Total Rewards Articles
A Special Collection from WorldatWork

The It Factor: A New Total Rewards Model Leads the Way
By Jean Christofferson and Bob King, WorldatWork

A Fairness Approach to Market-Based Pay
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FMLA – Benefit or Burden

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About WorldatWork

WorldatWork (www.worldatwork.org) is an association of human resource professionals from FORTUNE 500 and other leading organizations worldwide focused on attracting, motivating and retaining employees.

Founded in 1955, WorldatWork provides practitioners with training and education to effectively design and implement strategies and practices in total rewards, including compensation, benefits, work-life, recognition, and career development. With offices in Scottsdale, Arizona, and Washington, D.C., WorldatWork supports its 30,000 members and professionals in 75 countries with thought leadership, publications, research and community. WorldatWork administers certification through the WorldatWork Society of Certified Professionals.

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At Starbucks, it is known as “your special blend.” At Google, it might include bringing your dog to work or pool tables in the lobbies. At Nordstrom it may be low-cost health insurance and on-site daycare. And when the automobile companies deal with rising labor costs, it is a part of discussions between labor and management.

It is the unique and proprietary way you attract, retain and motivate employees.

It is total rewards — the monetary and nonmonetary return provided to employees in exchange for their time, talents, efforts and results. Total rewards involves the deliberate integration of five key elements that effectively attract, retain and motivate the talent required to achieve desired business results.

It is about integration. “Lots of research has shown that employee engagement is critical to business performance,” said Michael L. Davis, CCP, WorldatWork board chair and vice president, HR, U.S. retail and corporate, General Mills. “We’ve come to the conclusion that siloed benefits plans don’t drive employee engagement as much as a totally integrated model.”

WorldatWork has just released a new and fully integrated model that reflects the next generation of thinking about total rewards. It puts total rewards in context, presents a perspective of the profession and represents the art of combining five elements into tailored packages designed to achieve optimum business results. (See Figure 1, on page 22.)

“Since the last update to the model in 2000, both thinking and practice around the elements that comprised ‘the work experience’ have evolved considerably,” said Charles Bell, CCP, vice president, compensation and benefits, Amgen Inc. “It was important to recognize this progress in a new model that is more relevant to the challenges that organizations face today, and highlights the drivers for making total rewards decisions, as well as the opportunities for integrating the elements that attract, retain and motivate employees.”

Bell was 2004-2005 chair of the WorldatWork Strategy Committee that spearheaded the new model.

Exploring the Key Areas

Following is a brief description of the five elements of the new WorldatWork total rewards model. (See “Total Rewards Definitions” on page 27 for more detail.)

Compensation

This includes fixed (base) pay and variable pay (pay at risk). It also includes several forms of variable pay, including short- and long-term incentive pay. While one of the most traditional elements of total rewards, it remains a necessity for business success.

Benefits

While this area seems to be continuously challenged during this time of shrinking health-care benefits, and expanding health-care premiums, businesses are trying to redefine the traditional benefits program. In basic form, benefits programs protect employees and their families from financial risks. This area includes traditional programs such as retirement.
and medical and dental insurance, as well as nontraditional programs, such as identity theft and pet insurance.

Work-Life
This area refers to any programs that help employees do their job effectively, such as flexible scheduling, telecommuting, child-care programs, etc. One of the most talked about areas of late, work-life has become the “secret sauce” in many organizations’ recipes for business success.

In 2003, Alliance for Work-Life Progress (AWLP) joined the WorldatWork family of organizations, reflecting work-life as an integral component of total rewards.

Performance and Recognition
Rarely does an issue of workspan go by without at least one article or column detailing pay-for-performance strategies. Perhaps one of the anchors in talent management, performance involves the alignment of organizational and individual goals toward business success.

Recognition is a way for employers to pay special attention to workers for their accomplishments, behaviors and successes. Recognition is necessary to reinforce the value of performance improvement and foster positive communication and feedback. It can be programmatic or simply cultural in execution.

Development and Career Opportunities
This key area focuses on the concept that motivating and engaging the workforce entails planning for the advancement and/or change in responsibilities to best suit individual skills, talents and desires. In this way, both the business and the employee benefit from this symbiotic relationship. Tuition assistance, professional development, sabbaticals, coaching and mentoring opportunities, succession planning and apprenticeships are all examples of career-enhancement programs.

Applying the Model in Everyday Business
Total rewards professionals are more than likely aware of the possibilities in the aforementioned areas. But how do they apply these concepts and ideas to everyday business?

Using a fictional Fortune 500 company as an example, attracting, retaining and motivating talent can, and should, take many forms.

For example, if the company is a high-tech software manufacturer, teleworking may be necessary to the overall business environment. In fact, with highly intelligent, methodical and technologically oriented employees, the absence of a telework program could mean the inability to attract future talent, which most certainly affects the bottom line. In addition, through surveys and individual conversations, total rewards professionals have come to realize that these employees may be far more motivated, in this example, by sign-on bonuses and pay-for-performance strategies versus long-term incentives and substantial health insurance benefits. Consequently,
In August 2005, WorldatWork asked its members to evaluate the new total rewards model. To test the model’s effectiveness, a representative segment of WorldatWork members was asked to evaluate the model by completing a survey. Respondents rated the visual depiction of the model, the definitions of each component and their beliefs about past and future trends for total rewards professionals.

Survey results demonstrate that the new model resonated with the membership. In particular, respondents felt they could apply the model to their jobs and use it as a template to communicate with senior leadership. Following are some of the survey highlights.

**Overall Graphics and Definitions**
Respondents assigned high marks to the graphic on a variety of levels. When asked if the model made sense to them, respondents gave the graphic a highly positive 5.9 average rating. Members also agreed the graphic could be a useful tool to describe total rewards to senior leadership and supervisors, although they felt it would be slightly less useful with employees.

**Naming the “It” Factor**
Has the term total rewards caught on? The answer appears to be “yes.” Although the concept described here as “total rewards” goes by a number of different names, “total rewards” was chosen by 45 percent of survey participants. Forty-seven percent refer to the concept as “total compensation,” and about 43 percent label it the “compensation and benefits package.” Taken together, about nine out of 10 practitioners use one of the three terms. Surprisingly, about 12 percent of participants use no particular term frequently, and 16 percent hold on to the general term “human resources.”

**Rising Levels of Importance**
Compensation and benefits have the longest history with the core profession of compensation and benefits professionals. According to survey respondents, both areas have not only retained their significance, but also gained increasing importance to attraction, motivation and retention. For compensation specifically, about 58 percent of members indicate it has at least somewhat increased in importance, while slightly more than one-third believe its importance has stayed the same. (See Figure 2 on page 26.)

Only about 2 percent believe the importance of compensation has decreased. Similarly, about 55 percent of members perceive the importance of benefits has risen, and 37 percent feel it remains unchanged.

Work-life also has gained in perceived importance as a significant contributor to attraction, motivation and retention. Fifty-eight percent of participants report the importance of work-life has increased, while about one-third maintain it has remained stable. Less than 8 percent believe it has lost significance.

The largest reported changes substantiate the newer, expanded total rewards model. Participants report the largest increases in perceived importance in the areas of performance and recognition, as well as development and career opportunities. Two-thirds of survey participants believe the importance of performance and recognition has increased to some degree, and 62 percent rated development and career opportunities as increasing in importance.

In addition to looking backward, survey participants were asked what they felt would be important in the next two years. Again, respondents believe the value of all the elements of the new total rewards model will increase in the next two years. According to the data shown in Figure 3 on page 26, the trends in the next two years lie with work-life, performance and recognition, and development and career opportunities. About three of four survey participants believe these areas will increase in importance in the next two years, and about one third believe the increases will be substantial.

Members highlighted work-life effectiveness as both an area that emerged as an important trend in the last several years, and one that will continue in the future. Training and development issues, as well as addressing the rising costs of benefits (especially health care), also made both lists. Other frequently cited trends included shifting accountability from employer to employee, facing a tight labor market when attracting and retaining key talent, workplace diversity, the increasing importance of integrating total rewards strategy with business goals and tailoring rewards elements to a diverse workforce.
the company measures and molds the total rewards strategy to fit both worker and organizational needs.

“If you don’t measure attraction, retention and motivation, you certainly aren’t going to manage them,” said Andrew Richter, Ph.D., CCP, vice president of compensation and benefits, NBC Universal. “The savvy rewards professional will need to get a lot of input from both line managers and colleagues in other parts of human resources before defining a strategy, implementing it and measuring success.” Richter was instrumental in developing the new model, heading a board of directors task team that initially addressed evolution of “the work experience” aspect of total rewards.

“As the model presents, all the foundational components are visible,” said Linda Roundtree, president, Roundtree Consulting LLC. “This enables organizations to shift them around to match their strategies. For example, work-life may be viewed as a separate function in some organizations, and in others it may be a component of the benefits strategy.” Roundtree, as 2004-2005 AWLP strategy board chair, participated in the task team that addressed total rewards.

**Looking Beyond the Obvious**

Influencing total rewards strategy, and represented as backdrop components of the model, are environment (geographic, industry, legal), organizational culture, business strategy and HR strategy. Well-crafted total rewards strategies align appropriately with these components to attract, motivate and retain talent that produces desired business results.

“This is a critical update,” Roundtree said. “Companies continue to place more emphasis on global HR strategies. Specifically, companies are recognizing that employees view each area differently around the globe and that support strategies differ as a result.”

**The Art and Science of Total Rewards**

Total rewards strategy is the art of combining these five elements into a tailored package designed to achieve optimal motivation for the individual. When viewed within the model, the elements are not mutually exclusive.

“The elements within total rewards can be viewed as levers to attract, motivate and retain employees,” said Don Griffith, WorldatWork strategy and marketing director. “HR professionals, rewards practitioners and management have different levels of influence or control over various levers. This model is intended to provide an integrated

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**FIGURE 2: COMPARED TO TWO YEARS AGO, THE IMPORTANCE OF THIS AREA OF TOTAL REWARDS TO YOUR ORGANIZATION’S OVERALL EFFECTIVENESS IN ATTRACTION, MOTIVATION AND RETENTION HAS:**

<table>
<thead>
<tr>
<th>Component</th>
<th>Decreased Substantially</th>
<th>Decreased Somewhat</th>
<th>Stayed the Same</th>
<th>Increased Somewhat</th>
<th>Increased Substantially</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>*</td>
<td>2%</td>
<td>37%</td>
<td>38%</td>
<td>20%</td>
<td>3%</td>
</tr>
<tr>
<td>Benefits</td>
<td>&lt;1%</td>
<td>7%</td>
<td>37%</td>
<td>37%</td>
<td>18%</td>
<td>3%</td>
</tr>
<tr>
<td>Work-Life</td>
<td>&lt;1%</td>
<td>7%</td>
<td>32%</td>
<td>35%</td>
<td>23%</td>
<td>3%</td>
</tr>
<tr>
<td>Performance &amp; Recognition</td>
<td>*</td>
<td>3%</td>
<td>29%</td>
<td>43%</td>
<td>23%</td>
<td>2%</td>
</tr>
<tr>
<td>Development &amp; Career Opportunities</td>
<td>&lt;1%</td>
<td>5%</td>
<td>31%</td>
<td>36%</td>
<td>26%</td>
<td>2%</td>
</tr>
<tr>
<td>Other Total Rewards Activities</td>
<td>*</td>
<td>2%</td>
<td>31%</td>
<td>12%</td>
<td>11%</td>
<td>44%</td>
</tr>
</tbody>
</table>

* Indicates 0% response.

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**FIGURE 3: IMPORTANCE OF TOTAL REWARDS ELEMENTS TWO YEARS FROM NOW**

<table>
<thead>
<tr>
<th>Component</th>
<th>Decreased Substantially</th>
<th>Decreased Somewhat</th>
<th>Stayed the Same</th>
<th>Increased Somewhat</th>
<th>Increased Substantially</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>*</td>
<td>&lt;1%</td>
<td>31%</td>
<td>45%</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>Benefits</td>
<td>*</td>
<td>3%</td>
<td>32%</td>
<td>39%</td>
<td>23%</td>
<td>3%</td>
</tr>
<tr>
<td>Work-Life</td>
<td>&lt;1%</td>
<td>2%</td>
<td>22%</td>
<td>43%</td>
<td>30%</td>
<td>2%</td>
</tr>
<tr>
<td>Performance &amp; Recognition</td>
<td>*</td>
<td>1%</td>
<td>22%</td>
<td>45%</td>
<td>30%</td>
<td>2%</td>
</tr>
<tr>
<td>Development &amp; Career Opportunities</td>
<td>*</td>
<td>2%</td>
<td>19%</td>
<td>44%</td>
<td>34%</td>
<td>2%</td>
</tr>
<tr>
<td>Other Total Rewards Activities</td>
<td>&lt;1%</td>
<td>26%</td>
<td>19%</td>
<td>12%</td>
<td>42%</td>
<td>*</td>
</tr>
</tbody>
</table>

* Indicates 0% response.
view of all the levers that can be deployed to engage employees and achieve desired business results.”

Regardless of each organization’s unique total rewards approach, the desired end result is the same: a satisfied, engaged and productive group of employees who, in turn, create the desired business performance and results. Employee satisfaction and engagement on one hand, and business performance and results on the other, are critical outcomes that depend upon one another. “Models get updated as thinking evolves and concepts get refined,” Richter said. “The new model is not a refutation of the earlier model — it is a refinement and elaboration of that model. We’ve realized for some time that compensation and benefits are a necessary, but not sufficient, condition for attracting, retaining and motivating employees. The new model seeks to better elaborate all the factors that drive attraction, retention and motivation in a way that should be intuitively reasonable to most total rewards professionals.”

Editor’s Note: If you would like to submit a case study on your company’s total rewards strategy, please send inquiries and ideas to Editor Jean Christofferson, jchristofferson@worldatwork.org.

For more information on the total rewards model and to offer feedback, go to www.worldatwork.org/totalemployees.

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**Total Rewards Definitions**

<table>
<thead>
<tr>
<th>Total Rewards Component</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>Pay provided by an employer to an employee for services rendered (i.e. time, effort and skill). Includes both fixed and variable pay tied to levels of performance.</td>
</tr>
<tr>
<td>Benefits</td>
<td>Programs an employer uses to supplement the cash compensation that employees receive. These health, income protection, savings and retirement programs provide security for employees and their families.</td>
</tr>
<tr>
<td>Work-Life</td>
<td>A specific set of organizational practices, policies and programs, plus a philosophy, that actively supports efforts to help employees achieve success at both work and home.</td>
</tr>
<tr>
<td>Performance and Recognition</td>
<td>Performance: The alignment of organizational, team and individual efforts toward the achievement of business goals and organizational success. It includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement. Recognition: Acknowledges or gives special attention to employee actions, efforts, behavior or performance. It meets an intrinsic psychological need for appreciation of one's efforts and can support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Whether formal or informal, recognition programs acknowledge employee contributions immediately after the fact, usually without predetermined goals or performance levels that the employee is expected to achieve. Awards can be cash or noncash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.)</td>
</tr>
<tr>
<td>Development and Career Opportunities</td>
<td>Development: A set of learning experiences designed to enhance employees’ applied skills and competencies. Development engages employees to perform better and engages leaders to advance their organizations’ people strategies. Career opportunities: Involve the plan for employees to advance their career goals. May include advancement into a more responsible position in an organization. The company supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to the organization.</td>
</tr>
</tbody>
</table>

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**RESOURCES PLUS**

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a Fairness approach to Market-Based Pay
Market-based pay systems — systems that focus on external instead of internal equity and operate without traditional pay grades and ranges — are meant to appeal to employees and provide hiring and retention advantages. However, companies often sabotage the success of market-based pay with inadvertent violations of employee fairness expectations.

Expectations of pay fairness take four distinct forms, including procedural, individual, external and internal. External equity, or how pay rates compare to the market, and internal equity, or how pay rates compare across different jobs within the organization, are the most well-known. Procedural fairness relates to how pay decisions are made, rather than the pay amount itself, while individual fairness is concerned with pay differences between individuals doing the same job within the organization.

Meeting employees’ external equity expectations does not alone ensure pay satisfaction. A study published in the November/December 2003 Compensation and Benefits Review by researchers David Terpstra, Ph.D., and Andre Honoree, Ph.D., which surveyed employees across a number of colleges and universities, shows that all four areas of fairness are important to pay satisfaction. And based on survey feedback, procedural fairness is significantly more important than the others.

In order for a market-based pay system to fully succeed, companies must go beyond emphasizing external equity and work to maintain a well-rounded sense of fairness. The good news is this is achievable without significant extra compensation expense through administration and communication of the pay plan. Following are the key ways in which to improve employee perceptions of fairness within a market-based pay plan.

More Fair Procedures
In addition to being possibly the most important fairness factor in encouraging pay satisfaction, studies show that individuals find even negative outcomes more acceptable if they perceive the process used to determine the outcome is fair. Under a market-based system, without the clear structure of grades, ranges and formal job evaluation, pay procedures can appear vague and arbitrary. Procedural fairness perceptions with market pay hinge on the pay survey and its application.

Pay Survey Acceptance
Of course a fair system must start with good pay data that employees accept. Many pay surveys already are outdated by the time they’re published and employees — turned armchair experts thanks to an abundance of Internet pay surveys and frequent job searches — know it. Demanding better third-party market data is a must. Clark Consulting recently met this challenge for IBM, now providing quarterly pay survey results from 143 companies with a quick 30-day turnaround.

The pay survey stage also is a good point to allow employee “voice.” The voice effect is well-established in academic research. Individuals find a process to be fair if they have an opportunity for input. Interestingly, this effect holds even when the input is not instrumental in determining the process. Most of the time, people just want to be heard.

An easy way to incorporate voice in the pay survey is to simply ask existing employees which types of companies they feel are relevant to the survey. In other words, where would they look for another job?

Appropriate Market Matches
HR professionals sometimes equate intricacy with accuracy and become so enamored with mathematical preciseness that they lose sight of their primary objective — employee acceptance. An easily explained and understood method of matching jobs to the market is actually more likely to generate feelings of fairness from employees. For instance, basic slotting or weighting of different market rates for jobs that have no direct market match is appropriate.

Beyond the initial market match, it is critical to procedural fairness perceptions to frequently re-examine the matches and identify any differences, even small, between internal and market jobs as they evolve. Continuous recognition and consideration of differences between internal and market jobs is more important to employee fairness evaluations than the actual amount of the pay adjustment. A difference in views on pay adjustments is simply a judgment issue, while completely overlooking a contribution of the job is a violation of the employee’s psychological contract.
Communicate Market Information Carefully

Market rates can be interpreted in different ways, creating a potential point of contention for employees. A company may define the market by industry, whereas employees may consider jobs by profession, including higher-paying industries in their informal sample. Companies normally use a percentile measure of market rates, which excludes the influence of outliers. Employee focus gravitates to the high extremes of market rates, with selective memory of the rates that are most attractive.

To minimize this problem, a large Midwest corporation that recently converted to a market-based system carefully communicates market data to employees. Its message to employees is: “We looked at market data and here’s the value we placed on your role,” which suggests a more interpretive process than a direct match to one source. It’s more important employees understand that broad market factors were considered than to try and convince them one piece of market information is more accurate than another.

Individual Fairness

Individual fairness issues stem from employee comparisons of their own performance and pay to that of their co-workers doing the same job. Years of empirical studies building on Adams’ Equity Theory, a classic academic theory that sheds light on how employees evaluate pay, indicate individual fairness calculations are not based on a simple and direct comparison of pay rates, but rather a more involved comparison of performance-to-pay ratios. Employee fairness expectations are violated if pay fails to vary appropriately across performance differences.

Market-based pay systems allow greater latitude to distinguish individual performance differences as compared to traditional grade and range systems, which are constrained by pay floors, ceilings and comparators. Even with this latitude, however, inappropriate use of performance appraisals and pay budgets often limit pay variations.

Focus on Relative Differences

In terms of pay-fairness perceptions, it’s the performance appraisal’s ability to uncover relative differences in performance that matters most. An appraisal system may be unduly harsh or overly generous as long as it is consistently applied across individuals in the same job so relative performance differences are identified.

The relative performance and respective pay differences influence individual fairness perceptions more than the absolute pay amount. This theory can be informally tested by simply asking a group of top employees how they’d feel if they were paid at the 90th percentile of market rates. Then mention that lower performers will be paid the same amount and see the response immediately changes.

Pay Differentials on a Budget

The easiest way to pay employees for performance differences is to increase rewards for top performers. Managers sometimes fail to recognize that pay differentials and employee fairness expectations also can be met by keeping low performers below the 50th percentile of market rates. Another budget-sensitive approach is to keep all employees at the same percentile and recognize individual differences in performance through a variable pay component.

Internal Fairness

Even though internal equity — pay relationships across different jobs in the same organization — may be the least-significant fairness factor of the four, it still has some importance. Market-based systems can de-emphasize internal equity, but not ignore it altogether. Employees expect equal treatment.

Equal treatment under a market-based system is expressed through consistent external competitiveness polices with regard to matching, lagging or leading the market. For instance, paying engineers at the 75th percentile and HR staff members at the 50th percentile can generate employee resentment. If the policy unduly impacts women or other protected classes, this opens the organization to allegations of discrimination. All pay differences across jobs should be a result of objective market-rate differences, rather than policy differences, in order to be seen as most fair.

Call to Action

Meeting employee-fairness expectations within a market-based pay plan does not require a large cost, but does provide a large return. Pay fairness affects pay satisfaction, retention and employee motivation. Often companies look to improve a pay plan by infusing it with more money. While employees will always welcome more money, it’s important to remember that feelings of pay fairness cannot be bought.

ABOUT THE AUTHOR:

Kimberly K. Merriman, Ph.D., is a business writer and educator specializing in employee issues and a WorldatWork member since 2004. She can be reached through her Web site at www.kkmerriman.com or 215/237-6686.
The U.S. Department of Labor (DOL) has spent the past year reviewing the regulations that implement the Family and Medical Leave Act of 1993 (FMLA). The Labor Department will determine to what extent the regulations need to be revised to be effective for the 21st-century workforce. The DOL has been particularly concerned about intermittent leave and advance employee notice.

Feedback on these particular issues has been mixed. Some employers claim that the regulations permitting unscheduled, intermittent leave and providing permissive notice requirements have combined to increase absenteeism, complicate staffing and reduce productivity. Advocates of greater leave rights claim the opposite is true — FMLA leave has not been a burden to employers and should actually be expanded, perhaps to include paid leave.

What has been your company’s experience with FMLA? Has your company been burdened, both in production and administration, with FMLA leave requests? Or has FMLA been easy to handle?

For my company (telecommunications, engineering and manufacturing) FMLA has been an enormous burden due to the fact that most users (blue-collar workers) see it as a “right” to be absent and not be disciplined for poor attendance.

While we certainly have legitimate FMLA cases, we have many who are abusers, sharing information with fellow workers, such as names of doctors who will complete certifications with required language at the employee’s request for minor ailments. The “more than three days” language produces many applications for questionable leaves.

Our benefits administrators are inundated with FMLA requests, each of which must be responded to within two business days. This forces them to put even the nuisance requests at a higher priority than some other non-FMLA issues that are more urgent. The language is so employee-friendly that employers must, in many cases, grant time off for employees who do not have a serious medical condition but have a sympathetic doctor; or have a serious medical condition, but abuse the policy by taking excessive time off because they have learned how to “work the system.”

Our greatest problem is intermittent leave, where the language invites abuse from a savvy employee. We have some employees who have ongoing intermittent leaves in place due to “rubber-stamped” recertifications by their medical providers that allow them to take time off on a regular basis week after week with no real oversight except another blanket recertification. Many times the diagnosis indicates a legitimate serious medical condition. However, the usage of the intermittent time appears excessive.

One example is an employee with diabetes who has not worked a full week of work for two years. This has created a tremendous hardship for his department. His doctor recertifies with the exact language as the prior certification — giving no indication that his diabetes is out of control or more severe than the average person with diabetes. However, he states that the employee may have a need to be absent whenever his blood sugar is high or low. Getting a second and then third opinion has been very difficult because physicians are very hesitant to get involved with another physician’s patient for FMLA purposes.
While I agree with the intent of the act and the fact that FMLA is needed to ensure that employees who truly need time off are not penalized, I believe the language was written with the belief that abuse would not be an issue. In fact, in my discussions with fellow HR managers, abuse is a common problem. Any revised language should tighten the requirements and include more flexibility and control for employers to investigate and act on instances of suspected or potential abuse.

— Ann Leith, HR Manager, ADTRAN Inc.

We have experienced extreme cases of abuse in FMLA, specifically intermittent leave. At one facility, we have more than 80 employees who are currently on intermittent leave. Most of these employees had long histories of absenteeism, and with FMLA they now have 12 weeks of excused absence that can be used at their leisure.

I have seen a situation where an employee was tardy and then claimed 15 minutes of FMLA because he had to care for his asthmatic child. The location I speak of is unionized and the local union has been educating members on how to use FMLA to circumvent being disciplined for absenteeism and tardiness.

We recently discharged an employee because he left work early, claiming FMLA for a migraine headache. Due to the past abuses experienced by this employee, the company had established surveillance and the employee was observed leaving work and driving to a local bar and spending the afternoon and early evening there.

Overall, I believe FMLA is a great benefit for employees. A couple of areas I believe need to be redefined are:

Definition of a “serious health condition.” There is very little that does not fall under this classification. As it is now, it leaves the employer open to situations where almost an entire department is using intermittent leave due to headaches, ill parents, backaches, foot pain, ill children, etc.

Our response to FMLA is that it has been burdensome, both administratively and in production. Intermittent use of time can be more than a nightmare — not only in terms of record keeping, but also within the individual departments.

— Cassandra Williams, Manager of Compensation & Benefits, Atlanta Housing Authority

I also have seen incidents where employees use one day of their workweek as FMLA and then work one day on the weekend at overtime. In doing so, they get their five-day workweek, plus a little overtime.

The act has incorporated so many protections for the employee that it is nearly impossible to combat the abuses. In my opinion, Congress incorrectly assumed that since FMLA was unpaid leave there would be no reason for an employee to abuse it. The abuses that we have experienced have forced us to change the way that we deal with employees with legitimate illness/family issues.

One case in point was a situation where an employee requested leave to donate a kidney to his brother. This clearly did not qualify for FMLA and under normal circumstances we would have granted the employee time off without pay, but due to the widespread abuse of FMLA at that location we were afraid that we would be setting a precedent for allowing leave for a non-FMLA qualifying event.

We ended up being in the untenable position of denying leave to an employee that was truly in need of it.

Now that the election is over, it is time to do something about the abuses of intermittent FMLA.

I keep reading surveys that indicate employers are not having any problems with FMLA and that it is a “non-event.” From the employers that I have talked to, I would like to know whom they have surveyed.

— Anonymous, Ark.

As the HR director for a medium-sized (235 employee) nonprofit organization, I find dealing with the FMLA more burdensome than when I worked for a large manufacturing company. This is primarily because I do not have the budget to hire extra help or to purchase an integrated HR system with an automated attendance tracking system, in which I could set up absence codes that applied to FMLA and group them into an attendance class. We outsource our payroll and are only able to track vacation, sick time and personal leave. Intermittent leave is almost impossible to track.

— Jo Marenberg, Director of Human Resources, Mental Health Services for Clark County Inc.

Government-imposed benefits are always a burden, both to individual companies and to society. Inevitably, these programs expand and become more expensive as time goes on. Consumers pay the price in the form of “invisible taxes” that are added to goods and services so that companies can pay for government-mandated benefits. It’s as simple as “capitalism is good, socialism is bad.”

— Larry Bradley
Family and Medical Leave Act

Since 1993, employees have been able to take unpaid time off due to family and/or medical issues. But, are all employees covered? Are all employees eligible? How exactly does the Family and Medical Leave Act (FMLA) work?

The Act
The Family and Medical Leave Act of 1993 allows eligible employees to take up to 12 weeks of unpaid leave due to personal (or immediate family) illness. This leave is typically a job-protected leave during the 12-month period for specified family and medical reasons. The employer has the option to use the calendar year, a fixed 12-month leave or fiscal year, or a 12-month period prior to or after the commencement of leave as the 12-month period.

Employer Coverage
Not all employers are covered under FMLA. In order to be covered the employer needs to satisfy the following requirements:

- Private-sector employers that have 50 (or more) employees working within a 75-mile radius for 20 (or more) workweeks in the current or previous calendar year. Additionally, the private-sector employers need to be engaged in commerce or an industry that affects commerce.
- All public agencies; public schools; local, state and federal agencies.

Employee Eligibility
As with employer coverage, not all employees are eligible for FMLA leave—even if they are working for a covered employer. In order for employees to be eligible they must:

- Work for an employer that meets the coverage requirements
- Have been with that employer for 12 months and worked at least 1,250 hours during that 12-month period.

Leave Eligibility
Not all leaves would qualify under the FMLA. The following leave types are acceptable under the FMLA:

- Birth and care of the employee’s newborn child
- Adoption by the employee

The 12 weeks of FMLA time does not need to be concurrent and can be used intermittently throughout the 12-month period.

- Care for an immediate family member with a serious health condition (spouse, children, parent—not including in-laws)
- Care for self with a serious health condition.

It is important to note that the 12 weeks of FMLA time does not need to be concurrent and can be used intermittently throughout the 12-month period (both weekly, daily and hourly). Also, if spouses work for the same organization, the 12 weeks will be split among the two employees. (This time can be split any way; it does not need to be six weeks each.)

Conclusion
This is a very brief “Back to Basics” look at FMLA leave. If you are a covered employer and have eligible employees, it is important that you do a little more research into this law. This brief column did not cover some of the more in-depth aspects such as key employees, how FMLA relates to other regulations, the definition of serious health condition or record-keeping and timelines. You can find helpful information on the Department of Labor Web site, www.dol.gov.

Compiled by
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It is fast becoming a priority to better integrate and coordinate health care, sick leave, disability and mandated family leave in the form of a health and productivity package. In the past decade, employers have increasingly focused on managing cost and productivity issues associated with health care and disability. In contrast, the attention on statutory leave as provided by the Family and Medical Leave Act (FMLA) of 1992 has been primarily focused on the legal complexity of administration and compliance, rather than the costs of lost time. Employers are seeking efficiency in integrating their leave administration with their disability management practices, particularly because nearly 70 percent of FMLA leaves are also short-term disability (STD) events.

It may make sense for employers to consolidate the administration of FMLA leaves with short-term disability management because they both require medical certification. This article explores the lost-time relationship between family leave and disability through research on the demographic and policy factors affecting the likelihood of lost-time.
leaves, increasing disability claim costs and the potential for employees to progress from a family-related or intermittent FMLA leave on to disability.

The Study Population
UnumProvident studied lost-time data from 2001 to 2004 on 144,460 employees from six integrated disability management clients. The employers represented the manufacturing, health-care, financial and service industries. FMLA events and STD claims represented 97 percent of lost-time data reviewed (58 percent and 39 percent, respectively).

The study population was analyzed based on its utilization or nonutilization of FMLA leaves and disability claims. Following are some of the findings:
• Eleven percent of total employees (16,013 employees) experienced a lost-time event of FMLA leave and/or a disability claim.
• Sixty-five percent of these employees experienced FMLA leave and a disability claim (in conjunction with or subsequent to an FMLA leave within a six-month period).
• Only 6 percent of employees who reported lost time used two or fewer FMLA leaves with no disability claim (short-term disability, long-term disability, workers’ compensation).

This relationship between FMLA leaves and short-term disability claims comes as no surprise to those who have administered FMLA, as they have intuitively observed the “comorbid” nature of FMLA leaves running concurrent with extended medical lost time. It is, however, time to move beyond intuition to recognize what demographic and policy factors may be contributing to lost time, lost productivity and increased cost.

Key Observations
Family Leave and Disability
This study segmented FMLA leaves as medical (employees’ own health and pregnancy/maternity), family (adoption, family member care, paternity) and other (military leave, sabbaticals and other state-leave requirements such as domestic violence or organ donation). An employee’s serious health condition often invokes a medical FMLA event as well as a STD claim. An interesting discovery, however, was the close relationship between a family-leave event — in which the employee is in a caregiving role for a family member’s serious health condition — and the employee’s subsequent filing of an STD claim.

This illustrates a relationship between family FMLA and short-term disability that seemingly supports the impact of caregiver stress.

Family FMLA leaves represented 17 percent of all reported FMLA leaves, and 9 percent of the employees who took family leaves recorded their own short-term disability or workers’ compensation claims within six months. An employee who progresses from a family-related leave to a leave for his or her own serious health condition merits attention in the health and productivity management world, not unlike an employee with two to three risk factors identified during the health-risk screening processes.

Intermittent FMLA Leave and Disability
Employers frequently report that they are most challenged by the administration and management of intermittent FMLA. Although only 2 percent of the study population reported an intermittent leave event, this intermittent leave comprised 19 percent of all FMLA leaves in the study population. Employer feedback seems to suggest that this 2 percent of the population is the source of most of their frustration with FMLA administration.

According to this research, employees who are female or who are older than 40 are more likely to experience a family-leave event that progresses to disability, and are more likely to report an intermittent leave. (See Figure 1.)

Employer Solutions
What do the relationships in Figure 1 suggest in terms of practical applications? If employee salaries were increased, most lost time reported as FMLA would be eliminated? Or, to employ only males would reduce the incidence of intermittent FMLA leaves? The answer to that could, in theory, be “yes” based on the research data.

But there are more realistic (and legal) solutions to consider. One key health and productivity principle is to engage employees with the right resource at the right time with a goal of minimizing any health risk factor(s) that may impact the employee’s health and ability to function.

The progression from a family leave event to one of a personal health condition seems to support what is commonly
called caregiver stress — mental and physical symptoms that render the individual unable to function as usual. In this situation, employers have an opportunity to reach out and promote employee assistance programs (EAP) or other work-life programs that may be beneficial.

The invitation for assistance early in the leave period may be just the support the employee needs in managing his or her personal health during a difficult time. It also provides an opportunity for the employer to demonstrate a personal interest in the employee and affirm the employee’s value to the organization.

Employers who offer health coaches (typically through a third-party contractor and with appropriate data-exchange permissions) may also want to encourage the health coach to assist employees who are taking multiple leaves. The health coach, typically a nurse, can discuss the various programs available to employees and offer to support them if they choose to participate.

It is important to note that participation in these programs is voluntary, and employers should be careful that their outreach does not interfere with the employee’s right to protected leave. While the outreach may be triggered by an FMLA-leave event, the discussion should center on the support programs available to the employee and not on the leave event or frequency of leave requests.

Employers also have the opportunity to provide information about health improvement and/or work-life programs in the employee notification letter that is a required element of FMLA administration. While passive, this communication is targeted to the individuals who may have an immediate need for the services.

The Value of Integrated FMLA Administration and Disability Management

A final question posed in this study focused on the value of integrating administration of FMLA leave and short-term disability. UnumProvident customers with integrated leave-management services were compared with those having only disability management. The customers with integrated FMLA and disability management services reported, on average, a lower claim cost of nearly $12,000 per 100 disability claimants than did the customers with disability management services only. The claim cost was lower for customers with integrated leave-management services even though they reported a higher number of STD claims per 1,000 employees and a higher initial income-replacement benefit than did the disability management-only customers. (See Figure 2.)

Combating Lost Time

All lost time is connected. Employers who invest in effective leave-management programs have opportunities to influence the health and well-being of their workforce. Utilization of FMLA leave can be a signal for employers to engage in promotion of health-improvement and life-assistance programs at a time when need may be the strongest. Effective administrative of FMLA leave is required by law, but it is necessary for employers to have the available data and means to effectively promote and manage health and productivity for its employees and their families.

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Whether you are a seasoned veteran who market prices 200 jobs a year or you are newly charged with converting your company’s 20-year-old point factor system to a market-based pay philosophy, the world of salary surveys — just like the stock market — is ever changing. Staying abreast of new developments will keep you ready and able to meet the challenges placed on you as your company’s market pay expert.
The effort to balance current payroll against the market is critical because of the need to attract, retain and properly motivate the best people. In this Web-access world, one can assume that every employee has a good idea of how much his or her co-workers earn in terms of base salary. Using market data effectively helps the business present its market pay position to employees logically and consistently. While an employer’s market position is important, the consistency with which market data is collected — and the consistency in creating supporting pay policies around that market — is what creates an atmosphere of employee commitment.

Step One: Acquire the Right Data

There are a variety of surveys from many different sources available every year. Selecting the right survey sources is predicated on a good understanding of the business and how it relates to the market. To start, there are a few questions that need to be answered:

- From which market do I hire employees?
- To what market am I losing employees?
- In which market would my company like to compete?

The answers to these questions will create a description of a company’s market position and lead to the survey sources that provide data relevant to a specific market. You may find that different job groups have different markets. If so, then different survey sources are needed for different employee populations or, at the very least, a survey that has the data cut (i.e., the way a vendor separates data, such as by geographic location, number of employees or market segment) the company requires. (See “Market Comparators.”)

After determining the market your company competes in (or the one it wants to compete in) based on its job groups, it’s time to select the surveys. Survey vendors will willingly review the participant and job list available in their surveys. Clearly describe to the vendor the market comparisons that best represent the business, then determine how many of your company’s positions are represented in the selected survey’s job list. It is relatively easy to find surveys for jobs that are common to

### Market Comparators

Surveys and survey data typically represent a variety of market comparators, including:

- All data
- Revenue size
- Profitability
- Geography
- Industry
- Employee count
- Organization type (e.g., non-profit/profit)
- Budget
- Specific peer group comparisons
- Net income
many industries (e.g., administrative assistant), and a good all-around survey will have most of these jobs available.

It will be more challenging to find survey sources when looking for executive jobs, unique industry jobs and/or sales jobs. There are resources, such as Survey Sources for U.S. and International Employee Pay and Benefits published by Personnel Systems Associates, that can help focus the search. While the cost may be more per useful market data point due to the specialized nature of the data, it may be worth the money because it’s the only way to obtain the necessary data.

Surveys come in all price ranges and many formats beyond the traditional paper reports. PDFs, electronic and Web-based tools provide flexibility that was not practical just a few years ago. Choose the format that works best for your company. Depending on the number of pricings you expect to conduct annually, one system may be more cost effective than another. Many vendors (e.g., Radford, McLagan, etc.) maintain compensation Web sites that allow users to review the qualification of the survey, costs and methods for delivery before purchasing.

Light users (i.e., fewer than 50 jobs annually with minimal analytic requirements) will find that buying a printed or PDF report is sufficient, as data can be manipulated via in-house spreadsheets. “Power” users (i.e., more than 50 jobs annually with or without fairly extensive analytic requirements) will find electronic versions more easily manipulated and shared among stakeholders.

Power users should consider some form of Web-based market pricing tool that enhances the use of the electronic data and facilitates the process of creating composite pricings (multiple survey jobs and sources). These tools will cut the time commitment for market pricing and even survey submission in half. Plan how much administration is necessary for the market pricing effort, and then make sure you have the surveys and systems to meet the demand.

Club, Industry-Specific and Local Surveys
Surveys come in all shapes and sizes. Many companies participate in and subscribe to club, industry-specific or local surveys.

• Club Surveys. Provided via a professional organization. Participating in and receiving data from the club survey is a privilege of membership. Local and industry-specific surveys can be club surveys. These surveys are chosen when they closely represent a company’s market position and the data cannot be found more economically elsewhere.

• Local Surveys. Often provide a number of general-industry entry-level positions. To find local survey data, check with local HR organizations to see if they can provide the name of a local survey provider.

• Industry-Specific Surveys. Usually provided via a professional organization specific to the business.

For a survey to be useful, the participant list, survey jobs and specific data cuts must be relevant to the company’s established market position. Evaluate the quality of the data before committing to purchase. Review the provider’s methodology. Many of the following facts will be described in that section:

• Number of participants
• Data collection period
• Excluded data and reasons
• Positions included
• Type of data cuts available, industries, geographies, etc.
• Information about the survey vendor. If you choose to buy a club survey, you may have an opportunity to participate in creating the survey jobs and methodology for data collection and analysis.

This is a good opportunity to ensure that the survey provides your company with the positions and data you need most. Note of caution: The survey jobs should always be generic enough to ensure comfortable matching by selected businesses outside of your own.

Custom Surveys
Despite the array of surveys available, there are many underrepresented niche positions or industries. Custom surveys can help define these hard-to-reach markets, and can answer unique, qualitative questions (e.g., the frequency of the incentive payout). If you choose to conduct a custom survey, choose a partner with experience collecting and analyzing compensation data. Current laws and trends in governance strongly suggest that a “disinterested” third party conduct salary surveys. A good partner also will ensure that each survey question is designed to elicit the quantity and quality of answers most useful to you, the survey sponsor.

Step Two: Defensible Market Pricing
After developing the market position and selecting the surveys, it’s time to begin the market-pricing task. Experts agree that jobs should be priced based on job content alone, so make certain that you have reliable documentation before pricing positions. Collect job codes, titles, families and descriptions for the jobs being market priced, along with:

• Base pay data
• Bonus pay data
• Long-term incentive data
• Demographic data (e.g., department, location, budget code, etc.)
• Other incumbent data relating to company jobs.

Depending on how this data is stored, assistance from a member of the
company HRIS staff may be needed to gather this additional information. Next, organize position data upfront. Think through how the company will want to compare the data (e.g., by business unit, budget code, department, job functions and families, etc.).

Position Matching
Select a family of jobs to price, then organize the jobs by their natural hierarchy. Select the job at the bottom or top of the hierarchy and match that job first. This will establish an anchor job.

Job matching is the process by which a company’s jobs are matched to a survey’s jobs. Many survey vendors offer job-matching conferences. These provide excellent opportunities to validate the matching exercise and ensure that you are using the same measuring stick as other compensation experts.

To get started, read your job documentation and note the facts about:
• What the job does
• How much experience is necessary to do the job
• Who the job reports to
• Whether the position has supervisory or management responsibilities
• The extent to which the successful completion of the job’s content affects the company’s overall success.

This process is called leveling. It is important to understand the level of the company position and the level of the positions documented by the survey.

The importance of job matching cannot be overstated. It is critical to carefully choose matches and document the reasons for selecting each match; clients and business leaders will challenge the matches. If there are questions about the job responsibilities for an in-house job, call the supervisor and review the responsibilities. If there are questions regarding the vendor’s survey job description, call the vendor for clarification. After selecting the job match and level, it’s time to select the data cut.

Selecting a Data Cut
This goes back to the very first step. When you considered potential survey sources, you also considered how to best describe the market. Selected data cuts should follow your market (i.e., if you determined that the company is a pharmaceutical firm with revenues of $1.5 billion and those options exist in the survey, the data cut is an accurate reflection of the company’s market position).

Note of caution: It is important to be consistent throughout the process to create credibility. The surveys and data
cut selections always should be consistent. If you cannot find adequate representation for your chosen market, then drop the qualification that makes the choice too narrow. In the case of the $1.5 billion pharmaceutical company that employs 500 people, the qualification to cut likely is the number of employees. After making the decision to broaden the scope of your search, stick with that search for the remainder of the market pricings. Some matches may have to be dropped because they do not have reasonable market comparators. This is expected, and you will have a more defensible analysis when providing the business with an apples-to-apples study.

After determining that the survey job and the company job are a good, defensible match, the next step is to determine the quality of data. General parameters include:

- **Number of Companies in the Match.** Data are less reliable with fewer companies. Usually, surveys will not report less than five company matches. Typically, five offer the best opportunity for a decent data range.

- **Number of Incumbents in the Match.** Data is less reliable with fewer incumbents. Some jobs can be expected to be one company and one incumbent, but you should only accept these ratios when it makes sense based on your understanding of the job content.

- **This Year’s Data vs. Last Year’s Data.** Note: This requires two years of data. An analysis can be conducted to see if the trend is reasonable, but the definition of “reasonable” is variable — it depends on the market. Consider the technology industry as an example. In the past two years this segment’s salary data has slowed considerably and there are no expectations that the data will move much up or down. If there is a jump in the data, some investigation is necessary to determine where the data is coming from and whether there has been a change in quantity or quality of data providers. If after close examination you do not feel that using a particular data point is good, throw it out. Remember: Using bad data erodes your professional credibility and the company’s ability to rely on the market.

**Data Adjustments**

What if the match is pretty good, but not perfect? Vendors place the most important job responsibilities in the first sentence of the position description. Based on this parameter, try to achieve at least an 80-percent match. A plus or minus 20-percent adjustment (i.e., a job content adjustment) is acceptable, provided the survey data does not have a better match and you are reasonably content with the match. To defend your position, document your reason for creating an adjustment to the data point. Not only will the documentation help defend the market position, it will help re-create your work next year — long after you’ve forgotten why you chose this path in the first place.

Other adjustments can be made and should represent the position match and the company’s market position. The following adjustments are common:

- **Aging the data**
- **Geographic adjustments**
- **Leading or lagging the market.**

Data should be aged consistently. Vendors collect market data as of a specific effective date. That data can be aged to today or to some point in time that is relevant to your organization. Survey sources may have different effective dates, so the apples-to-apples rationale applies. Remember: Pick one date and stick with it.

The first question to consider is how much to age the data. One option is to age all data to the market’s reported annual change rate, which is found in the pay practices section of the selected surveys and/or in one of the merit increase and salary structure annual surveys. Many companies will pick one aging percent (e.g., 4 percent) and use it across company jobs, surveys and various measures (i.e., base pay, bonus pay, long-term incentives). A case can be made for variability; for example, officer positions versus all others. Often these populations have different aging rates. A case can be made for a different aging percentage for base salary and variable pay. Again, if the market supports it and it can be used consistently, it could be a valuable tool for creating your defensible position in the market.

Geographic adjustments usually are made to data points when the position is hired locally, but the data is collected nationally. Take, for example, the position of administrative assistant. If you collect national data for the position but need to attract and retain in Manhattan, you will find that you need to make an adjustment to the original data to ensure a competitive rate. Geographic adjustments typically are applied to the market pricing once it is complete.

Finally, a company may choose to lead or lag the market in a particular sector or job group to reflect a business position. If a company has a group of jobs that are key to the business, it would be effective to lead the market. In this case, consider adjusting the market data position by some agreeable percentage to reflect the company’s commitment to the position.

**Survey Composites**

The use of three or more survey sources is recommended. Remember: Despite a vendor’s best efforts, levels of organization participation change annually. As such, there will be some variability in every survey source. Using several different sources creates less variability...
for pricings just by creating a larger data pool. The market pricing that results from the combination of several survey sources is called a composite. Composites can be created in several ways:
- Simple average of the data points
- Employee weighted (the weighted average based on all reported employee data points, when the survey vendor provides data this way)
- Company weighted (the weighted average based on the number of companies providing aggregate data, when the survey vendor provides data this way).

**Difficult-to-Match Jobs**
Most companies have a number of jobs that are not easy to match. This typically requires a bit of creativity. Sometimes the position is a combination of jobs that can be matched independently; for example, the manager of housekeeping and the manager of engineering. If one incumbent holds both jobs, then a blended approach may be the best way to go. There are a couple of questions that can help guide this process:
- What percent of time does the incumbent perform duties for Job A? Job B?
- Are the skills, experience and/or education more or less for one of the jobs?

Based on your answers, you can apply a relative weight to the two jobs and combine them 50/50 or 80/20 or whatever the case may be.

Another technique is to match the job to a matched internal job, then apply an adjustment factor commensurate with the difference between the positions, not more than 20 percent up or down. If the adjustment is up, it is called a premium. If the adjustment is down, it is called a discount. This technique indicates that the two jobs are similar in content, but one is bigger or smaller than the matched internal job.

When making adjustments and allowances, document the work. As stated, this adds credibility to the pricing and it sets you up for successfully re-creating the work next year.

**Benchmarking**
Benchmarking is the practice of choosing a sample of the total number of jobs in the company for the market-pricing analysis. This usually is done when it is not necessary or economical to market price all positions in a company. A few tips for successful benchmarking include:
- Try to price 30 percent to 50 percent of the jobs
- Select jobs from each job family
- Include jobs that are common to many companies and can be reliably found in the survey data, along with a few jobs that you think will be hard-to-find positions.

As a starting point, use a first-level job and the highest executive job in the study, along with selected positions in that range. This will help frame all positions and ensure they are appropriately anchored in the market. The jobs that you do not market price will need to be “slotted” into the organizational hierarchy after you are satisfied with the benchmarked market pricing results.

**Successful Market Pricing**
Upon completion, check pricings against the current incumbent average, job by job. When the market and current incumbent pay levels are markedly different, experienced market analysts evaluate the company’s documentation, then the incumbent’s history and contributions to determine the reason for the mismatch. It may be that the job is undervalued or overvalued, or perhaps the job documentation is inaccurate. Every aspect of the job should be analyzed to ensure accurate matches. This is the cornerstone of the market-pricing process. Once the process is complete, you are ready to start using your data to analyze your company’s position against the market.

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With increasing evidence such as this, there is no doubt total rewards is an important driver of business performance for companies around the globe.

But in most countries, including New Zealand, the ageing workforce, business globalisation, and a shortage of workers with critical skills, along with other challenges, have sent HR professionals scrambling for new information and effective solutions to attract, motivate and retain.

But are total rewards professionals missing a critical step that may be inhibiting success?

According to Peter Cappelli, Ph.D., author of The New Deal at Work, “Back in the 1950s and 1960s, 96 percent of companies did very detailed workforce planning. As of 2004, 63 percent have absolutely no planning whatsoever. Why? The environment has changed.”

But in this case, such change may not be for the better. While companies are, in many cases, continually increasing their total rewards choices in order to attract new talent, they may be working harder rather than working smarter. This article examines how HR professionals get from understanding the business strategy to developing valuable and successful total rewards programmes.

It’s all in the planning

So what’s the missing link? How do HR professionals get from understanding their business strategy to successfully developing a total rewards strategy to help them achieve desired business results?

According to Don Lindner, CCP, CBP, GRP, of WorldatWork, an association for total rewards professionals, it’s understanding what talent a company has, and what talent it needs.

“A company has to know what its strategy for success is, whether it’s to be a low-cost provider of goods and services, or to be the innovator in your industry, or to be performance oriented, etc.” Lindner says.

“But beyond understanding the business strategy, you have to figure out what kind of talent you already have and then what kind of talent you need in order to accomplish your business goals. For example, do you need to burn and churn through young engineers for innovation, or do you need to focus on retaining the knowledge you have tied up in the ageing workforce?”

In most companies, the workforce accounts for the single largest expense. In order to get the most from the company’s compensation dollars, HR professionals need to analyse the demographics and understand the makeup of current talent in order to understand whether “to build or buy.”

The view from the C-Suite

Perhaps one of the more difficult challenges in understanding and developing the workforce to support the business comes from the corner office.

But getting attention from a CEO may be easier said than done, as many HR professionals undoubtedly know. “It takes a lot of courage for an HR professional to step up and say, ‘That’s not the right approach’ at a board meeting, or a meeting with the CEO,” says Rose Stanley, CCP, CBP, CEBS, of WorldatWork. “And even then, he or she may not listen. So it’s imperative that HR professionals think like business professionals.”

Stanley and Lindner also recommend gaining the support of the chief financial officer (CFO) first. Finance executives tend to have a lot of influence on CEOs, and if an HR professional can make the case to the CFO, then gradually, the CEO will become more aware of the connection of total rewards and the business strategy.

And it seems some CEOs are starting to get on board. In a July 2007 workspan article, Time Warner (a leading global media and entertainment corporation) CEO Richard D. Parsons said, “We want to ensure that we’re competitive with...
respect to compensation, benefits and other employee programmes, while also aligning these rewards with strong company and employee performance. The labour market has become more competitive and more diverse over the past few years. Time Warner focuses on increasing the representation of women and people of color in the workforce, specifically in management roles.’

Another example of effectively building the bridge between the business strategy and the total rewards strategy is the global phenomenon Starbucks. In his book, The Starbucks Experience, author Joseph A. Michelli, Ph.D. describes how Starbucks links its business goal of profitability to its total rewards strategy:

“Profits increase not only the breadth of Starbucks market, but also the scope of its positive social influence and its capacity to provide quality benefits for its partners (employees). These benefits include health insurance for 20-hours-per-week employees, something that Starbucks partners received long before such a thing was even considered, let alone adopted, by other corporations.”

Once HR professionals understand the business strategy and gain executive buy in, what talent management challenges do they face in today’s business environment?

Key challenges
Following are just a few of the key challenges that HR professionals are up against:

Critical-Skills Talent. Around the globe, one of the greatest challenges in total rewards is attracting and retaining workers with critical and/or specialised skills. In New Zealand alone, acquiring key talent and retaining key talent account for 57 percent and 43 percent of top HR executives’ concerns, according to a 2007 Mercer Human Resource Consulting study.

Changing Demographics and the Aging Workforce. In many countries, rising health-care costs combined with older workers have caused a near-crisis causing employers to increasingly shift the financial and physical responsibility for health care to employees by using wellness programmes, health savings accounts and financial incentives for those workers making a concerted effort to improve their health.

In addition to living longer, people are generally working longer too, which presents numerous challenges. The American Association of Retired Persons (AARP), a nonprofit association to benefit Americans aged 50 and older, emphasises that there are many areas employers must consider when trying to retain and motivate older workers: recruiting practices, opportunities for training, education and career development; workplace accommodations; alternative work options, such as flexible scheduling, job sharing and phased retirement; employee health and pension benefits; retiree benefits and age diversity of the workforce.

And it’s not just HR professionals that face generational challenges. In the 2007 Mercer Global Business Challenges report, key business leaders identified changing workforce demographics as one of the top overall business challenges in the world today.

Globalisation. With improving technology that allows businesses to remotely connect workers, clients, consultants, customers, etc, more and more companies have operations in multiple locations around the globe.

In a 2007 study of seven European Union countries by Addecco Institute, the majority of respondents ranked only demographic changes higher on the list of worries above globalisation.

“Acquiring, organising and strategically deploying global resources, identifying and securing new markets, meeting the needs of global customers, and creating global alliances and partnerships have become concerns in boardrooms everywhere,” says Mercer’s report.

Ensuring effectiveness in total rewards
Once HR professionals understand the business goals and begin shaping the workforce to accomplish those goals, they can finally begin to look for competitive advantages to make the most of the total rewards programme.

According to Steve Gross of Mercer, there are several key questions to ask, “What do I need and what do I value? But even beyond that,” he asked. “What can I afford and what can I sustain over the long-term.” And perhaps more apparent than ever due to recent regulations to drive transparency in compensation and perquisites, “What does the shareholder need? I view that as part of the cost equation,” says Gross.

HR professionals can look to many of the HR consulting firms, as well as membership associations such as WorldatWork, for guidance in the many areas of total rewards including: compensation, benefits, work-life, performance and recognition, and development and career opportunities. But keep in mind that there is no formula for creating the perfect rewards strategy. Gross analyses career opportunities as an example, “If you work in the headquarters office, there is usually more opportunity for growth there than working in a field office. So does the company need to pay more? How does the career path influence pay decisions.

“The allocation of those (total rewards) resources needs to be focused on the population where you can create the greatest value – where you consider geography, lifecycle of the business, value of the brand, what drives success, etc...” he says. “It’s like Kmart vs. Kirkcaldie & Stains. You have a different expectation when you work in each store. So it’s not better or worse, just different.”

Creating the value and a competitive advantage isn’t about checking boxes on a chart. It changes continually and must constantly be assessed and updated.

“Total rewards is always fluid, so there is no end point,” Lindner says. “And it’s important to understand that you can’t just copy someone else’s rewards programme. That won’t work for you. You have to build on what your company does right and enhance it from there. That’s when you start to see change and improvement in your workforce. Only then can you truly enhance the business goals.”

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