IDENTIFYING AND RESOLVING

INTERNAL COMPENSATION INEQUITIES WITHIN A POSITION

PayScale
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Despite recent legislative efforts to banish gender pay inequities, such as the passing of the Lilly Ledbetter Fair Pay Act and the reintroduction of The Paycheck Fairness Act, gender-based pay differences still exist. Big pushes for equal pay for women were hot topics during the 2012 Presidential debates, yet the general perception is that we still have not closed the gender gap. At the same time as pay equity is a hot legislative topic, technology has advanced to the point where employees have instant online access to market-rate salary data, giving them a greater 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 of different genders in the same position should not be your goal. Pay inequities with any employees can often 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.

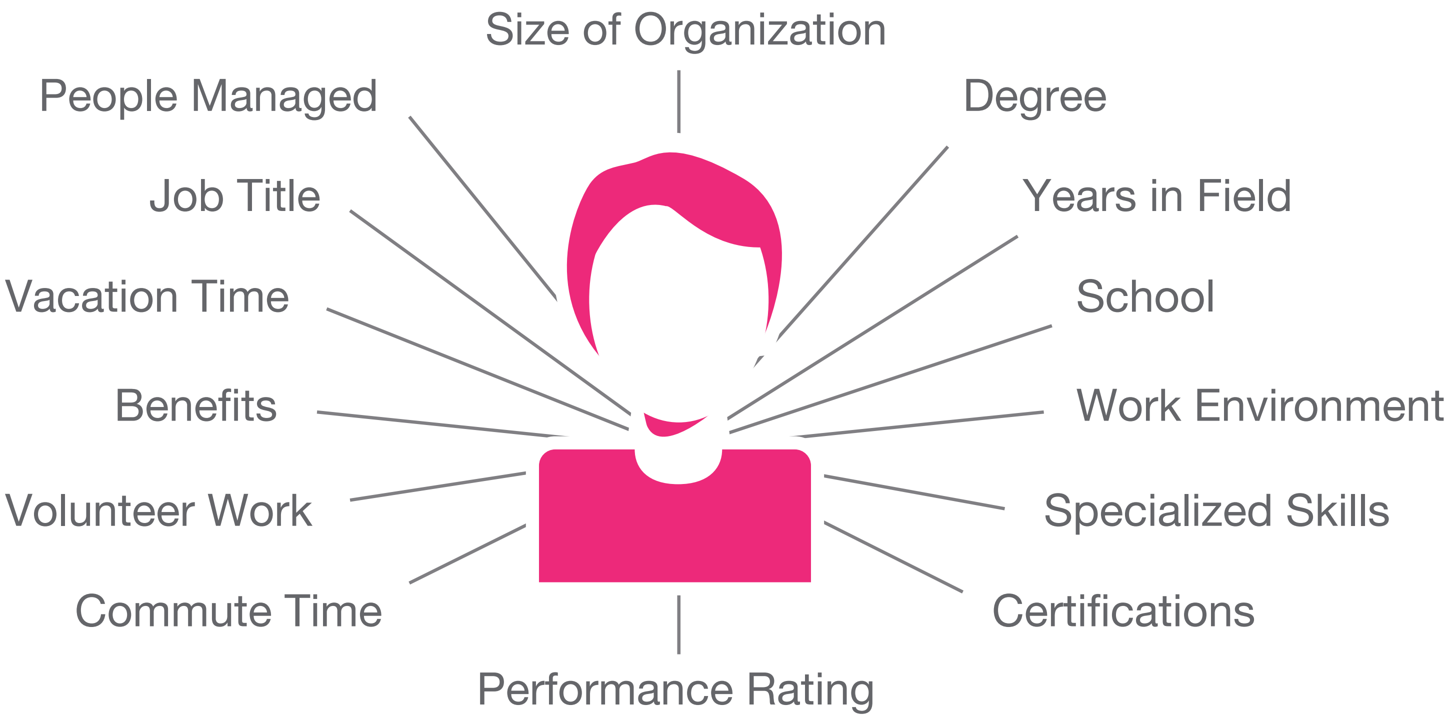
REASONS WHY SALARY RATES CAN VARY

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.



PayScale tracks 250 compensable factors to give you a thorough understanding of which factors affect pay for your jobs, and how important each is to your pay decisions.

HOW TO DISCOVER AND ANALYZE SALARY RANGE OUTLIERS

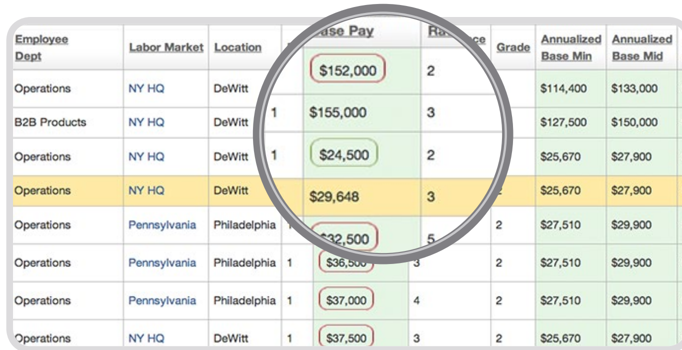
Finding pay inequities requires the following: information about market rates for your various job positions, salary ranges based upon those market rates and compa ratios for employees within their established, market-based salary range. A compa ratio compares an employee's salary to their salary range. This process of establishing salary ranges for your positions is covered in detail in PayScale's eBook, "Bring Back the Sizzle: PayScale's Guide to Comp Plans that Get Workers Fired Up."

Once you've calculated the compa ratios for each employee, you can start your equity analysis. Your first step is to identify outliers. Outliers' salaries sit either above the top of their salary range or below the minimum. 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. 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.



PayScale reporting shows at a glance which employees are outliers and factors in performance so you can make sound decisions.

- **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, but make sure to factor in performance. 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 FIND AND ELIMINATE DISCRIMINATORY PAY PRACTICES

Most organizations don't purposefully create policies that are discriminatory. Usually, 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 have access to data and software, like PayScale, 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.

These other PayScale resources can help you understand how to get pay right.

eBook:

Bring Back the Sizzle

Whitepapers:

How to Perform Compensation Benchmarking and Set Salary Ranges

5 Easy Steps to a Smart Compensation Plan

About PayScale

Creator of the largest database of individual compensation profiles in the world containing 40 million salary profiles, PayScale, Inc. provides an immediate and precise snapshot of current market salaries to employees and employers through its online tools and software. PayScale's products are powered by innovative search and query algorithms that dynamically acquire, analyze and aggregate compensation information for millions of individuals in real time. Publisher of the quarterly PayScale Index™, PayScale's subscription software products for employers include PayScale MarketRate™, PayScale Insight™, and PayScale Insight Expert™. Among PayScale's 2,500 corporate customers are organizations small and large across industries including Mozilla, Tully's Coffee, Clemson University and the United States Postal Service.