacific Maritime Association	SunGard	
Campbell Soup Company	Gulf Coast Regional Blood Center	Palmetto Health	SunGard Availability Services	
Capital Health System	Hannaford Bros. Co.	Parker Hannifin Corporation	SunTrust Bank	
Carlion Clinic	Hannibal Regional Hospital	Parkview Health	Syntax Brillian	
Caterpillar Inc.	Healthways	Penske Truck Leasing	Tension Envelope Corporation	
CH2M HILL OMI	Herman Miller, Inc.	PETCO Animal Supplies, Inc.	The American Kennel Club	
Citizens Gas	HNTB Companies	PHH	The Children's Medical Center of Dayton, Ohio	
City of Colorado Springs	Honda	PHH Arval	The E. W. Scripps Company	
City of Greenfield, Indiana	Horizon BCBSNJ	Producer-Writers Guild Pension/Health	The Geo Group Inc.	
City of Las Vegas	Hormel Foods Corporation	PSCU Financial Services	The Goodyear Tire & Rubber Company	
City of Overland Park	Huhtamaki	Quintiles Transnational	The Hershey Company	