

## Identifying and Resolving Internal Compensation Inequities within a Position



*from PayScale, Inc.*

With the recent passing of the Lilly Ledbetter Fair Pay Act and the greater availability of market-rate salary data online, it is essential to establish pay equity within your organization. Employees have more capacity than ever to discover pay inequity and greater opportunity to take legal action to correct it.

That said, eliminating all pay inequities between employees in the same position should not be your goal. Pay inequities can be appropriate and your goal should not be for every employee in the same position to be paid the exact same amount. Rather, the goal is to understand why each employee receives the pay they do and whether or not that compensation decision supports what your organization wants to achieve.



## Reasons Why Salary Rates Can Vary

Between employees in the same position, there can be many justifiable reasons for pay differences. Each employee offers a unique combination of personality, leadership style and abilities, some of which are going to be more valuable to your organization than others.

### *Possible Causes of Pay Differences*

- **Unique talents or skills.** An employee could be bilingual, have knowledge of a specialized area within their field, or be proficient in certain software applications.
- **Education.** This distinguishing factor can include graduate level coursework, vocational training or other advanced knowledge.
- **Certifications.** Certifications that relate both directly or indirectly to the job position can be a huge asset to the company.
- **Longevity.** An employee who sticks around for many years knows the company's culture, values, goals and people well. Their wisdom is worth something when compared with its lack in a newer employee.
- **Performance.** An employee whose work style suits your organization's goals – whether this person is very enthusiastic, works well alone or lead teams effectively - may deserve higher compensation that reflects the quality of their output, particularly if you're trying to create a pay-for-performance culture that rewards good performance with more money

Remember, the goal is not to create complete conformity in pay across a position. It is to make sure that where pay inequities exist they are intentional and they support the objectives of the organization.

## How to Discover and Analyze Salary Range Outliers

Finding pay inequities requires the following: information about market rates for your various job positions, salary ranges based up on those market rates and compa ratios for employees within their established, market-based salary range. A compa ratio compares an employee's salary to their salary range. This process of establishing salary ranges for your positions is covered in detail in PayScale's whitepaper, "How to Determine Salary Ranges for Your Job Positions."

Once you've calculated the compa ratio for each employee you can start your equity analysis. Your first step is to identify outliers. Outlier's salaries sit either above the top of their salary range or below the minimum. And, keeping employees at these inflated or suppressed levels could be risky for your organization for a number of reasons.

### *Considerations for Employees Below the Minimum*

- **Retention.** Whether or not they know they are being paid below the minimum of their salary range, these employees are more likely to leave the organization for higher paid positions elsewhere.
- **Charges of discrimination.** Employees who discover that they are paid less than their counterparts in the same job position may claim that they are being discriminated against based upon their age, gender, ethnicity or some other protected status. There are many laws that will support them taking legal action against your organization so bringing their pay above their salary range minimum is very important.
- **Wrong job position.** An employee's low pay could indicate that they have not been identified in the right job position. Maybe, according to their job responsibilities and knowledge, skills and abilities (KSAs), their current salary is truly what they are worth. If that is your conclusion, you need to adjust their job classification accordingly and document the reasons for this change.

### *Considerations for Employees Above the Maximum*

- **Overspending.** Generally, you do not want to have people outside the top of their salary range because the range represents what the organization is willing to pay for that job. Anything above that rate needs to have an understood and documented reason.
- **High performer.** It's possible that this individual creates so much profit and success within the organization that their higher pay is justifiable. This could be the developer of your most successful products or the face of the organization.
- **Longevity.** Sometimes, after a number of years at the organization and a series of cost-of-living and merit raises, an employee's pay can rise out of their salary range. This may or may not be a situation you want to address.
- **Change in responsibilities.** An employee can be demoted into a position with a lower salary range but maintain their previous salary so they're now above the range for their new position.

When analyzing compa ratios, the key is to understand why people are over or under their salary range and then decide what you're going to do about it.

For people below the minimum who deserve a raise, giving them one is an obvious next step. The trickier challenge is dealing with employees who are considered to be overpaid. One way of handling this situation is creating a red circle policy which freezes people at their current pay until the market catches up with them. Or, you can enact a partial red circle policy and only eliminate merit increases but maintain standard cost-of-living adjustments for that employee.

There are many ways that you can manage outliers' salary issues but, most importantly, make sure you are acting for legitimate business reasons.



## How to Analyze Internal Pay Equity in a Pay-for-Performance Culture

Once you have gotten a handle on what's going on with your outliers and made any corrections or recommendations about organization-wide policies, the next step is to take a look at everyone's placement within their pay range from the perspective of performance. Most companies know it's smart to adopt a pay-for-performance culture, but actually establishing one requires regular analysis of your pay practices.

It's helpful to have a tool that allows you to see your employees compa ratios easily.

Figure 1 (seen below) shows an example of a graph of compa ratios.



You would expect that someone who is a low performer would have a lower compa ratio in comparison with someone who is a high performer. This is the time to make sure that there is alignment between performance and compa ratio. And, when there is not, be sure you have documented reasons for that inconsistency. Every one of these steps will help to reinforce whether you really have created a pay-for-performance culture or not.

The risk is that your organization says it adopts a pay-for-performance philosophy but your practices don't support that claim. If this is the case, it's going to be hard to motivate your employees effectively. This analysis helps you ensure that pay-for-performance is actually in place.

Figure 1

| Name                 | Employee Dept | Employee Job Title       | Employee PayScale Title                    | Job Code | Organization   | Location | Annualized Base Pay | Performance Rating | Potential Rating | Grade | Annualized Base Min | Annualized Base Mid | Annualized Base Max | Annualized Compa-ratio | Salary / Hourly | Annu. Base Mkt - 25th | Annu. Base Mkt - 50th | Annu. Base Mkt - 75th | Annu. Base Ratio \$ 1 % |
|----------------------|---------------|--------------------------|--|----------|----------------|----------|---------------------|--------------------|------------------|-------|---------------------|---------------------|---------------------|------------------------|-----------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Bauman, Chad         | Development   | Senior Program Manager   | Sr. Program Manager, Software Applications | 2002     | Seattle Office | Seattle  | \$99,000            | 4                  | High             | 8     | \$84,600            | \$105,800           | \$127,000           | 0.936                  | 94% / 6%        | \$96,641              | \$106,833             | \$121,271             | \$-7,832.68   -7.33%    |
| Billingsworth, Tyler | Sales         | Senior Account Executive | Account Executive - Inside Sales           | 4002     | Seattle Office | Seattle  | \$49,000            | 5                  | High             | 3     | \$38,400            | \$48,000            | \$57,600            | 1.021                  | 100% / 0%       | \$43,129              | \$49,606              | \$56,905              | \$-605.56   -1.22%      |
| Cook, Leah           | Marketing     | Product Manager          | Product Manager, Software                  | 3002     | Seattle Office | Seattle  | \$89,000            | 3                  | Medium           | 7     | \$72,200            | \$90,300            | \$108,400           | 0.986                  | 90% / 10%       | \$80,664              | \$91,917              | \$103,728             | \$-2,916.88   -3.17%    |
| D'Amico, Sofia       | Marketing     | Senior Graphic Designer  | Senior Graphic Designer                    | 2004     | Seattle Office | Seattle  | \$59,000            | 4                  | Medium           | 4     | \$45,000            | \$56,200            | \$67,500            | 1.050                  | 88% / 13%       | \$53,832              | \$60,846              | \$69,190              | \$-1,846.28   -3.03%    |
| Danson, Jacob        | Sales         | Account Manager          | Account Manager Sales                      | 4003     | Seattle Office | Seattle  | \$53,700            | 3                  | Medium           | 4     | \$45,000            | \$56,200            | \$67,500            | 0.956                  | 100% / 0%       | \$46,763              | \$58,420              | \$70,298              | \$-4,719.57   -8.08%    |
| Doe, John            | Development   | Software Engineer        | Software Engineer / Developer / Programmer | 2000     | Seattle Office | Seattle  | \$85,000            | 3                  | Medium           | 7     | \$72,200            | \$90,300            | \$108,400           | 0.941                  | 95% / 5%        | \$79,710              | \$89,862              | \$100,083             | \$-4,862.25   -5.41%    |
| Hollings, Travis     | Sales         | Account Executive        | Account Executive - Inside Sales           | 4001     | Seattle Office | Seattle  | \$36,000            | 2                  | Medium           | 1     | \$32,800            | \$41,000            | \$49,200            | 0.878                  | 100% / 0%       | \$39,528              | \$44,757              | \$51,376              | \$-8,756.71   -19.57%   |
| Jackson, Seth        | Development   | Program Manager          | Program Manager, Computer Software         | 2001     | Seattle Office | Seattle  | \$89,000            | 3                  | Medium           | 7     | \$72,200            | \$90,300            | \$108,400           | 0.986                  | 100% / 0%       | \$77,488              | \$86,641              | \$95,527              | \$2,359   2.72%         |

The image above is an example of PayScale's product Insight performing a calculation of compa ratios for employees within the same organization. Insight is a compensation tool that allows you to proactively and systematically manage compensation in your company or organization.

Figure 2

| Name             | Employee Dept | Employee Job Title | Employee PayScale Title                    | Job Code | Organization   | Location | Annualized Base Pay | Performance Rating | Potential Rating | Grade | Annualized Base Min | Annualized Base Mid | Annualized Base Max | Annualized Compa-ratio | Salary / Hourly | Annu. Base Mkt - 25th | Annu. Base Mkt - 50th | Annu. Base Mkt - 75th |
|------------------|---------------|--------------------|--|----------|----------------|----------|---------------------|--------------------|------------------|-------|---------------------|---------------------|---------------------|------------------------|-----------------|-----------------------|-----------------------|-----------------------|
| Jennings, Sean   | Development   | Software Engineer  | Software Engineer / Developer / Programmer | 2001     | Seattle Office | Seattle  | \$89,000            | 3                  | Medium           | 7     | \$72,200            | \$90,300            | \$108,400           | 0.986                  | 100% / 0%       | \$64,346              | \$70,152              | \$77,250              |
| Lawson, Madeline | Development   | Software Engineer  | Software Engineer / Developer / Programmer | 2000     | Seattle Office | Seattle  | \$85,000            | 4                  | High             | 7     | \$72,200            | \$90,300            | \$108,400           | 0.941                  | 100% / 0%       | \$68,698              | \$75,447              | \$82,694              |
| West, Jessica    | Development   | Software Engineer  | Software Engineer / Developer / Programmer | 2000     | Seattle Office | Seattle  | \$69,000            | 3                  | Medium           | 7     | \$72,200            | \$90,300            | \$108,400           | 0.764                  | 97% / 3%        | \$72,734              | \$79,417              | \$87,242              |
| Drillings, Jeff  | Development   | Software Engineer  | Software Engineer / Developer / Programmer | 2000     | Seattle Office | Seattle  | \$87,000            | 4                  | High             | 7     | \$72,200            | \$90,300            | \$108,400           | 0.963                  | 91% / 9%        | \$73,472              | \$81,004              | \$89,774              |
| D'Angelo, Sinead | Development   | Software Engineer  | Software Engineer / Developer / Programmer | 2000     | Seattle Office | Seattle  | \$79,000            | 4                  | Medium           | 7     | \$72,200            | \$90,300            | \$108,400           | 0.875                  | 97% / 3%        | \$71,241              | \$77,914              | \$85,945              |

The image above is an example of PayScale's product Insight performing a calculation of compa ratios for employees within the same job position as a way to check for discriminatory pay practices. Insight is a compensation tool that allows you to proactively and systematically manage compensation in your company or organization.

## How to Find and Eliminate Discriminatory Pay Practices

Most organizations don't purposefully create policies that are discriminatory. Usually, inadvertently, there has been an adverse impact on a certain protected group that was not intentional. These unplanned, negative situations can be troublesome because, although there was no intent to discriminate, the law does not require intent when it comes to discriminatory pay practices.

Therefore, one thing that will be very important in your analysis of where people fall within their salary range is to notice where pay correlates with age, gender, race or any other protected categories. Don't be surprised if you discover evidence of possible discrimination. It can happen easily and without effort from anyone in the organization. But, once it's occurring, it needs to be corrected immediately.



## Policy Changes Based Upon Your Internal Pay Analysis

Once you have collected and analyzed the level of pay equity within your organization, you may now want to make some recommendations or decisions about your overall compensation strategy. Changes could include creating a policy of red circling employees, what to do with the employees that fall below the minimum of their salary range and some sort of implementation plan for getting people who are properly categorized up to the minimum of their pay range. It could be that your organization needs to refine or adopt a policy of paying for performance because, if the data indicates that you're not rewarding excellent performance, you may need to restructure your performance management system or contracts to reflect that.

## The Importance of Regular Updates

After your first pay equity analysis is complete, put a time on your calendar to perform another review in the near future. An annual process would be ideal to ensure that you are keeping in tune with the market and are aware of any potential issues in your organization.

As a part of this regular process, pay ranges need to be updated to market levels and pay inequity managed. The advantage of doing an analysis frequently is that you can identify risks early and to deal with them effectively, rather than getting bogged down in legal battles or losing top performing, underpaid employees.

It's helpful to choose a tool that allows you to collect and compare salary data easily, year-over-year. This will save you time and money, as well as improve the accuracy of your results.

# Address Pay Inequity In Your Organization While Saving Time and Money in 2009



- *Eliminate compensation guesswork.*
- *Stop overpaying employees.*
- *Reduce the risk of losing your top performers.*

To cut HR costs and save significant time and money in 2009, you must have accurate compensation data that reflects real-time market rates and truly matches your organization and your employees.

PayScale administers the largest, ongoing online salary survey in the world. PayScale's unique search technology enables you to instantly find salary data that matches your company and your positions. With access to 5 million current pay records, it has never been easier to find accurate information to help you reduce HR costs.

## Sample Report Excerpts

Detailed Market Data Report (Employee)

PayScale Job Title: Software Engineer / Developer / Programmer

Seattle, Washington, United States

Cash Compensation, Salaried

|                         | Reporting | Average  | 10%      | 25%      | 50%      | 75%       | 90%       |
|-------------------------|-----------|----------|----------|----------|----------|-----------|-----------|
| Total Cash Compensation | 95%       | \$95,517 | \$73,289 | \$84,459 | \$95,355 | \$106,898 | \$120,803 |
| Base Salary             | 95%       | \$89,779 | \$69,453 | \$79,902 | \$89,785 | \$99,644  | \$110,748 |
| Bonus                   | 68%       | \$5,664  | \$1,557  | \$2,998  | \$5,342  | \$8,973   | \$14,470  |

Currency: U.S. Dollar (USD)

Salary by Product Activity

|                                 | Average  | 10%      | 25%      | 50%      | 75%       | 90%       |
|---------------------------------|----------|----------|----------|----------|-----------|-----------|
| Base Salary - Your Search       | \$89,779 | \$69,453 | \$79,902 | \$89,785 | \$99,644  | \$110,748 |
| Software Development            | \$89,779 | \$69,453 | \$79,902 | \$89,785 | \$99,644  | \$110,748 |
| Software Applications           | \$91,716 | \$72,785 | \$82,329 | \$91,616 | \$101,302 | \$112,517 |
| Computer Hardware/Software      | \$92,228 | \$73,615 | \$82,350 | \$92,000 | \$102,000 | \$110,000 |
| Software                        | \$92,000 | \$73,000 | \$82,000 | \$92,000 | \$102,000 | \$110,000 |
| Health                          | \$92,330 | \$73,000 | \$82,330 | \$92,330 | \$102,330 | \$112,330 |
| Aerospace and Defense           | \$91,004 | \$72,900 | \$82,494 | \$91,004 | \$101,004 | \$111,004 |
| Information Technology          | \$91,510 | \$72,285 | \$82,510 | \$91,510 | \$101,510 | \$111,510 |
| Internet Software               | \$91,400 | \$72,015 | \$82,500 | \$91,400 | \$101,400 | \$111,400 |
| Internet and New Media          | \$91,374 | \$72,002 | \$82,277 | \$91,374 | \$101,374 | \$111,374 |
| Talent and Hospitality Services | \$90,000 | \$72,000 | \$82,000 | \$90,000 | \$100,000 | \$110,000 |

Currency: U.S. Dollar (USD)

See how instant access to this data can help address pay inequities plus save your company time and money this year.

Request a FREE Sample Compensation Report by calling 1-888-699-0702 or emailing [sales@payscale.com](mailto:sales@payscale.com) today.