COMPENSATION PLANNING

Posted on

‘To have an internally equitable pay policy, appropriately positioned against external market norms,’ is what planning a compensation package is all about says Sunil Dissanayake.

This definition is not from the Oxford Dictionary, but my personal opinion of equitable payments to an employee by an organization for the services provided by the employee.

Immediately after my return to Sri Lanka in October 1994, I was speaking with the payroll accountant and during the course of the discussion I told him that during the course of the day I would advise him regarding the compensation of the new employee who was hired the previous day. He was aghast! He said ‘how can you pay compensation to somebody who is new to the company?’ His understanding of the word ‘compensation’ was in relation to negotiated or voluntary retirement packages or the payments directed to be paid to terminated employees by labor tribunals.

Job Analysis Vs Job Evaluations

Compensation planning evolves from Job Evaluations’ which we discussed in the previous issue of Business Today. You should not confuse yourself with ‘Job Analysis’ and ‘Job Evaluations.”

Job Analysis’ is a system designed to breakdown job content into tasks to be performed in order to judge the time required to perform a particular task and the resources required in terms of people, equipment, environment, space etc., which helps in manpower planning.

Job Evaluation’ is a system designed to judge the size of a job relative to another which leads to determining the compensation based on the ‘size’ of the job.

Unfortunately in Sri Lanka, except for the multinationals and a few of the blue chip companies, there is no scientific compensation planning in place due to a dearth of specialist know-how in the subject.

I am yet to come across an educational program, course, seminar or workshop in Sri Lanka on compensation planning and management, and this could be one of the reasons for the lack of specialist know how among administrators of compensation. This is an opportunity for professional bodies such as the Organization of Professional Associations, Institute of Chartered Accounts of Sri Lanka and Chartered Institute of Management Accountants and also the Employers Federation of Ceylon and Post Graduate Institute of Management to be of help to the corporate sector, by providing education in this specialization within the human resources technical profile.

Job Grades

Once a position (job) has been evaluated and approved by the policy body for approving evaluated job grades, the next step is to determine the pay levels and benefits (compensation) for the job grade. This is primarily determined either by base pay or total cash (total cash is the cash value of all benefits + base pay).

Chart 1 gives a sampling of possible job grades and job families, in our corporate structure, which may be generic across many industries, to which salary ranges and benefits are designed.

The attachment of job families to the job grades are determined by the size of the job, based on the point factor or classification system of job evaluations. Attaching job holders to the grades is based on factors such as supply and demand and the individuals' qualifications, relevant work experience and technical know-how. For example, a person whose job has been evaluated at grade 17 could be recruited at grade 15 based on the above factors, allowing the incumbent to be promoted to grade 17, with time, based on performance.

Salary Ranges

Once the job grades are determined, the salary ranges and benefits for each grade needs to be determined. Salary ranges and benefits are usually determined by executing compensation surveys among comparable organizations. When compensation surveys are executed, jobs should be matched by job content and not by matching job titles, which is a common error. In Sri Lanka I am yet to come across a successful compensation survey, due to the following three factors among providers of information:

A) Lack of know-how to complete the survey document.

B) Lack of interest in completing the survey document due to its detailed and voluminous nature.

C) Reluctance to share honest information.

From a compensation survey you are able to identity the market median of a job family. Once the market median is identified the company must decide the percentile positioning of the salary ranges based on supply and demand and the ability of the company to hire achievers.

There are 3 points to a salary range:

- Minimum (the beginning of the salary range)
- Mid-point (middle of the salary range)
- Maximum (top of the salary range)

GRADE	JOB FAMILY
21	Chairman
20	Deputy chairman/group managing director
19	Directors of Holding/Managing companies/ CEO's/MD's of profit centers.
18	Directors of subsidiaries
17	General managers/heads of sectors
16	Heads of divisions/senior executives
15	Heads of departments/units/executives
14	Management trainees/junior executives
13	Confidential secretaries
12	Executive secretaries
11	Secretaries
10	Clerical/supervisory grade
09	Senior clerk grade
08	Clerk grade
07	Junior clerk grade
06	Trainee clerk grade
05	Special grade staff
04	Higher grade staff
03	Skilled staff
02	Semi skilled staff.
01	Unskilled staff

CHART 1

Minimum	Mid-Point	Maximum
70%	100%	130%

CHART 2

Minimum	Mid-Point	Maximum
100%	130%	160%

CHART 3

The gap between the mid-point and the two ends is approximately 30%. This however is determined by the inflationary trends of the country. For example, if your company follows no policies in hiring, a typical percentile positioning of the salary ranges could be done by identifying the 100th percentile as the market median (See chart 2).

And if your company has difficulty in attracting the right talent, then you may want to hire at market median, in which event the percentile positioning of the salary ranges could be as shown in chart 3.

Usual percentage differentiations between minimums of salary ranges are: (this is determined by market forces and your company's retention strategies)

- Grades 1 to 15 is 10%
- Grade 15 to 16 is 30%
- Grade 16 to 17 is 20%
- Grade 17 to 18 is 25%
- Grade 18 to 19 is 05%
- Grade 19 to 20 is 10%
- Grade 20 to 21 is 25%

Payroll Budget

When budgeting for future hiring it is always good to budget at the 100th percentile if your salary ranges begin at 70th percentile, because you will then have a cost opportunity if you hire below the 100th percentile. Budget at approximately 110th percentile if your salary ranges begin at the 100th percentile, because even if you hire between the 100th and 110th percentile your payroll budget will be on line.

Individual Pay Positioning

Usually a salary range has 3 zones, which are Zone A, Zone B and Zone C

Zone A is from 0% to a maximum of + 20% from minimum of the salary range

Zone B is from + 21% to a 40% from minimum of the salary range

Zone C is from + 41% to a maximum of 60% from minimum of the salary range

Typical incumbent profiles of zones are:

Zone A

Incumbent has less than required standard in performance. Not seasoned. Is in the process of seasoning.

Zone B

Incumbent is a proven, seasoned, performer. Belongs consistently to the top 20% population of the company.

Zone C

Incumbent is substantially seasoned. Often more than the requirement. Belongs consistently to the top 10% population of the company.

Grade	Minimum	Mid-Point	Maximum
19	17770	25385	33000
18	13195	18845	24500
17	9425	13460	17500
16	7000	10000	13000
15	5385	7695	10000
14	4390	6270	8150
13	4380	6000	7620
12	4015	5500	6985
11	3650	5000	6350
10	3255	4462	5667
09	2905	3980	5050
08	2640	3615	4590
07	2022	2770	3515
06	1515	2075	2640

CHART 4

The above means the incumbents' positioning on the salary range is based on the annual performance ranking/grade arising from the performance appraisal, which would then drive your compensation strategy towards developing a meritocracy and retaining your best people.

When employees are promoted from one grade to another and if they belong to the top 30% of your population, ideally they should be positioned at the appropriate point on the salary range of the grade to which they are promoted. Some companies tend to keep promoted employees on the same salary range of the previous job grade but administer the benefits of the promoted grade. If this happens you may have too many employees at ‘below minimum’ of their current grades’ salary ranges. You should then revisit your promotions policy.

Given above is a sample set of 1994 salary ranges in the United Arab Emirates (since I cannot speculate on the Sri Lankan structure due to ethical reasons) among multinational and blue chip sectors on a per month basis, in UAE dirhams.

The above salary ranges are based positioning the market median (100th percentile) at midpoint and the minimum 30% less and the maximum 30% higher. In our country, based on inflationary trends a point-to-point differentiation between minimum, mid-point and maximum could be approximately 40%.

Does your company have an internally equitable pay policy, appropriately positioned against external market norms?

Sunil Dissanayake is a Human Re sources Management & Development specialist. This article has been devel oped from his personal experiences in his professional career.