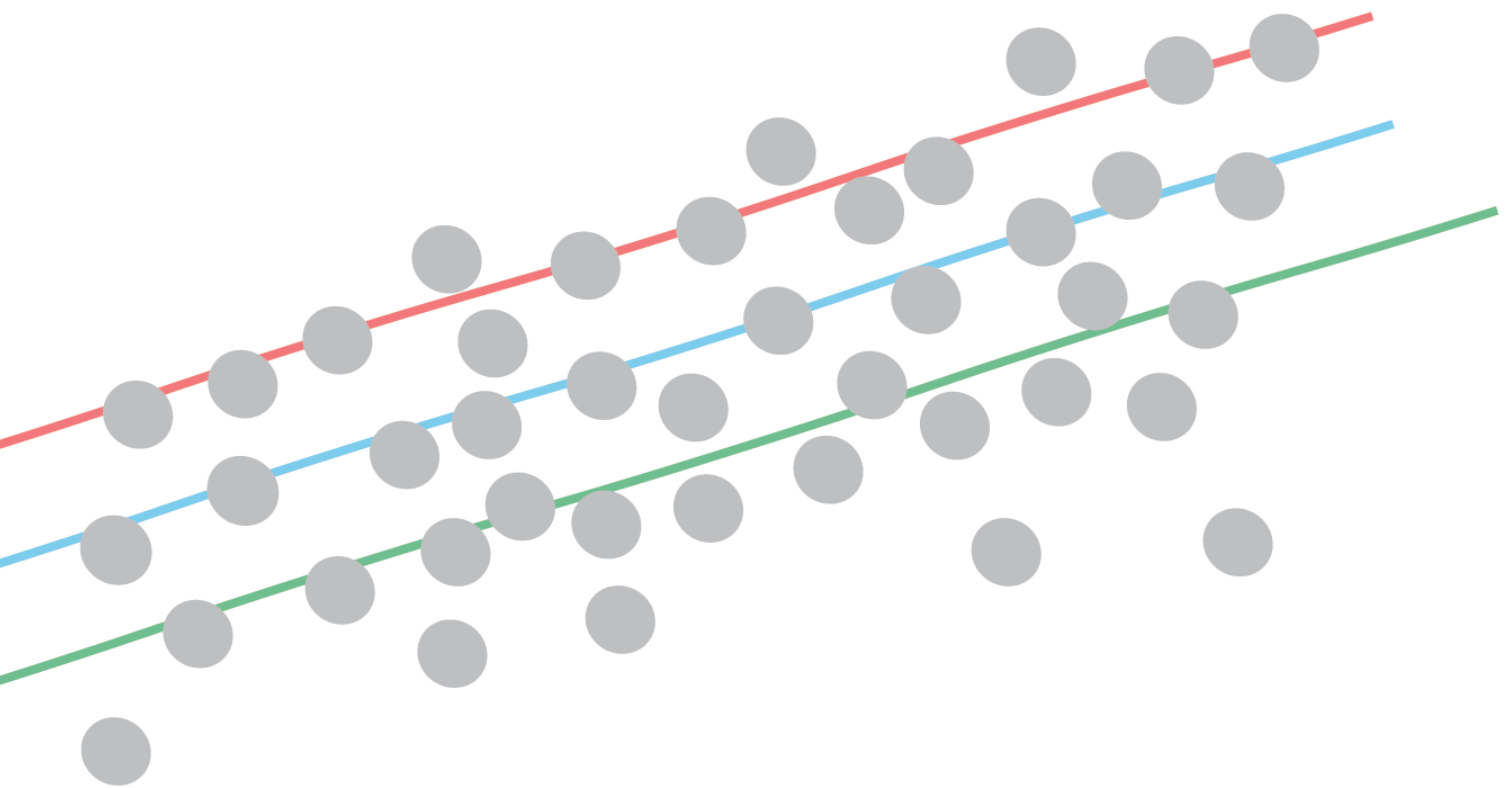


# How to Develop an Organization Pay Policy



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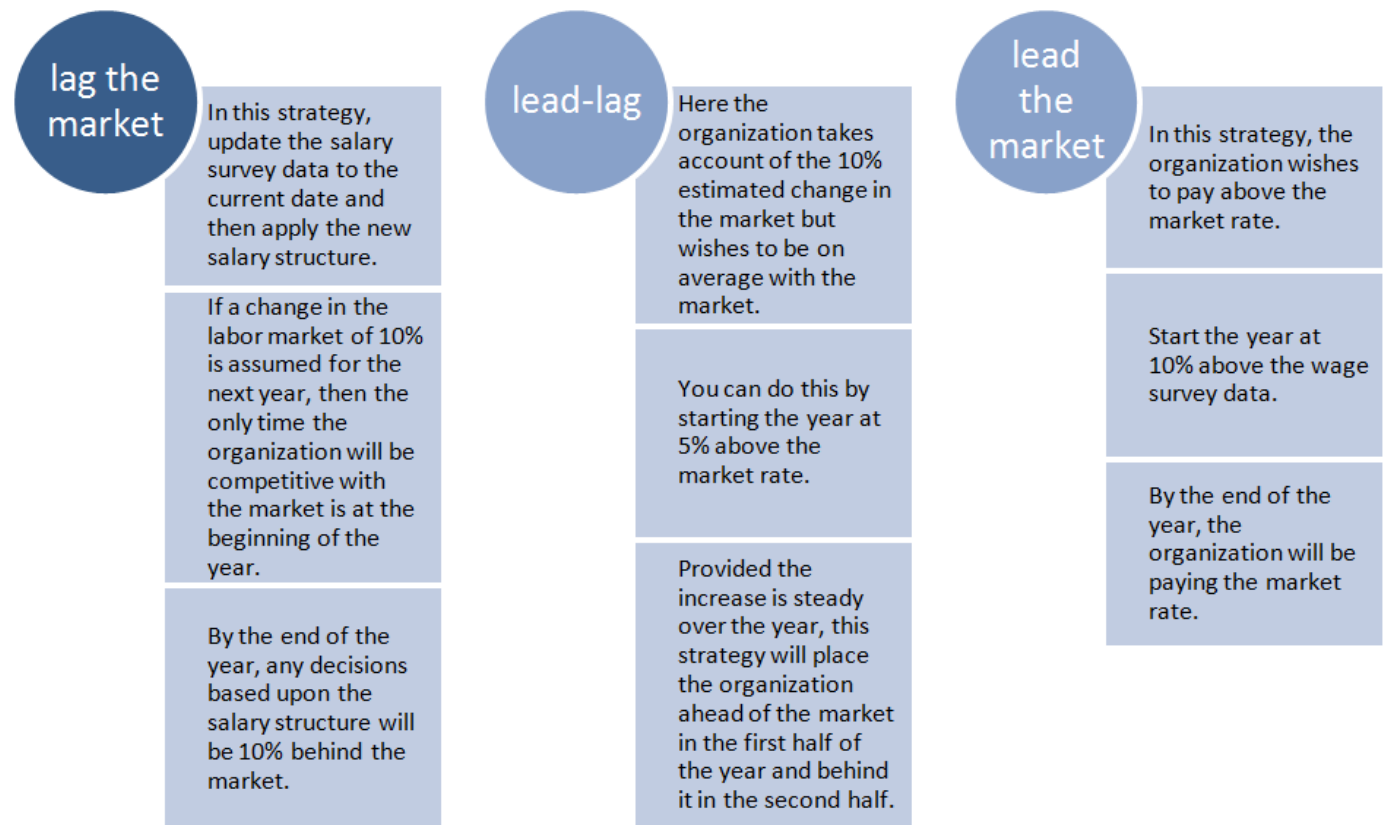
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# How to Develop an Organization Pay Policy

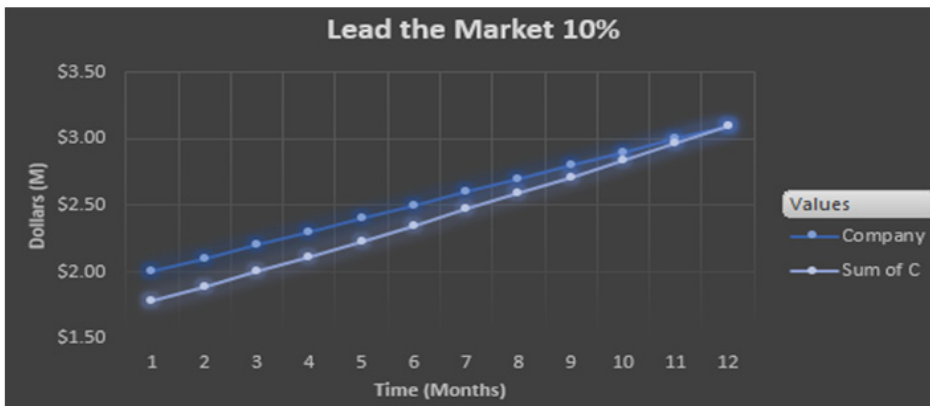
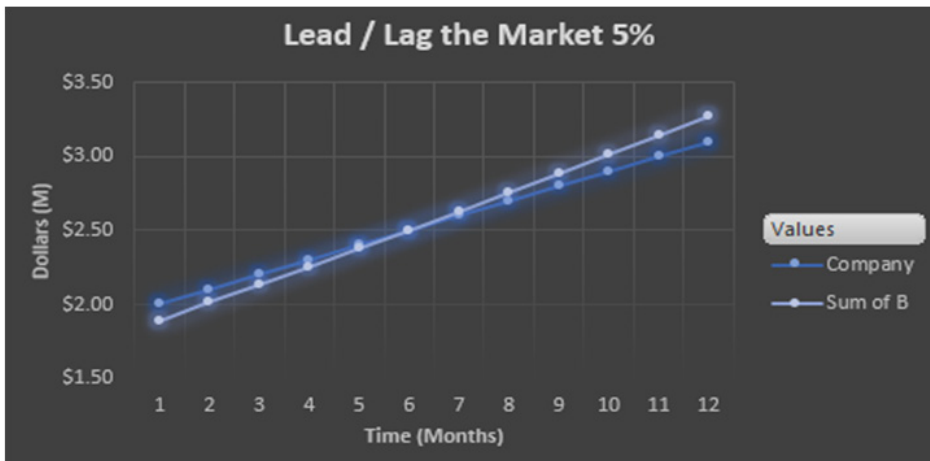
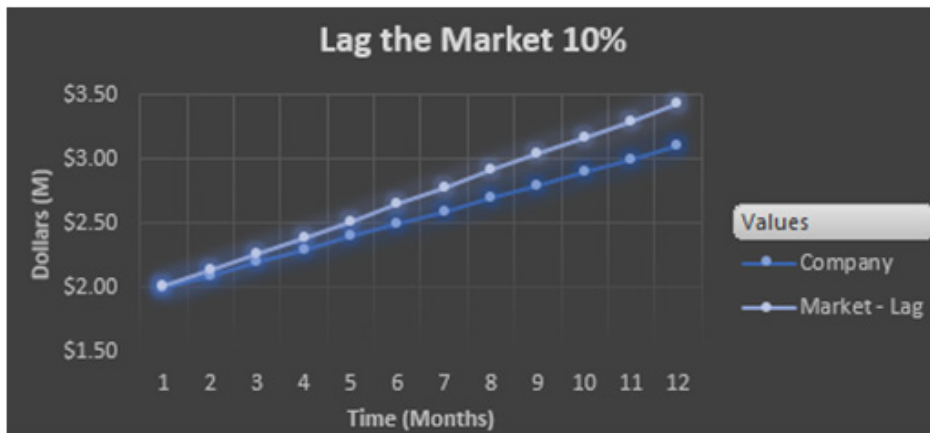
Use this guide to develop an organization pay policy for decisions that set competitive and reasonable pay ranges for each job in the organization as they relate to salary structures. In the process of evaluating different pay strategies, consider which may be appropriate in the context of your total rewards strategy and how they can affect your business performance.

## Types

The organization's strategy toward the labor market requires a salary-level policy decision which involves determining how competitive the organization wishes to be. There are three common organization pay policies:

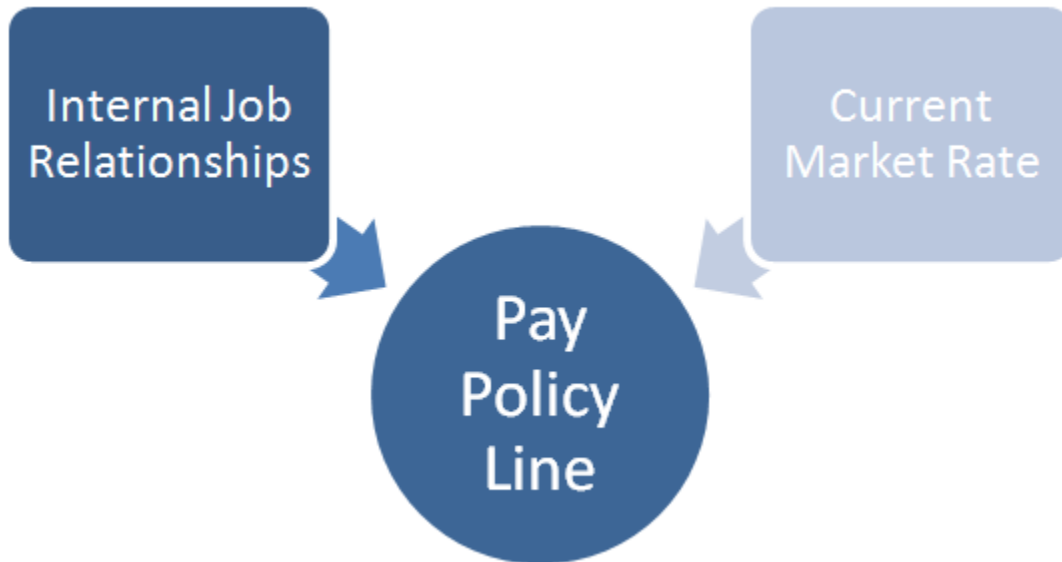


These three approaches are illustrated below.



## Inputs

In order to determine the appropriate organization pay policy, you must establish the pay policy line. This is developed based upon a holistic, current state assessment of internal factors (such as current pay rates and job relationships) and external factors (such as labor markets, industry trends and laws).



### Internal Job Relationships

Start by evaluating all jobs in the organization. Determine which jobs represent most of the total labor costs, since policy changes that directly affect these jobs significantly impact the bottom line and largely determine the competitive salary level of the firm. Salary relationships are built around these labor costs. See “How to Conduct Job Evaluations” [http://downloads.erieri.com.s3.amazonaws.com/pdf/Job\\_Evaluation.pdf](http://downloads.erieri.com.s3.amazonaws.com/pdf/Job_Evaluation.pdf)).

### Current Market Rates

Once the jobs are evaluated, market rates are relied upon to determine the competitiveness of the current salary levels in the organization. This means the use of salary surveys. Here is an example of market rates for commercial banking jobs in the Tallahassee, Florida, labor market:

**E R I** ECONOMIC RESEARCH INSTITUTE Help Settings Salary Assessor Data as of 1/1/2015

Salaries By Experience/Size Salaries By Level **Benchmark List** Geographic List Salary Planning Advanced Reports

**Benchmark List** -- Select Saved List --

Compensation Type: Base Salaries Pay Period: Annual Percentiles: Customize

#	Position	10th Percentile	25th Percentile	Survey Mean	75th Percentile	90th Percentile	Actual Salary	Market Index
1	Branch Manager Banking (Major)	56,991	61,269	66,937	72,654	78,435	57,134	85
2	Mortgage Loan Officer	40,524	42,855	46,034	49,024	52,141	49,415	107
3	Credit Analyst	39,167	41,379	44,405	47,241	50,203	42,575	96
4	Branch Assistant Manager Banking	40,057	42,577	45,983	49,311	52,744	41,388	90
5	Customer Service Representative	26,581	28,814	31,983	34,784	37,644	25,906	81
6	Loan Processor	28,369	30,631	33,755	36,433	39,219	34,480	102
7	Loan Officer	40,499	43,024	46,434	49,715	53,097	46,777	101
8	Teller Bank	21,678	22,630	24,192	25,448	26,993	20,140	83
9	type in job or double-click						0	

**Data That Affects Salaries**

Organization Data

Area: Tallahassee, Florida  
 Industry: Commercial Banks  
 Codes: eSIC: 6020 NAICS: 522110 usSEC: 6021  
 Size: (Data reported by years of experience)

Planning Date: 2/25/2015  
 Annualized Salary Trend: 2.4% (Adjustment: 0.2%)

**Annual Base Salaries Graph**

Base Salary

Years of Experience

10th Percentile Mean 90th Percentile

Reviewing the Loan Processor market rates, the 10th, 25th, survey mean, 75th and 90th percentiles are displayed. The actual salary is also entered to calculate the market index, in this case, 102% (i.e., The Loan Processor internal salary rate of \$34,480 is 2% greater than the market rate.)

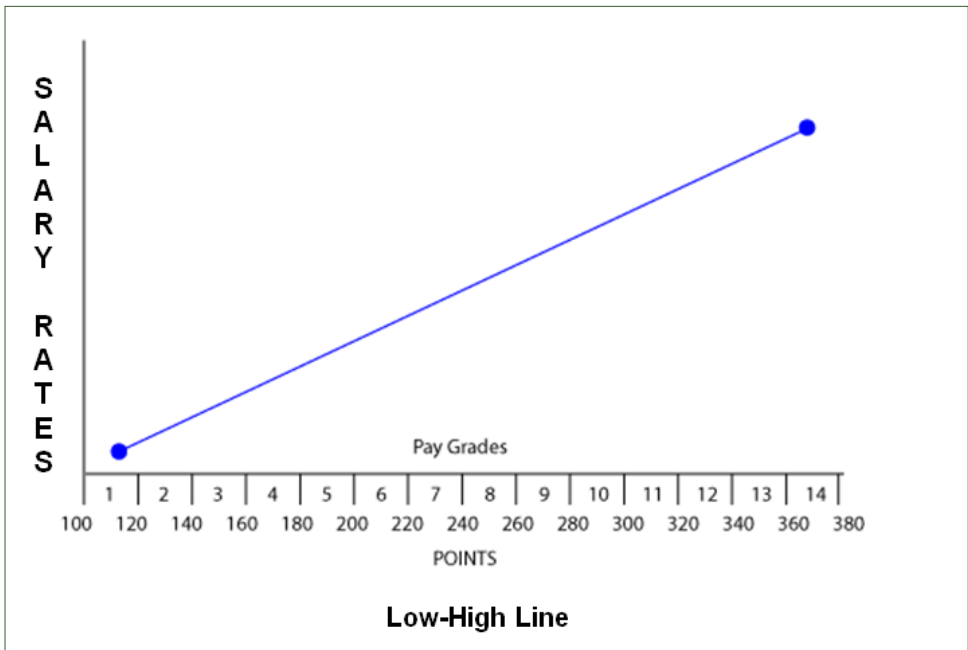
## Pay-Policy Line

Now you can define a pay-policy line by plotting points reflecting the jobs in your organizations based on two dimensions: compensation value and a job ranking (or job evaluation result). Then you “fit” a sloped line from the lowest value to the highest value using one of three methods:

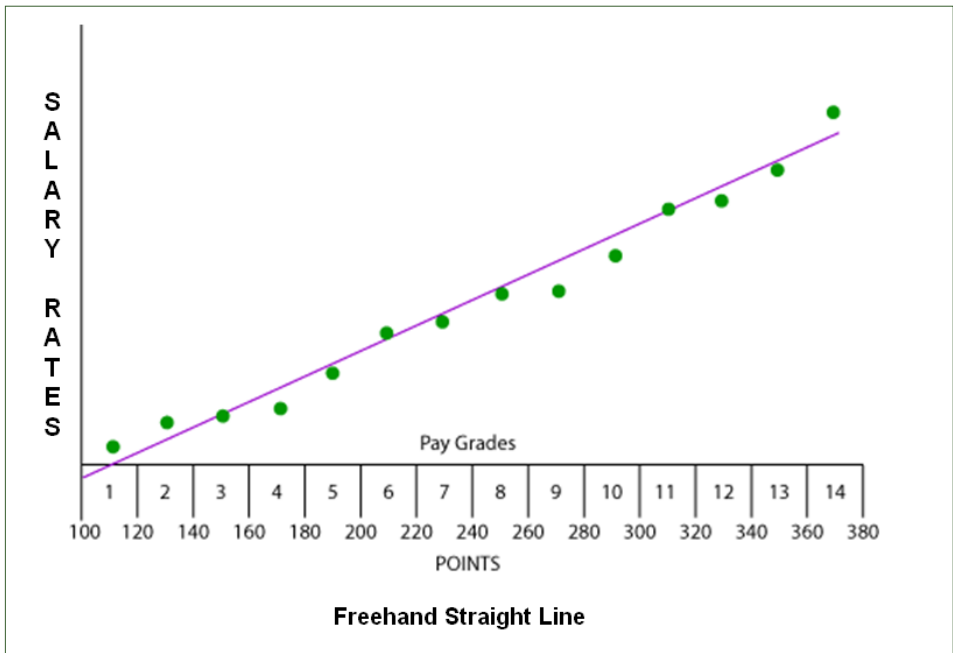
- Low-high
- Freehand
- Least-squares

The method you use will depend on the budget and resources (time and talent) allocated to compensation analytics processes in your organization.

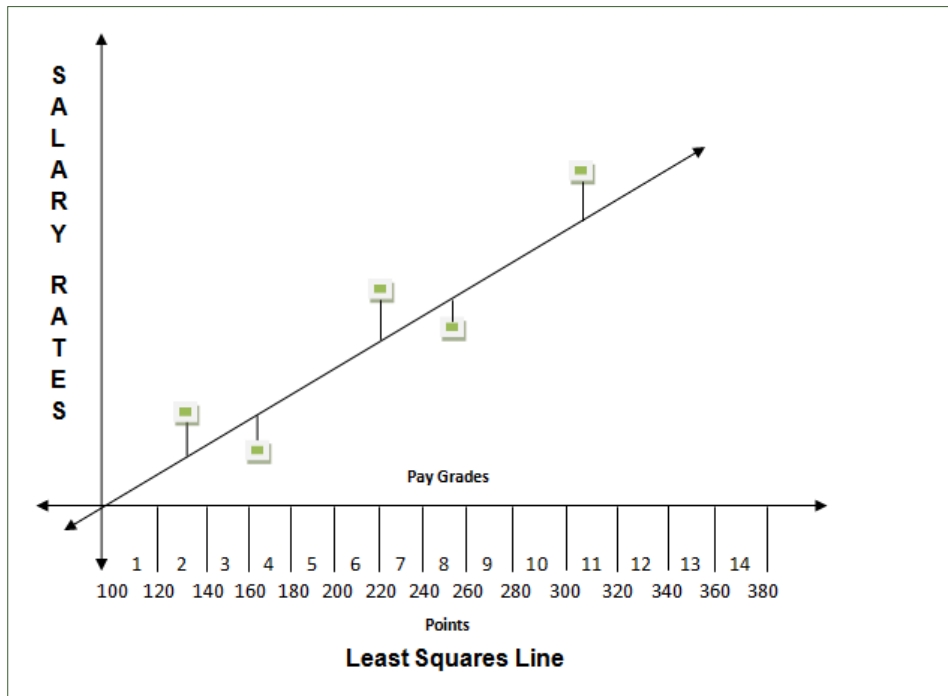
**Low-high line:** This is a straight line connecting the highest and the lowest of the plotted points (often called anchor points). The rates of all intervening jobs are made to fall on the line. Below is an example of a low-high line.



**Freehand line:** After you plot the points, you can often easily visualize the trend of the data. In this case, it is possible for you to draw a freehand line that best describes the plotted points. In drawing such a line, follow the principle that vertical deviations from the line are minimized if the line follows the obvious slope of the data. Although the line may be curved, a straight line has the advantages of being easy to plot and simple to explain. Below is an example of a freehand straight line.



**Least-squares line:** The least-squares line mathematically minimizes the overall vertical distance from the points to the line. Spreadsheets and other software can automatically add such trend lines, or the slope and intercept of the least-squares can be calculated from the points and the resulting line plotted.



## Which line should you use?

For those organizations with limited resources, a low-high (anchor-point) line or a freehand line may achieve sufficient accuracy in developing a pay policy line that will serve as input to a competitive pay strategy. Depending on the organization culture, however, HR practitioners may prefer a salary line calculated by least-squares.

## **Business Impact**

By evaluating the pay policy line relative to overall total rewards strategy, you can establish an organization pay policy which evaluates any salary differentials, and their relative business impact, which vary.

- Low-salary organizations may experience greater differentials.
- Organizations employing largely semi-skilled workers and promoting from within have smaller differentials than organizations employing many highly skilled workers who must be hired from the outside.
- If there is high unemployment in the local labor market, there will be smaller differentials between market rates and evaluated rates, even in low-salary organizations.
- Geographically isolated organizations or those with large numbers of unique jobs experience less conflict.

Organizations will generally have some intended and/or unintended salary differentials with market rates. A common approach is for an organization to minimize differentials by paying at or above the market for strategic core competency jobs that drive competitive advantage, while paying the non-strategic jobs at or below market rates, requiring separate pay policy lines for each category of jobs.

## **Summary**

This guide has provided a framework to develop a competitive pay strategy relative to overall total rewards and HR strategy. Organizations looking to compete effectively need to keep their HR and related programs aligned with business objectives. For more information on this and related topics, visit <http://www.eries.com> or call 1-800-627-3697.





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