

# Create Your Salary Plan

## Paying for Keeps

**Instructions:** Use this tool as a resource to develop your business's salary plan or update an existing one.

## Practical Steps to Creating Your Salary Plan

### STEP 1: BACKGROUND INFORMATION

Gather all your necessary background information from inside your company. According to the Society for Human Resources Management (SHRM), this includes:

- **Job Descriptions:** Collect your current job descriptions (including contractors if you have a significant contractor pool). If someone was hired on the fly (it happens), draft a job description retroactively.
- **Your Existing Compensation Program Pros and Cons:** What has worked, and what has caused problems or looks like it may cause problems in the future? Where are areas where you'd like to see changes to better fit your company's values and culture?

While you're gathering that information, it's also a good idea to perform a payroll audit. This type of audit is a proactive way to resolve any potential overtime and minimum wage violations related to the Fair Labor Standards Act (FLSA). You can learn how to perform one by visiting the [U.S. Department of Labor Payroll Audit Independent Determination \(PAID\)](#) website.

Another element to review is your business's **compensation philosophy**. This is a formal statement that documents your business's position about employee compensation.<sup>1</sup> If your business doesn't have a compensation philosophy, consider creating one, as it helps shape your compensation framework and allows for consistency.

Some other factors SHRM suggests you consider when creating your compensation philosophy include:

- Does the overall program hold up under scrutiny?
- Is your compensation approach equitable for women and men, and do your employees regard the compensation program as fair?
- Are you able to communicate your compensation philosophy, policy and programs to employees?
- Is your compensation program fair, competitive and in line with your compensation philosophy and policies?

- Are female employees making the same amount as male employees doing equal work?
- Are the programs included legally compliant?<sup>2</sup> If you have a minimum-wage position, are you compliant with federal and state pay laws? Use the [U.S. Department of Labor State Labor Law](#) resources to check your compliance.
- Is the overall program fiscally responsible for your business? While this will vary from business to business, “it’s normal to spend anywhere from 40–80 percent of gross revenue on employee compensation, which would include both salary and benefits.”<sup>3</sup>

**Tip:** To demystify the concept of what is in an organization’s compensation philosophy, do your own web search for “compensation philosophy examples.” For a comprehensive example, check out [Stanford University’s](#) compensation guiding principles and overall program goals.

The concept of transparency is a core principle that you might include in your compensation philosophy. The level of transparency is up to you but can include salary ranges and pay guidelines. If you’re having trouble deciding how much to share, think about your business values and culture. You can learn more about this topic in the People Excursion.

## STEP 2: GATHERING EXTERNAL MARKET DATA

The next step is to do some external research and perform a salary survey to make sure you’re offering your employees a competitive salary. Review similar job listings to see what other companies are offering for comparable positions in your area. The Bureau of Labor Statistics (BLS) offers detailed wage data broken into occupational categories and characteristics from the macro national level all the way to the micro level for many urban and rural areas. There are also many online sources that provide both paid and free data on salaries by occupation, skill level and even employer. You can stay broad and search by title and salary, or you could take a more detailed approach and look for compensation packages and job descriptions that meet your **benchmarking criteria**, which we will discuss in the next step.

## RESOURCES

**Employment & Earnings by Occupation**—This interactive tool allows you to see the earnings between men and women in over 300 different jobs. This can help to ensure you’re paying your female employees equitably.

**O\*Net**—This site provides example job descriptions based on industries or occupations. Use it to develop detailed job descriptions that can assist you when justifying salary ranges.

**Bureau of Labor Statistics**—You can use the bureau’s national compensation survey to pull current U.S. wage data.

**Cost-of Living-Calculator**—If you have businesses in multiple states or different geographical

locations, you'll want to examine each location's cost of living, as they could vary dramatically and therefore could impact your salary program.

**Tip:** Review salary information on popular job sites where your employees will likely go to research market rates for their positions.

### **STEP 3: BENCHMARKING**

After you've gathered the data, it's time to analyze it. When analyzing the data it's important to benchmark the relevant jobs or positions. By **benchmarking** a job, you are looking for a job that has a scope of work and responsibilities common to other organizations or industries. Benchmark jobs can also be determined by comparing your internal job description with a job summary from another organization. SHRM says the following are some things to consider when benchmarking:

- Find a benchmarked position that matches at least 80 percent of your job summary—it's a good place to start.
- Select benchmarks that also represent the types of management/leadership levels in your company.
- Review your benchmarked positions multiple times before finalizing the list.

For example, if you're looking to benchmark an executive administrative assistant position, you would start by researching similar positions in your industry. You'd want to find ones with responsibilities matching the skills and needs your position requires. The idea behind this is you're comparing a similar position specific to your industry which ensures you're creating a compensation package for this position that would be competitive in your industry.

### **STEP 4: PAY RANGE AND JOB LEVELING**

Now it's time to move on to job leveling and determining your pay ranges.

#### **Job Leveling**

After benchmarking your job, you now want to create your pay structures. One way to do this is by **job leveling**, which is "a systematic method of objectively and accurately assigning a value to individual positions in an organization." Simply put, you're creating higher levels for certain positions so your employees can grow and develop. For example, for your sales positions, you might have two levels: associate and senior. As your employees develop, they can move into a position with higher levels of responsibility.

With job leveling, you are really thinking about and defining the knowledge and skills needed to perform that particular job. You are also establishing that job's duties, tasks and level of authority within the company.

## Pay Range

The next step in this process is to develop a pay range. The pay range should take into account employees' experience, skill set, role responsibilities, education needed, the complexity of duties, working conditions and other factors.

**Tip:** Getting lost in the weeds? Search for small business compensation plan templates online to get you through the tough stuff. You can always consult with a benefits specialist to review your plan and provide instant market research on trends and ranges.

## STEP 5: DETERMINING THE COST OF THE PAY STRUCTURES

The final step in the process, according to SHRM, is to determine how much your new or updated salary plan is going to cost your business.

Cost for Small Business	Cost for Growing-Businesses
<p>If you <b>don't</b> have multiple employees in different pay grades, simply total all the compensation packages to determine the cost to the business.</p> <p>If you <b>do</b> have employees in the same position with different pay grades and need to do a cost analysis for the pay range updates, use the <b>bring-to-minimum adjustment method</b> listed to the right.</p>	<p>If you <b>do</b> have multiple employees in the same pay grade—or are looking to update your salary ranges—use the <b>bring-to-minimum adjustment method</b>. In this process, you would:</p> <ul style="list-style-type: none"><li>• Establish a pay range for a new position for which you'll be hiring, then compare the current salary of all of your employees already holding that position.</li><li>• For those employees below the new pay range minimum, they <b>do</b> receive an adjustment to bring them up to at least the bottom of the new range.</li><li>• However, employees already above the newest salary minimum <b>don't</b> receive an increase in pay.</li><li>• For example, assume you have two employees in the same pay grade, and Employee A makes \$40K a year while Employee B makes \$47K. After creating a new pay structure, the new minimum starting salary for this position is \$42K. Due to this, Employee A would get a \$2K pay increase to bring them to the minimum salary, while Employee B would get no increase.</li></ul> <p>You would use this process for all pay grade changes, and for those employees who received increases to be brought up to the minimum salary, you would add all the increases to get a total dollar amount of the cost of your new pay structure.</p>

**Tip:** Remember to include benefits and any incentives as part of your employees' total compensation plan. Explore developing a benefit plan by visiting the People Excursion.

## Conclusion

Salary is one of the biggest factors potential candidates look at when deciding on a prospective employer. Salary is a component of motivating and retaining current employees. Whatever you decide on for your salary plan, make sure that it is competitive, that your compensation philosophy is carried out consistently, and that it is effectively communicated to all of your employees.<sup>7</sup> By communicating each element of your compensation program to your employees, you will ensure they understand how salary is determined, provide clarity on the compensation decision process, and highlight opportunities for higher compensation.

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<sup>1</sup> *Planning and Design: What Is a Compensation Philosophy? What Should Be Included in a Compensation Philosophy*, Society for Human Resource Management (2018), <https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/compensationphilosophy.aspx> (accessed Jan. 11, 2019).

<sup>2</sup> *Building a Market-Based Pay Structure from Scratch*, Society for Human Resource Management (2018), <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/buildingamarket-basedpaystructurefromscratch.aspx> (accessed Jan. 11, 2019).

<sup>3</sup> Manasa Reddigari, *How Much Should I Pay My Employees*, MileIQ (2018), <https://www.mileiq.com/blog/much-pay-employees/> (accessed Feb. 6, 2019).

<sup>4</sup> *Planning and Design: What Is a Compensation Philosophy? What Should Be Included in a Compensation Philosophy*, Society for Human Resource Management (2018), <https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/compensationphilosophy.aspx> (accessed Jan. 11, 2019).

<sup>5</sup> Malley, M. "Job Leveling" *Helps to Grade a Position's Value*, Society for Human Resource Management (2015), <https://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/job-leveling.aspx> (accessed Jan. 11, 2019).

<sup>6</sup> Ibid.

<sup>7</sup> *The Importance of Pay Philosophies*, Salary.com (2018), <https://www.salary.com/blog/the-importance-of-pay-philosophies/> (accessed Jan. 14, 2019).