OL 325 Final Project Case Study: 
Designing a Pay Structure
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OL 325 Final Project Case Study: Designing a Pay Structure

The importance of compensation varies depending on the viewpoint (Gerhart & Newman, 2020). Society views compensation as a measure of justice; managers may view compensation as a major expense or a motivator; employees view compensation as an entitlement or as an incentive. Regardless of the viewpoint, fairness and equity are essential. Compensation must also be up-to-date, competitive in the market, and easy to understand.

Aligned pay structures support the way the work gets done, fit the organization’s business strategy, and are fair to employees. Organizations typically task an in-house human resource (HR) professional or hire an HR consultant to create and maintain the company’s pay structure. In this final project, you will design a pay structure using this specially designed final project case scenario.

You are the human resource director for a premier supplier of rubber floor mats and matting that is expanding its production operations to Rockville, MD. The organization is headquartered in San Antonio, TX. Based on the organization’s mission statement, the company’s goal is to provide top-quality products with customer service that well exceeds expectations and with a strong commitment to continuous improvement. The following personnel are required to start the Rockville operation (the numbers in parentheses indicate the number of positions):

- Director of regional operations
- Assistant to the director of operations
- Operations analyst (2)
- HR director (*this is you*)
- HR administrative assistant
- Benefits manager
- Lead production worker (3)
- Production worker (10)
- Production manager
- HR generalist
- Front desk receptionist
Internal Consistency

Review this section for support with Milestone One. Also, refer to Appendix A for the section on job descriptions.

Job Descriptions

Job analysis is central to many HR functions, especially compensation. It is the systematic process of collecting information for a specific job and provides information needed to define that job (Gerhart & Newman, 2020). A job description is a summary of the most important features of a job. We need to understand what tasks, duties, and responsibilities various jobs entail before we can assign fair and competitive pay rates.

Writing a job description starts with job analysis. At times, it is appropriate to gather information from other job descriptions such as previous company descriptions or O*NET (an online job analysis resource developed by the Department of Labor). A link to O*NET can be found in Module Three’s Reading and Resources area. A company’s job description should be personalized, specific to the job, and tailored to the company. Job descriptions vary by organization but often include the job title, a job summary, essential job tasks, job-relevant knowledge, and skills that an incumbent must possess. A well-written, detailed job description provides a foundation to any internally consistent compensation system.

A benchmark job is a job used as a reference point for making pay comparisons. They typically have well-known stable roles with pay rates that are generally acceptable (Gerhart & Newman, 2020). Appendix A contains job descriptions of four benchmark jobs for this case study.

Job Evaluation

A job evaluation is the systematic procedure designed to aid in establishing pay differentials among jobs within an organization (Gerhart & Newman, 2020). The first step is to identify compensable factors.

A compensable factor is a characteristic within the work which the company values (Gerhart & Newman, 2020). It is used for evaluating the relative worth of jobs inside an organization. We also need to assign a relative weight to each compensable factor based on their importance to the organization. Keep in mind that all compensable factors added together must total 100%. An example of a compensable factor might be education. The company might weigh this at 25%.

Each compensable factor will have varying levels of difficulty. This is referred to as degrees.

For example, the degrees for education level might be identified as:

1 = High School/GED
2 = Associate’s
3 = Bachelor’s
4 = Master’s/Graduate

Next, points are calculated by multiplying the degrees by the weights.

Below is an example of how this point structure is applied to the front desk receptionist.
The weight of the skill compensable factor (divided into education level and technical skills) is at 50% since the organization is very knowledge-intensive and depends heavily on its human capital; responsibility (distributed into scope of control and impact of job) is weighted 30% as each job has the potential to affect other jobs; and effort is assigned 20% since problem-solving and task complexity are essential across jobs in the organization.

Using the job description as a reference, the degrees for the front desk receptionist position need to be assigned. Education degree 1 is appropriate for this position since a high school diploma or GED is sufficient; technical skills degree 1 is suitable as this position handles basic telephone and email only; responsibility scope of control degree 1 is also sufficient as this position has little control; impact of job degree 2 is fitting since this position greets every person entering the establishment; etc.

Lastly, multiply the weights by the degree for each compensable fact. Add the total points of each compensable factor to get your total job evaluation points for the front desk receptionist position.

<table>
<thead>
<tr>
<th>Job Evaluation for Front Desk Receptionist</th>
<th>Compensable Factor</th>
<th>Weight</th>
<th>Degree (1, 2, 3, 4)</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Skill (50%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Education Level</td>
<td>25%</td>
<td>1</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>- Technical Skills</td>
<td>25%</td>
<td>1</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td><strong>Responsibility (30%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Scope of Control</td>
<td>10%</td>
<td>1</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>- Impact of Job</td>
<td>20%</td>
<td>2</td>
<td></td>
<td>40</td>
</tr>
<tr>
<td><strong>Effort (20%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Problem Solving</td>
<td>10%</td>
<td>1</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>- Task Complexity</td>
<td>10%</td>
<td>1</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td></td>
<td></td>
<td>120 points</td>
</tr>
</tbody>
</table>

Table 1

**Job Families**

A job family is a group of jobs involving work of the same nature but requiring different skill and responsibility levels (Gerhart & Newman, 2020). Grouping similar jobs provides a basis for relevant comparisons. Such groupings lead to reasonable pay differences between positions, logical career pathing, and internally consistent job structures. Organizations may use different evaluation methods, pay strategies, or pay structures for different job families within the same organization.

Below is an example of two job families for a financial company. Note: This example is not from this case study.
Example of job families:

- Accounting family
  - Staff accountant
  - Senior accountant
- Investment family
  - Investment analyst
  - Investment accounts manager

Table 2

The positions needed for the new Rockville location fall into several different job families such as production, office support, and human resources.

External Competitiveness

Review this section for support with Milestone Two. Also, refer to Appendix B for your work on weighted means.

Weighted Means

The first step in analyzing the pay data is to generate the weighted means for each benchmark job. Weighted means, as compared to simple means, are calculated to better represent the market data (Burke, 2008, as cited in Milkovich & Newman). A simple mean would be calculated by adding up the average base pay rates and dividing by the number of organizations, but small and large companies would both be given the same weight if using a simple mean. A weighted mean gives equal weight to each job incumbent’s wage and, therefore, is more representative of the data. Below is an example of how to calculate a weighted mean. This example uses sample data from surveys of two companies.

Note: The numbers used are not from the data in this case study. See Appendix B to complete this section for your milestone.

To calculate the weighted mean:

**Simple mean** = average base and divide by number of companies

$\frac{(21,000 + 22,000)}{2} = 21,500$

**Weighted mean** = equal weight to each job incumbent’s wage

$\frac{(1/3 \times 21,000) + (2/3 \times 22000)}{3} = 21,666$

<table>
<thead>
<tr>
<th>Company</th>
<th># of Job Incumbents</th>
<th>Base Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front Desk Receptionist</td>
<td>1</td>
<td>Average</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front Desk Receptionist</td>
<td>2</td>
<td>Average</td>
</tr>
</tbody>
</table>

Table 3
**Predicted Market Pay Rate**

The next task is to conduct a simple regression using Microsoft Excel. This will allow us to calculate the predicted base pay and create a market pay line, which allows an organization to interpret the market data as usable information. Create a table in Excel for each benchmark job with a column for the job evaluation points from **Milestone One—Internal Consistency: Job Evaluation** and a column for the weighted average base pay rates from **Milestone Two—External Competitiveness: Weighted Means**.

Next, generate the regression results. Below are the steps of a simple regression in Excel using a sample dataset. **Note:** The numbers used are not from the data in this case study.

### To run a simple regression in Microsoft Excel:
- Open Microsoft Excel
- Create a table with the data to be analyzed (job titles, base pay, evaluation points)

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Weighted Pay</th>
<th>Job Evaluation points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front desk receptionist</td>
<td>20000</td>
<td>120</td>
</tr>
<tr>
<td>Administrative assistant</td>
<td>30000</td>
<td>145</td>
</tr>
<tr>
<td>Operations analyst</td>
<td>57000</td>
<td>215</td>
</tr>
<tr>
<td>Payroll assistant</td>
<td>34000</td>
<td>175</td>
</tr>
<tr>
<td>Benefits manager</td>
<td>63000</td>
<td>245</td>
</tr>
</tbody>
</table>

- Click on **Data** tab (ensure Data Analysis tool is set up under add-ons*)
- Click on **Data Analysis**
- Click on **Regression**
  - In the **Input Y Range**, select your weighted average base pay data (from previous step)
  - In the **Input X Range**, select your job evaluation points data (from Milestone One)
- Click **OK**

*Refer to activity prompt in Brightspace for instructions on Data Analysis tool setup.

The output will provide you with an R Square. This statistic signifies the variance explained in the data. The R Square tells us how well the regression line fits the data. This should be 0.95 or higher. If your number is low, review your data (that is, job evaluation points) for any discrepancies or inconsistencies. Correct any errors and rerun your regression, as needed.

Using the regression output, identify the slope and y-intercept. Calculate the predicted market pay rate using the formula \( y = a + b \times x \) for each benchmark job. Below is an example of a simple regression output in Excel using a sample dataset. **Note:** The numbers used are not from the data in this case study.
How to read your simple regression:

- $y =$ the predicted base pay
- $x =$ the slope of the line
- $a =$ the y-intercept
- $b =$ the slope of the line

Using this dataset above, we can predict the market pay rate for the front desk receptionist position:

$$y = a + b \cdot x$$

$$y = \text{y-intercept} + \text{slope (evaluation points)}$$

$$y = -23335.92 + 356.31 \cdot (120)$$

$$y = 19,421.28$$

Table 5

With that information, you will now be able to calculate the predicted base pay for each of the following benchmark jobs: administrative assistant, payroll assistant, operations analyst, production worker, and benefits manager.

**Market Pay Line**

Now that we have our predicted market pay rate, we need to create a market pay line. A market pay line links a company’s benchmark job evaluation points with market rates paid by competitors (Gerhart & Newman, 2020). We can do this by creating a trend line with our predicted salaries.

First, place the positions in order smallest to largest based on job evaluation points. Then create a chart in Excel, placing your job evaluation points along the horizontal axis and the salary along the vertical axis. This should form a gradual inclining line. Below is an example of a market line in Excel using a sample dataset. Note: The numbers used are not from the data in this case study.
Example of market pay line:

![Market Pay Line Graph](image)

### Adjusted Pay Rates

Now that we have our predicted market pay rate and pay line, we need to adjust it based on the organization’s lead pay level strategy. This will be our pay policy line. Since the organization wants to lead the market by 3% across the operations, office support, and HR job families, we need to adjust the market pay line accordingly. In other words, each predicted pay rate can be multiplied by 1.03 to get a new base pay rate that is 3% above the market. Below is an example of a 3% adjusted pay rate based on the previous market pay line example. Note: The numbers used are not from the data in this case study.

### Example of adjusted pay rates:

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Market Pay</th>
<th>Adjust Pay Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Front desk receptionist</td>
<td>$19,421</td>
<td>$20,003</td>
</tr>
<tr>
<td>Administrative assistant</td>
<td>$29,134</td>
<td>$30,008</td>
</tr>
<tr>
<td>Payroll assistant</td>
<td>$40,134</td>
<td>$41,338</td>
</tr>
<tr>
<td>Operations analyst</td>
<td>$54,801</td>
<td>$56,445</td>
</tr>
<tr>
<td>Benefits manager</td>
<td>$65,802</td>
<td>$67,776</td>
</tr>
</tbody>
</table>

Table 6
Pay Grades

Once the pay rates are created, we can construct pay grades for our pay structure. Pay grades characterize groupings of jobs that are comparable for pay purposes (Gerhart & Newman, 2020). They are of similar value to the organization. All the jobs in a pay grade share the same pay range (minimum and maximum pay rates).

Examine the following benchmark jobs: administrative assistant, operations analyst, production worker, and benefits manager. Determine which ones are sufficiently similar for compensation purposes. Below is an example of two pay grades. Note: the positions are for illustration purposes only.

Example of pay grades:
- Pay Grade A
  - Front desk receptionist
- Pay Grade B
  - Administrative assistant
  - Payroll assistant

Table 7

Pay Ranges

Pay ranges create upper and lower pay rates for each job in the pay grade (Gerhart & Newman, 2020). These are the limits the employer will pay for a particular job. Each pay grade will have a minimum and maximum pay rate. Percent guidelines are used to determine how far above and below the midpoint the pay range will reach. For example, the maximum might be 10% above the midpoint and the minimum might be 10% below the midpoint. Note: All jobs in a pay grade will have the same minimum and maximum pay rates. Below is an example of pay ranges for two pay grades. Note: The numbers used are not from the data in this case study.

Example of pay ranges:

<table>
<thead>
<tr>
<th>Pay Grade</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$18,002 (-10%)</td>
<td>$20,003</td>
<td>$22,003 (+10%)</td>
</tr>
<tr>
<td>B</td>
<td>$32,105 (-10%)</td>
<td>$35,673</td>
<td>$39,240 (+10%)</td>
</tr>
</tbody>
</table>

Table 8
References


Appendix A—Job Descriptions for Benchmark Jobs
(U.S. Department of Labor, 2020)

Front Desk Receptionist

Job Summary
Answer inquiries and obtain information for the general public, customers, visitors, and other interested parties. Provide information regarding activities conducted at the establishment, location of departments, offices, and employees within the organization.

Essential Job Tasks
- Operate telephone to answer, screen, and forward calls, providing information, taking messages, and scheduling appointments.
- Greet persons entering the establishment, determine nature and purpose of visit, and direct or escort them to specific destinations.
- Hear and resolve complaints from customers and the public.
- Transmit information or documents to customers, using email, mail, or fax machine.
- Analyze data to determine answers to questions from customers or members of the public.
- Provide information about the establishment, such as the location of departments or offices, employees within the organization, or services provided.

Job Context
Indoor, environmentally controlled; telephone; contact with others.

Knowledge, Skills, and Abilities
- Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.
- Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, taking and organizing messages, and other office procedures and terminology.
- Awareness of others’ reactions and understanding why they react as they do.
- Gives full attention to what other people are saying, taking the time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.
- Actively looks for ways to help people.
- Manages own time and the time of others.
- Talks to others to convey information effectively.
- Knowledge of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.
Administrative Assistant

Job Summary
Provide administrative support by conducting research, preparing reports, handling information requests, and performing clerical functions such as preparing correspondence, receiving visitors, arranging conference calls, and scheduling meetings.

Essential Job Tasks
- Manage and maintain executives’ schedules.
- Prepare invoices, reports, memos, letters, financial statements, and other documents, using word processing, spreadsheet, database, or presentation software.
- Read and analyze incoming memos, submissions, and reports to determine their significance and plan their distribution.
- Open, sort, and distribute incoming correspondence, including faxes and email.
- File and retrieve corporate documents, records, and reports.
- Greet visitors and determine whether they should be given access to specific individuals.
- Prepare responses to correspondence containing routine inquiries.
- Perform general office duties such as ordering supplies, maintaining records, management systems, and performing basic bookkeeping work.
- Make travel arrangements for executives.

Job Context
Indoor, environmentally controlled; telephone; contact with others.

Knowledge, Skills, and Abilities
- Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, designing and completing forms, and other office procedures and terminology.
- Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.
- Knowledge of computer hardware and software.
- Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Gives full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.
- Monitors/assess performance of self, other individuals, or organizations to make improvements or take corrective action.
- Manages own time and the time of others.
- Talks to others to convey information effectively.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.
- Adjusts actions concerning others’ actions.
Operations Analyst

Job Summary
Formulate and apply mathematical modeling and other optimizing methods using a computer to develop and interpret information that assists management with decision making or other managerial functions. Frequently concentrates on collecting and analyzing data using decision support software.

Essential Job Tasks
- Analyze information obtained from management to conceptualize and define operational problems.
- Collaborate with senior managers and decision-makers to identify and solve a variety of problems and to clarify management objectives.
- Define data requirements and then gather and validate information, applying judgment.
- Study and analyze information about alternative courses of action to determine which plan will offer the best outcome.
- Prepare management reports defining and evaluating problems and identifying solutions.
- Formulate mathematical or simulation models of problems, relating constants and variables, restrictions, alternatives, conflicting objectives, and their parameters.

Job Context
Indoor, environmentally controlled; telephone; contact with others.

Knowledge, Skills, and Abilities
- Knowledge and application of arithmetic, algebra, geometry, calculus, and statistics.
- Knowledge of the practical application of engineering science and technology. This includes applying principles, techniques, procedures, and equipment.
- Knowledge of computer hardware and software including applications and programming.
- Identifies complex problems and reviews related information to develop and evaluate options and implement solutions.
- Uses logic and reasoning to identify the strengths and weaknesses of alternative solutions, conclusions, or approaches to problems.
- Analyzes needs and product requirements to create a design.
- Determines how a system should work and how changes in conditions, operations, and the environment will affect outcomes.
- Considers the relative costs and benefits of potential actions to determine the course of action.
- Understands the implications of new information for both current and future problem solving and decision making.
- Knowledge of the English language including the meaning and spelling of words, rules of composition, and grammar.
- Understands written sentences and paragraphs in work-related documents.
- Communicates effectively in writing as appropriate for the needs of the audience.
Appendix B—Results from Salary Survey
(adapted from Burke, 2008)

Front Desk Receptionist

<table>
<thead>
<tr>
<th>Company</th>
<th># of Job Incumbents</th>
<th>Average Base Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>$27,000</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>$25,500</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>$29,500</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>$31,000</td>
</tr>
<tr>
<td>E</td>
<td>2</td>
<td>$26,500</td>
</tr>
<tr>
<td>F</td>
<td>1</td>
<td>$26,000</td>
</tr>
</tbody>
</table>
### Administrative Assistant

<table>
<thead>
<tr>
<th>Company</th>
<th># of Job Incumbents</th>
<th>Average Base Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>4</td>
<td>$37,500</td>
</tr>
<tr>
<td>B</td>
<td>4</td>
<td>$32,000</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>$33,000</td>
</tr>
<tr>
<td>D</td>
<td>5</td>
<td>$39,000</td>
</tr>
<tr>
<td>E</td>
<td>4</td>
<td>$36,500</td>
</tr>
<tr>
<td>F</td>
<td>4</td>
<td>$35,000</td>
</tr>
</tbody>
</table>
### Operations Analyst

<table>
<thead>
<tr>
<th>Company</th>
<th># of Job Incumbents</th>
<th>Base Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2</td>
<td>$63,500</td>
</tr>
<tr>
<td>B</td>
<td>4</td>
<td>$59,000</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>$61,000</td>
</tr>
<tr>
<td>D</td>
<td>5</td>
<td>$67,000</td>
</tr>
<tr>
<td>E</td>
<td>3</td>
<td>$63,500</td>
</tr>
<tr>
<td>F</td>
<td>3</td>
<td>$65,000</td>
</tr>
</tbody>
</table>
### Production Worker

<table>
<thead>
<tr>
<th>Company</th>
<th># of Job Incumbents</th>
<th>Base Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>9</td>
<td>$27,500</td>
</tr>
<tr>
<td>B</td>
<td>12</td>
<td>$25,000</td>
</tr>
<tr>
<td>C</td>
<td>11</td>
<td>$31,000</td>
</tr>
<tr>
<td>D</td>
<td>13</td>
<td>$33,000</td>
</tr>
<tr>
<td>E</td>
<td>8</td>
<td>$29,000</td>
</tr>
<tr>
<td>F</td>
<td>10</td>
<td>$28,500</td>
</tr>
</tbody>
</table>
### Benefits Manager

<table>
<thead>
<tr>
<th>Company</th>
<th># of Job Incumbents</th>
<th>Base Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>$62,000</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>$57,500</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>$63,000</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>$67,000</td>
</tr>
<tr>
<td>E</td>
<td>2</td>
<td>$62,000</td>
</tr>
<tr>
<td>F</td>
<td>1</td>
<td>$65,000</td>
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</tbody>
</table>