

Titles aren't cheap

In fact they're very expensive

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What we plan to cover today

- 1 Titles aren't cheap
- 2 What management wants
- 3 Issues with market pricing and job evaluation
- 4 Effectively combining market pricing and job evaluation
- 5 Conclusions
- 6 About Hay Group

01

Titles aren't cheap

Titles aren't cheap

Some people think titles have no cost. However, titles convey value messages to employees. What is your organization saying with its titles?

- The price is right
- Let's make a deal
- American Idol
- Survivor

The cost of sloppy titles

Internal equity issues

- Directors and Managers in the same grade, what's the difference?

Talent management

- Will a person with a VP title want to move into a Director role, even if it's really a promotion?

Market survey matches

- Incorrectly matching jobs to the wrong level in the survey can get expensive

Benefit costs

- Overpaying for benefits and perquisites tied to internal titles

Employee expectations

- Incumbents expect compensation and benefits (and internal opportunities) to match perceived level of job

02

What management wants

What management wants

What they want...solutions

- To attract talent, develop and grow people through their careers
- To assure that people are paid fairly given their role and contributions to the company
- To be able to manage retention and healthy turnover
- To understand what the issues are around pay
- To get people to take on more and grow their capabilities
- To spend HR resources as effectively as possible

What management wants to know

What they say they want...

- Market data that reflects what they would have to pay to hire or keep a competent performer
- Market data relevant to their direct competitors for talent
- Market data about jobs that takes into account the role of the job at their company within the context of your business strategy
- Market data about jobs that explain variations in the marketplace
- Market data about jobs that make sense with how the organization values work

Management and line managers are increasingly skeptical about market data

- Compensation decisions are like any other economic buy/sell decision – the more information you have, the more sound the decisions will be
- As good business partners, HR shows line managers that we know their jobs and understand their needs

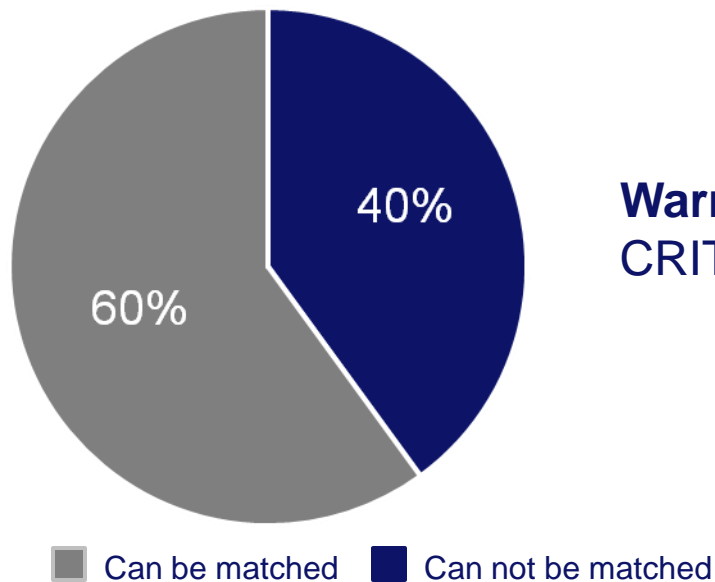
03

Issues with market pricing and
job evaluation

The challenge of market pricing unique positions

Fifty-eight percent of respondents believe that 60 percent or more of their positions can be matched to the market

- Sounds good
- But what are the characteristics of the remaining jobs?
- Many of the jobs you can't match are the ones you've designed uniquely because that unique design gives you a competitive advantage!



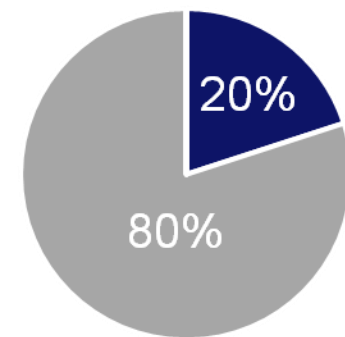
Warning: Very often, these are your CRITICAL positions.

The cost of sloppy titles and mis-grading

Organizations believe that the way they value work is effective; 60 percent of organizations believe that at least 80 percent of their positions are in the appropriate range...

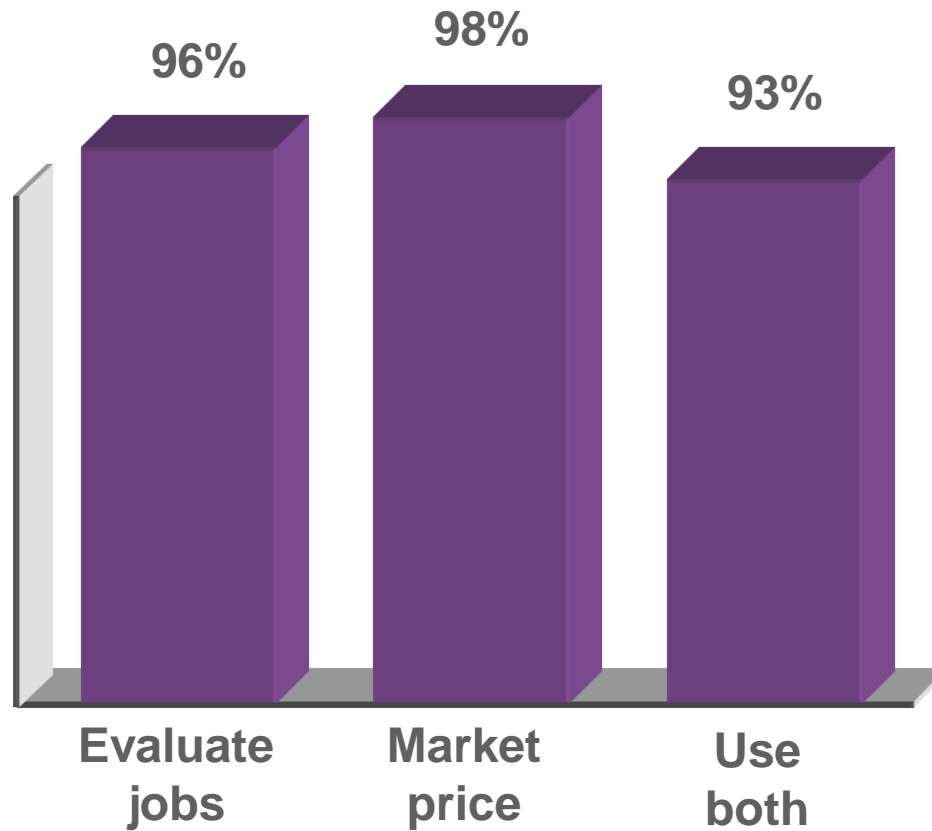
- Sounds good
- 750 employees with average total remuneration of \$80,000
- Assume a 15 percent base salary midpoint progression between grades (which is common)
- If 20 percent of employees are misplaced in a grade that is inappropriate for their role, the result is an annual and recurring misalignment in compensation of \$1,800,000 ($750 \times \$80,000 \times 15 \text{ percent} \times 20 \text{ percent}$) and an annual impact on revenues of \$9,000,000 (assuming a 20 percent profit margin).

Cleaning up an organization's job titling and broader leveling program can have a significant bottom-line economic impact to the organization.



■ Correctly Placed ■ Incorrectly Placed

Most organizations market price and evaluate jobs



*Source: Hay Group, Loyola University, WorldatWork Research

Types of job evaluation systems

	Rated as effective or very effective
Point factor job evaluation	82%
Functional job family modeling	80%
Whole job comparison (e.g., ranking or job classification)	76%
Skill-based salary or competency-based job leveling/evaluation	75%
Broad banding/career banding	66%

*Source: Hay Group, Loyola University, WorldatWork Research

Traditional market pricing

Objective is to predict the market value of a job

- Data from multiple surveys that differentiates based on title, revenue and industry segmentation
 - Often weighted for the value of each survey
 - Data frequently adjusted by analysts to reflect their assessment of degree of match (i.e., my job is bigger than the survey job – so increase these survey data by 10 percent)
- Data averaged to produce a ‘market rate’
- A ‘market rate’ is produced for as many jobs as possible

How does this meet management’s needs for information?

- What is a job’s value in the market?
- How do we build pay programs that align with our career hierarchies?
- Does our compensation philosophy and program align with our business strategy?

Traditional job evaluation

Objective is to determine internal value of a job

- Process to create a job worth hierarchy within an organization
- Job-content based rather than market based
- Evaluation process built upon
 - Job analysis
 - Job documentation
 - Job evaluation
- Helps employees recognize career ladders

How does this meet management's needs for information?

- What does the market pay for a job at **my company**?
- Does the pay for our career hierarchies reflect the market ?

Market pricing and job evaluation

The need for a balanced approach

Market pricing		Job evaluation	
Strengths	Shortfalls	Strengths	Shortfalls
<ul style="list-style-type: none"> Helps maintain external competitiveness Matches supply and demand of jobs Tests compensation decisions that emphasize internal priorities 	<ul style="list-style-type: none"> Does not reflect the value of work internally Direct title matching may not actually reflect same job Unique jobs are normally impossible to match 	<ul style="list-style-type: none"> Reflects internal culture and values Increases the accuracy of market pricing Guides valuing of non-benchmark jobs 	<ul style="list-style-type: none"> Does not take in to account market rates Internal comparisons don't reflect supply and demand of talent Broad role descriptions may be difficult to match to external competitors

04

Effectively combining market pricing and job evaluation

Why combine market pricing and job evaluation

The benefits of using them in combination

- Provides a more complete picture of how to pay a position
- Allows organizations to price unique jobs that increasingly are being developed as true differentiators within an organization
- Assures better alignment between the jobs and the business strategy
- Allows us to better interpret and understand market data
- This is what line managers want to know

Making the market data work

Jobs matched to 'Manager of Accounting' have a wide range of pay

- There are over 1,000 incumbents matched to the Manager Accounting position in the survey
- Data comes from all industries

P10	P25	P50	P75	P90
\$76,918	\$87,326	\$98,258	\$113,100	\$126,745

- There is no relationship to company revenue
- There is little relationship to company type
- There are substantial differences in job content

What would you do?




Making the market data work (cont'd)

In Hay Group's database, each job is matched to our models using job content to assess job match differences

- Company size, business model, organization structure, staffing levels and importance of accounting to the business
- Jobs are sized using job evaluation – each step represents a 15 percent change in job size – there are four different levels of content

Reference Level	# of Ees	P25	P50	P75
20	95	\$112,575	\$122,986	\$136,178
19	765	\$86,725	\$98,001	\$111,041
18	281	\$81,160	\$93,887	\$105,852
17	61	\$75,341	\$86,982	\$90,987

Factors to consider when evaluating jobs compared to market – job based variables

- Organization structure - what other jobs are involved with the position's responsibilities
 - Where does the job report?
 - What other jobs share its responsibilities?
 - What is the manager's role in decision making?
- Employees under supervision
 - Use FTEs
 - Understand what kind of positions are being supervised
- Span of control/Diversity of responsibility
 - How many different functions does the job have?
- Nature of thinking
 - Strategic  Operational  Implementation  Execution
- Role in resource allocation
 - What is the position's role in funding/budgeting decisions?
- Expertise
 - Particularly for high level and technical individual contributors

How do you link market data to job size?

Can develop internal comparisons using simple whole job leveling - this is still job evaluation

- Objective is to develop a chart that shows relative ranking of positions in a job family

We work with step differences

- Based on research that says noticeable differences are at least 15 percent apart – we call these step differences
- Provides for a disciplined process to internally translate market values into pay rates for executive employees

1 Step	The difference is just noticeable – 15 percent
2 Steps	The difference is quite evident – 30 percent
3 Steps	The difference is observable without consideration – 45 percent

Integrating job evaluation and market pricing

1st: identify key benchmark jobs in each job family

- Key jobs to the company that serve as reference points
- Only jobs where there is good survey data

2nd: level the benchmark jobs within each job family based on their role in relationship to each other

- Determine step differences from job to job
- People perceive differences geometrically
- Generally we can't perceive differences less than 15 percent
- This is how executives think

3rd: compare benchmark jobs to relevant survey data

- Use understanding of job content and step differences to assist in determining quality of match
- Use only surveys with a solid match

Integrating job evaluation and market pricing (cont'd)

4th: create a hierarchy of market data using the leveling exercise

- Line up pay by benchmark job within a career family
- Creates levels based on step differences
- Will have levels that have no benchmark jobs in them
- Project market data for levels where benchmark data is not available

5th: slot non-benchmark jobs into hierarchy based on value compared to other positions in the family

- Use step differences to guide slotting

6th: level benchmark jobs across families with each other and determine titling levels and criteria

- Look for consistency of market data by level across function
- Determine how to resolve differences between internal equity and external data

Integrating job evaluation and market pricing (cont'd)

Once jobs are valued

- Can provide better market data
- Can explain what causes jobs to get paid more
 - Job content variables that make a difference
 - Very helpful in job design issues
- Support functional career paths
 - Assures that compensation data progresses with value
- Can consider relationships across functions and create company-wide career paths
- Can explain to people what they have to do to earn more money by growing their role
- Can give consistent criteria for titles across the organization

05

Conclusions

In closing...

Cleaning up an organization's job titling and leveling program can have a significant bottom-line economic impact to the organization

Management are interested in understanding not only market percentiles, but what drives the value of jobs and therefore titles

If you are primarily market pricing, you are missing an opportunity for an important dialogue about jobs

Effectiveness requires looking both at the market and measuring work internally

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About Hay Group

Presenters

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Vincent Milich is a Senior Principal in Hay Group's Reward Practice. He specializes in total reward strategy, working to translate business objectives into compensation plans that effectively motivate staff, support business success, and align behaviors throughout the organization. Mr. Milich is a global leader at Hay Group in job measurement processes and techniques.

Mr. Milich has a specialized focus in IT – helping CIOs and IT Executives implement strategy through people, structure, process, and human resource programs. This includes career development, assessment and development, leadership, compensation, and organization design.

About Hay Group

Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organize people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organizations realize their potential.

We have over 2600 employees working in 86 offices in 48 countries. Our insight is supported by robust data from over 100 countries. Our clients are from the private, public and not-for-profit sectors, across every major industry. For more information please visit us online at www.haygroup.com