

STEPS TO DEVELOP AND IMPLEMENT COMPENSATION PLANS

1. Develop a program outline.

- Set an objective for the program.
- Establish target dates for implementation and completion.
- Determine a budget.

2. Designate an individual to oversee designing the compensation program.

- Determine whether this position will be permanent or temporary.
- Determine who will oversee the program once it is established.
- Determine the cost of going outside versus looking inside.
- Determine the cost of a consultant's review.

3. Develop a compensation philosophy.

- Form a compensation committee (presumably consisting of officers or at least including one officer of the company).
- Decide what, if any, differences should exist in pay structures for executives, professional employees, sales employees, and so on (e.g., hourly versus salaried rates, incentive-based versus non-contingent pay).
- Determine whether the company should set salaries at, above, or below market.
- Decide the extent to which employee benefits should replace or supplement cash compensation.

4. Conduct a job analysis of all positions.

- Conduct a general task analysis by major departments. What tasks must be accomplished by whom?
- Get input from applicable senior officials of marketing, finance, sales, administration, and other appropriate departments to determine the organizational structure and primary functions of each.
- Interview department managers and key employees, as necessary, to determine their specific job functions.
- Decide which job classifications should be exempt and which should be non-exempt.
- Develop model job descriptions for exempt and non-exempt positions and distribute the models to incumbents for review and comment; adjust job descriptions if necessary.
- Develop a final draft of job descriptions.
- Meet with department managers, as necessary, to review job descriptions.
- Finalize and document all job descriptions.



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5. Evaluate jobs.

- Rank the jobs within each department, and then rank jobs between and among departments.
- Verify ranking by comparing it to industry market data concerning the ranking, and adjust if necessary.
- Prepare a matrix organizational review.
- On the basis of required tasks and forecasted business plans, develop a matrix of jobs crossing lines and departments.
- Compare the matrix with data from both the company structure and the industry-wide market.
- Prepare flow charts of all ranks for each department for ease of interpretation and assessment.
- Present data and charts to the compensation committee for review and adjustment.

6. Determine grades.

- Establish the number of levels - senior, junior, intermediate, and beginner - for each job family and assign a grade to each level.
- Determine the number of pay grades, or monetary range of a position at a particular level, within each department.

7. Establish grade pricing and salary range.

- Establish benchmark (key) jobs.
- Review the market price of benchmark jobs within the industry.
- Establish a trend line in accordance with company philosophy (i.e., where the company wants to be in relation to salary ranges in the industry).

8. Determine an appropriate salary structure.

- Determine the difference between each salary step.
- Determine a minimum and a maximum percent spread.
- Slot the remaining jobs.
- Review job descriptions.
- Verify the purpose, necessity, or other reasons for maintaining a position.
- Meet with the compensation committee for review, adjustments, and approval.

9. Develop a salary administration policy.

- Develop and document the general company policy.
- Develop and document specific policies for selected groups.
- Develop and document a strategy for merit raises and other pay increases, such as cost-of-living adjustments, bonuses, annual reviews, and promotions.
- Develop and document procedures to justify the policy (e.g., performance appraisal forms, a merit raise schedule).
- Meet with the compensation committee for review, adjustments, and approval.



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10. Obtain top executives' approval of the basic salary program.

- Develop and present cost impact studies that project the expense of bringing the present staff up to the proposed levels.
- Present data to the compensation committee for review, adjustment, and approval.
- Present data to the executive operating committee (senior managers and officers) for review and approval.

11. Communicate the final program to employees and managers.

- Present the plan to the compensation committee for feedback, adjustments, review, and approval.
- Make a presentation to executive staff managers for approval or change, and incorporate necessary changes.
- Develop a plan for communicating the new program to employees, using slide shows or movies, literature, handouts, etc.
- Make presentations to managers and employees. Implement the program.
- Design and develop detailed systems, procedures, and forms.
- Work with HR information systems staff to establish effective implementation procedures, to develop appropriate data input forms, and to create effective monitoring reports for senior managers.
- Have the necessary forms printed.
- Develop and determine format specifications for all reports.
- Execute test runs on the human resources information system.
- Execute the program.

12. Monitor the program.

- Monitor feedback from managers.
- Make changes where necessary.
- Find flaws or problems in the program and adjust or modify where necessary.

