**Project TWO**

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**FastCat**

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**EXECUTIVE SUMMARY**

**Introduction**

FastCat is a Business to Business software company that operates in a highly specialized and technological advanced industry. FastCat has been a pacesetter in this industry and is looked upon as the leader in the advancement of sales and marketing of software solutions. The company’s main objective is to maintain this leading edge which will only be accomplished through the attracting, acquiring, and retaining of top talent. In order to succeed in this rapidly changing economic environment, FastCat needs to position itself advantageously in the marketplace.

To achieve these goals, FastCat needed to create pay structures that will follow these objectives and promote these goals. In order to do so, FastCat had to first look at how many systems or structure to be used. They then had to analysis how competitors from their industry and different industries paid comparable to themselves. These analyses’s allowed FastCat to decide on policy regarding pay forms for the two structures, policy regarding external competition for the two structures, make a final decision and evaluation of the pay structures. What follows is a more in-depth explanation of the thoughts and rational that went into the pay structure decisions and the surveys conducted.

**Number of Pay Structures**

FastCat employs a diverse group of people with significantly different responsibilities. The company has categorized employees into two categories. These two categories have been defined as administrative employees and technical employees. The administrative employees include office support, management, marketing department, and many other similar positions. These employees handle the administrative duties of the company, as well as service to customers, and marketing activities. The second category of employees is referred to as technical employees. Positions in this family of jobs are technically oriented and include software technicians and engineers. These employees are very involved in product development and testing. The great majority of positions here at FastCat fall into one of these two categories with very few exceptions.

These two systems have very distinct compensable factors and the two groups of jobs have very different requirements. These categories of job families involve very different Knowledge, Skills, Abilities, and Other characteristics (KSAOs) to perform the job and these jobs contribute to the company in vastly diverse ways. If FastCat were to use one single structure to compensate all positions within the company, it would create issues with both internal and external equity. It would be nearly impossible to defend how the same set of compensable factors could apply to the two different sectors of positions within the company. These different sectors of positions are also linked to different sectors of the available labor market. One compensation system would hamper the company’s ability to recruit and compete in the relevant labor markets.

It is beneficial for a company to have as few pay structures as possible. This is necessary to increase internal equity and team cohesiveness. Due to this fact the compensation system has been limited to two structures, rather than many more. If multiple structures are used it would severely limit the atmosphere of teamwork which FastCat have worked so hard to create. It is vital that each and every FastCat employee feel as though they are an important part of one large family.

It is also imperative to ensure that each employee’s career path is well defined and can be easily understood. Employees should feel like the path to promotion is simple to follow. The steps that employees need to take and the KSAOs they need to obtain in order to move up in the company must be clearly labeled and defined. This increases both employee motivation and productivity. All of these factors contributed to the decision to build FastCat’s compensation system around two distinctive pay structures.

**Policy Regarding Pay Forms for Administrative Structure**

The use of pay forms is very important when it comes to compensating employees in a company. These decisions are critical for FastCat in regards to labor costs, customer satisfaction, performance, and its ability to attract and retain the employees that is so critical to its successful business. These decisions cannot be taken lightly and must directly be consistent with FastCat’s strategy and objectives regarding pay forms These strategies allow for employees to feel encouraged, comfortable within the organizations, and know how their performance relates to the company’s specific success measures. The company hopes that by they will allow for these measures to be met and keep employees satisfied through this competitive compensation plan.

Due to their strategy and objectives, FastCat has decided to pay at market rate. One reason for this is because the company does not have the resources to pay above markets rate but has decided to pay at market, so to not lose their innovative workers. The company also feels that paying at market will allow FastCat to retain their current workers while attracting qualifying candidates. Another reason is that FastCat has a dedication to meet and surpass competitors and pay equal rates to them. Another advantage of paying at market rate is that it allows the company to entice their employees through other pay forms. Using market rates for base wage allows for more money to be used by the employer through bonuses, stock options, and benefits. These decisions of total cash and total compensation would be evaluated on the idea of merit. This will increase productivity of employees and increase creativity. Also, this strategy will provide good morale for the employees and set aspirations higher because employees will see good and productive behavior getting rewarded. This will also increase customer satisfaction because they will be getting better service and more creative products from the employees of FastCat.

FastCat employees will have the ability to choose what kind of benefits they would like to receive. This will allow the employees some say in their compensation package and allows them the ability to tailor the package more to themselves. This will be an accomplished through a cafeteria like process. Benefits could include. . .

* Medical
* Dental
* Vision
* Retirement Planning
* Life Insurance

Hopefully with this new compensation policy intact, FastCat will achieve their goals and strategies of making employees feel more comfortable and valuable to the company and raise their satisfaction. FastCat believes that this policy will give them an edge over their competition and will also allow them to retain and attract qualified candidates.

**Policy Regarding Pay Forms for Technical Structure**

FastCat’s business strategy is designed towards encouraging employees to feel comfortable within the organization and to know how their specific performance relates to the company’s success measures. FastCat hopes to accomplish these measures and keep the employees happy through the competitive pay structure that has been designed. Much like the Administrative pay structure, the Technical pay structure will include an at-market base salary, bonuses and stock options.

In order for FastCat to stay competitive within the software industry and other industries, it is believed that an at-market base salary will assist to retain its current employees and attract qualified new employees. Paying employees competitively and communicating their importance to FastCat is an important goal because of the innovation FastCat relies on to create new business and retain their current clientele. Employees are the most important asset here at FastCat and if they do not reward them competitively, they run the risk of them leaving for other work.

Much like the administrative pay structure, evaluation and feedback is important for the technical pay structure. This will ensure employees understand how their performance is evaluated and their pay is determined. Bonuses will be given individually to the employees who perform the tasks to the fullest extent. These bonuses will be higher than those given to the administrative side due to the highly required technical expertise needed from the technical employees.

On the technical side of FastCat, teamwork is encouraged between technicians and engineers when developing new products or software. In some cases, team bonuses will be given. Standard evaluation forms will be given to the employees with the knowledge that each team will be assessed evenly. FastCat believes it is important for the employees to know where they stand and how they are performing to improve performance if needed. If improvement is needed, support will be given to improve the performance of the employees.

The employee benefits for the technical pay structure will be the same as the administrative pay structure. FastCat employees will have the ability to choose which benefits they choose much like a cafeteria plan. The technical pay structure benefit options are:

* Medical
* Dental
* Vision
* Retirement Planning
* Life Insurance

With a new pay policy in place, FastCat hopes to achieve their goals of making employees feel more valuable to the organization, and raising employee satisfaction. FastCat feels that the new pay policy will give them a competitive advantage over their competitors and will allow them to attract and retain quality employees for the future.

**Policy Regarding External Competition for Administrative Pay Structure**

After extensive market research, three options are available for FastCat with regards the pay structure. These options include paying below, at, or above market level. This decision is extremely important to the survival of the company because it determines what kind of employees the company will attract and retain which could ultimately either increase or decrease profits.

Paying below market would significantly reduce the cost of labor for the company and provide higher profits because costs would be lower which could potentially allow FactCat to pull ahead of their competitors in their industry but it could lead to unsatisfied employees who would be more likely to leave FastCat.

Paying above the market would give FastCat the advantage of attracting and retaining the best and brightest employees to fill the positions. They would even have the advantage of possibly attracting the competitions best employees by enticing them with above market wages. However, FastCat cannot afford to pay their employees above market wages because higher wages means higher expenses.

It has therefore been concluded that for the Administrative pay structure, at market wages will be used to determine wages for employees of FastCat allowing for fair wages for all employees, which should attract and retain excellent employees without hurting the company’s profits.

**Policy Regarding External Competition for Technical Pay Structure**

To determine an appropriate pay structure FastCat must consider three distinct options. FastCat can choose to pay at market, above market or below market for base salary. This is a very important decision in the company’s plan to create a competitive pay structure that will allow us to both attract and retain top talent. After extensive research into the available options FastCat chose to pay at market levels for its technical pay structure.

Each choice has both advantages and disadvantages. If the company chose to pay above market it may be able to attract more applicants but as previously mentioned, labor costs are currently rising faster than profits. Paying above market would put the company at a strong disadvantage financially. FastCat has managed to survive a tough market while other companies failed by making sound financial decisions. FastCat will continue to succeed by following that same strategy.

If FastCat chose to pay below market, the advantage would be an even better financial position initially. This would put FastCat’s labor costs below that of their competitors and allow them to pull ahead in the industry by competitively pricing their products. However, this is a dangerous and risky decision to make because paying below market will considerably limit the applicant pool and eventually the workforce will realize the disparity and seek employment elsewhere. This will decrease employee morale and eventually productivity. Paying below market will impair retention efforts. It will also significantly increase recruitment costs as FastCat will no longer be the employer of choice.

It has been decided that FastCat will pay at market level for its technical positions. The labor costs will be contained while still allowing us to attract applicants. This will include base pay, total cash and total compensation. This is the most advantageous position to take and will put the company in the best possible financial position.

**Survey Analysis for Administrative**

*Data Analysis*

To determine the specific companies to use in a market analysis, FastCat had to created numerous charts to compare and contrast pay differences. This was to help the company know which companies paid their employees and were comparable to that of FastCat’s compensation system. After looking at all of these charts, it is clear to see that not one industry is the forerunner in all compensation means. Taking these charts and adding up the averages of all the sizes together, FastCat found that overall manufacturing in the administrative aspect is the highest paying industry, followed by software, finance, semi-conductors, and lastly the computer and hardware industry. Certain industries pay more than others in many different retrospects. Looking at total salary for administrative positions alone, although the companies are scattered all over the place, the manufacturing companies overall pay more than any other company in this discipline. When it came to total cash there was little difference between the companies. Most of the companies were around the same amount with little room for dominance. Software companies overall supply the highest amount of total compensation. Software companies are fairly higher in compensating their employees when compared to other companies. Size partially matters in terms of compensation. In about half of the industries, the smaller firms pay more for jobs than say the other larger companies in the industry but then the other half of the industries are the complete opposite. This may be due to the high competitiveness of certain industry and the need for valuable employees. The market analysis does show that job compensation does vary across the board within the same job across the different industries.

*Relevant Labor Market*

To choose companies for comparison, FastCat compared itself to several companies that had similar location to FastCat. The next step was to compare those companies. Companies that FastCat felt were similar and passed a rate of similarity in job structure of 50% were selected for further investigation. To further the analysis and eliminate more companies, FastCat compared their positions to those of others in different sizes and industries and if the difference was under a substantial amount, not enough to leave the company, then those sizes of the companies would continue on in the investigation. The next step was to determine of these still selected companies had a similarity rating of 70% to be the final considerations. This lead FastCat to compare itself to large semi-conductors, small computer and hardware companies, and large and small software companies.

*Benchmark Jobs*

For the company to compare itself against others, the company needs to figure out if other companies have jobs that are similar in nature to those at FastCat. In general, to develop a pay structure the company needs to be able to connect FastCat’s internal ratings with market wages inside the company. When selecting benchmark jobs, FastCat needs to keep in mind that benchmark jobs should be common in the marketplace, vary in terms of job requirements, and vary on compensable factors. Benchmark jobs should also represent all salary levels. When selecting benchmark jobs, FastCat conducted an intense market analysis. The Human Resource Department wanted to ensure that they would be able to match a large amount of their specific jobs to jobs in the market. With information about similar jobs, FastCat decided to match their jobs with jobs held in the market that they felt would be of the best match although not all jobs had a specific match. The company did try and accomplished to match all levels of jobs to a market related job. The next task is to ensure that these benchmark jobs are common in the marketplace. To ensure this fact, FastCat compiled a list of the available companies and tallied the amount of times a specific job occurred. The FastCat team decided to keep any market job that was held in over one 34% of the companies. These jobs that past the test became the company’s benchmark jobs.

*Appropriate Salary Measure*

FastCat believes that the best method to use for a salary measure is that of the mean of the base salary. This measure gives each company in the market analysis equal weight and informs FastCat how their competitors value the work of similar jobs. Using the mean, allows FastCat to keeps all companies in the study as equals and not allow one company to inflate or deflate the average compensation rate because they employ more people in a specific area. These results could occur if the weighted mean were used. Also by using base salary, it allows for FastCat to determine bonuses and other incentives to motivate the employees.

*Updating the Survey*

An important aspect of a pay structure is the updated percentage. The updated percentage used for the administrative positions used at FastCat is three percent. This percentage is based off of the World At Work Survey Analysis Data, year over year increases, Chamber of Commerce Research, and many more pieces of relevant studies and analysis’s. This structure should be updated to assure an accurate comparison for the administrative positions as information and jobs change.

**Survey Analysis for Technical**

*Data Analysis*

Upon completion of the survey market data analysis we have the ability to compare different industries such as software, finance and semi-conductor as well as the ability to compare different sizes such as small, medium, and large. For Technical positions, the software and manufacturing industries statistically have the higher pay rate. Here at FastCat, they compared base salary with the market pay of the highest paying industry, software. This decision is fitting as FastCat is a part of the software industry; therefore it results with closer results when comparing benchmark jobs from other software organizations, and higher results when compared to other industries for the particular benchmark jobs. The second industry that pays similar to the benchmark jobs chosen is manufacturing, because job importance in significance in that industry as well. The higher job importance the benchmark jobs play in an industry, the more likely it is to be paid highly. For example, in the financial industry, the need and importance of software jobs in minimal compared to software, therefore they are paid less and not utilized as thoroughly in their industry. The software industry can easily be compared to all industries in the market survey with the exception of the financial industry which is not worth the time to compare and analyze, as there is little risk that FastCat employees or potential employees are going to work in an organization in that sector. When comparing size among software and manufacturing, the smaller sized companies tend to pay more than the medium or large industries. In the semi-conductor and computer HW industries, the medium and large industries tend to pay more. Pay varies by size from industry to industry and no consistent pattern can be utilized in every industry. In the software industry, the industry FastCat focused on most, small size pays highest followed by the large size and medium sized relatively. This pattern was consistent with total cash, base and total compensation analysis. The difference in base, total cash, and total compensation varied differently throughout. There was a large difference between base salary and total compensation, although there was a small difference between base and total cash. The breakdown for base, stock option and bonus varies with each position, giving the competitive edge where it was necessary.

*Relevant Labor Market*

FastCat compared sizes first within the software industry using base salary market data. FastCat compared small software to both medium software and large software to compare on a job by job basis to determine which job pays more and by how much. FastCat chose to use small software to compare against other industries and sizes, as small software paid each software size by the majority, as they didn’t serve enough of a threat to be concerned about. Small software was then compared to each size and industry, comparing adjusted averages and averages to determine if other sizes or industries served a threat as well. Other then small software, the only other organizations that have good significance with FastCat is large semiconductor companies. Small software only paid more in half of this industry and size, and the averages were extremely similar. The organizations that met the small software and large semiconductor criteria were selected for the attached exhibit, and the organizations with fifty percent of the benchmark jobs selected from FastCat were used in the pay structure. At least one third of the benchmark jobs showed up in the selected companies, therefore no benchmark jobs had to be dropped, however 2 organizations were dropped because they failed to meet the fifty percent mark for having benchmark jobs. In the case of a position needing outside comparison such as matching a competitor to retain an employee that has significant importance relative to FastCat, it will be done on a case by case situation and not across the board.

*Benchmark Jobs*

In order for FastCat to stay competitive, the organization needed to compare their positions with other organizations to develop benchmark jobs. In order for FastCat to develop a pay structure, the organization needed to connect the internal ratings developed with market wages. When selecting the benchmark jobs to be used, it is important to select jobs that are common in the marketplace, have similar job requirements as found in the job description, vary on compensable factors, and they should represent all salary levels. When determining the benchmark jobs to be used, FastCat conducted a market analysis. The Human Resource Department wanted to make sure they can match a large amount of specific jobs to jobs in the market. With information about similar jobs, the HR Department matched as many jobs as possible even though not all jobs had a specific match. The next task in determining which benchmark jobs to use was to compile a list of available companies and how many times the jobs selected were available in those organizations. The FastCat team decided to keep any market jobs that was held in over 34% of the organizations, and the jobs that met the criteria became the benchmark jobs.

*Appropriate Salary Measure*

Here at FastCat, they believe the method to use for a salary measure is the mean of base salary. This measure gives each company in the market analysis equal weighting and clarifies to FastCat how the competition values the work of similar jobs. Using the mean will allow FastCat to keep all organizations on the same level and not allow any specific organizations to inflate or deflate the compensation rate. This result would occur if FastCat decided to use the weighted mean. By using base salary, FastCat will be able to determine how much should be offered in terms of bonuses, benefits, and stock options.

*Updating the Survey*

An important aspect of a pay structure is the update percentage. The update percentage used for the technical positions the update percentage is five percent. This percentage was determined by using the World at Work Survey Analysis Data. The pay structures should be updated to assure an accurate comparison for all technical positions as information and jobs change. The Technical positions have a higher rate because of the more frequent and rapid changes that occur in the technical industry as compared to the administrative.

**Decision Making Administrative**

*Data Analysis*

While regression and market composites both have advantages and disadvantages, regression is the only technique that incorporates the internal structure with external pay. Market composite techniques assume that the number of grades and placement of jobs in grades are correct while regression uses a more basic data and avoids some judgment error and assumes linear progression in salaries. FastCat has decided to look as the regression data to analyze the administrative pay structure.

The regression graph created for the administrative job structure was analyzed and a number of things were determined from this analysis. They are as follows:

* The y-intercept on the regression graph is positive. Meaning no employees would have to actually pay FastCat to work for the company.
* A positive y-intercept also proves that the job ratings are fairly accurate because they are neither severely over nor under-rated.
* R-squared is above .90. This means that the job ratings are fairly accurate to the calculated line on the regression graph.

If FastCat creates more job positions, the pay structure will need to be re-evaluated in the future to ensure that the grades correlate with expected career paths within the company and obvious hierarchies with regards to supervisors and subordinates.

*Development of Grades*

FastCat has decided to use 8 grades for the administrative pay structure. This number allows for career progression without making the top of the ladder seem impossible. If there are more than 8 grades, employees will get promotions more often and provide for small raises with much greater expectations and employees may begin to feel undervalued and underappreciated. Less than 8 grades would lead to the opposite effect. Employees may start to feel as if it takes too much to achieve the next level or pay grade and the next level will seem impossible and lead to a sense of unfairness.

*Midpoint Progressions*

After calculating the midpoint progressions, it has been determined that the percentage differences for Administrative grades are at good levels. This is important because it means that FastCat will be able to afford giving employees pay increases for promotions which would be the result of large percentage increases rather than there being no real differences determined among jobs.

*Ranges*

After analyzing the pay ranges, it was determined that they are all increasing. This is acceptable because the more sophisticated the job, the more opportunity for pay raises, and this means that these jobs should have a wider range to allow for these increases.

*Range Overlap*

Having a range overlap is important because it eliminates the need to give enormous raises to people for promotions before they are producing enough to justify it because too much overlap limits the ability to give meaningful raises. The overlap for the Administrative structure is only slightly increasing and allows FastCat to give justifiable raises.

**Decision Making Technical**

*Data Analysis*

In coming up with what to pay the technical jobs within FastCat, there are ten steps you should follow. The first step is determining Review overall point differentials. Then rank order jobs by total evaluation points after that develop job groupings. Then develop preliminary point bands, and check intra-family and supervisory relationships, and incorporate market data. After that review market inconsistencies, then smooth out grade averages and review differences between midpoints and market averages. Last Resolve inconsistencies between internal and external equity.

When choosing the appropriate salary measure, start by looking at Base Salary, Total Cash, and Total Compensation. Base Salary tells how competitors are valuing the work in similar jobs. The down fall of Base Salary is it fails to include performance incentives and other forms, so will not give true picture if competitors offer low base but high incentives. Total Cash tells how competitors are valuing work; also tells the cash pay for performance opportunity in the job. The down fall to this is that all employees may not receive incentives, so it may overstate the competitors’ pay; plus, it does not include long-term incentives. Total Compensation tells the total value competitors place on this work. Down fall to Total Compensation is all employees may not receive all the forms.

So it was decided that Base Salary was the salary measure that would be used, because it keeps fixed costs low as possible and letting the company adjusting incentives with change in profits. After that was done compared the small industry to median and large industries and seen what one was more compatible with the small industries.

After completing the data population, a regression analysis was ran on the data and was compared the base salary. When looking over the data it was decide that regression would be used. Usually when regression is used jobs at the beginning and end are underpaid and jobs in the middle are overpaid. When jobs are overpaid it is harder to reach the next higher position, and there is little incentive to reach it. When jobs are underpaid use there is lower productivity and higher turnover. An advantage of regression is that it is very dependable and constant while also aligning the internal structure with the external pay. The pay system has been adjusted so this pay system should not have to be revaluated for several years.

The regression analysis yielded the r2 =.891. Usually r2 is compared to .9; the figure is very close but a little lower. The system has a slight negative intercept, it was decided that appropriated respond was to look at distribution of the points among position. There resulting negativity is due to the two highest jobs that have rapidly increase and pulled the slope up. It was decided that the points and dollar amounts were distributed fairly.

*Development of Grades*

Pay grades is a range in compensation with which many jobs are grouped together and treated the same. It was decided to use pay grades because there were only a few differences points with most the jobs. Also these jobs can be revaluated in the future. Pay grades were decided upon in evaluating FastCat, and then ranked ordered them. Then points were distributed to all the jobs. It was decided that there would be a total of 2000 points. After evaluating them it was decided to smooth most of the pay grades so that they were more consisted and then add one dummy grade in which on job fit in that position. Last jobs were band together and assign a grade.

*Midpoint Regression*

Midpoints are often used as a target point. The midpoint regression refers to the percentage difference between pay grade midpoints. To figure this out take the lower midpoint and subtracted it from the larger midpoint then divide by the lower midpoint. First grade was 24,700, and the second grade was 29, 825. Which the difference was 24,700-29,835=5125. Then 5125 was divided by 24700 which came out to 20.75. This percent should stay consistent, or get larger should never get smaller.

*Ranges*

Pay ranges are the maximum wage paid in a grade minus the minimum wage in a grade. Lower grades start off at 20 then go on up to 50 percent. It was decide to start grade one off at 20%, two and three at 25%, four at 30%, five at 35%, six at 40%, seven and eight at 45%, and lastly grade nine was 50%.

*Range Overlap*

It is a good idea to have some overlap between grades. Now there is no set amount of overlap that should be there, but too much is bad. If there is too much overlap there is not a great amount of difference between raises in jobs. Evaluating the grades it was discovered that there was overlap between all of the grades.

**Evaluation o f Administrative Pay Structure**

It is very important to FastCat to retain the leading in their industry. One way to do so is through their pay systems. The new administrative pay system will surpass the competitors’ systems because of FastCat’s implantation strategy and design. The key to success within the company is to educate each employee about how they have a pay range within their job. The pay range includes the base pay which is where they start out at and then the higher number which would be a max pay or a pay ceiling which is where an employee can maximize their earnings if they choose to do so by obtaining more skills. The job evaluation process created for FastCat gives the company an edge that the other firms do not have implemented. Therefore with FastCat being able to have a reliable method for keeping their job structure equitably favorable, the company can concentrate on the administrative positions inside of the company.

These pay ranges as discussed above are found by evaluating each job by six factors and then comparing each job to a survey job and matching it up with something called a pay grade. FastCat uses these grades to gain internal and external equity. Job evaluations are very important in any company an employee must know what needs to be done in order to be successful. FastCat makes sure to help employees comprehend their part in the organization. This is done often with rewards and incentives for good behavior. All employees are treated with respect, dignity, fairness, and value. FastCat tends to always be competitive and looking to expand their horizons at all times if possible. The company tries to open new doors that could possibly lead to a better future with the employees and how the challenges ahead are tackled. FastCat wants their employees to feel driven and motivated while taking the lead.

In the future, FastCat will come to a quest of looking at data to evaluate the pay structures. This data is the market rate composites it provides the best estimate of value for a benchmark job. The year-over-year increase statistics that are reported in most surveys and the World at Work survey of compensation managers are the two best resources for trending rates.

FastCat uses pay grades instead of rates for each job in the administrative pay structure because of minor differences in point values of jobs. If FastCat used point value of jobs it might not reflect real differences in value because the values are too insignificant. Jobs can be changed in little ways without the need to totally re-evaluate the wages that are paid. FastCat has eight pay grades which match up with twelve benchmark jobs ten of which match up to survey jobs. The final pay structure for FastCat achieves the objectives by boosting performance, and rewarding performance based goals. The Human Resources Department strives to work hard to achieve the goals of the company while making the workforce strong and diligent. The administrative pay structure at FastCat can be known that it complies with state, federal, and local law regulations. Pay and rewards are clearly defined and encourages innovation with the employees internally and externally.

**Evaluation of Technical Pay Structure**

The job evaluation system created for FastCat is employs a reliable method for the organization to maintain their job structure in an equitable manner. The decisions made while creating the job evaluation system are consistent with FastCat’s need to be competitive in the marketplace. It was decided upon to pay at market level for technical positions and also to provide additional benefits to employees as an incentive to join and remain with the organization. By choosing this strategy FastCat will be able to remain competitive in a very spirited marketplace.

In deciding how to evaluate FastCat’s numerous positions, it was important to take into consideration the work requirements and the levels of KSAOs (knowledge, skills, abilities and other traits) that are required to be successful at each particular position. These types of evaluations have been successful in creating and maintaining a strong workforce with very skilled and knowledgeable employees. Each position was evaluated in great detail and the requirements verified in order to insure that each job’s salary was no more than the next highest position’s salary. This defines each employee’s career path and gives them an easy to understand path to advancement within the organization. This detailed system will help FastCat gain a competitive advantage in the software industry while remaining both financially stable and profitable.

The individual pay grades used in the technical structure were created using a smoothing technique. The grades were created in order to form a division of the different levels of positions. The number of grades chosen allows for the midpoint progression between the grades to increase as well as the range of each subsequent grade. All of the jobs fit into a specific grade based on their combined total of points which were determined through extensive job evaluation techniques. The ranges were estimated, to provide a greater ability to allow for performance adjustments and promotions and to support the longevity of the compensation system.

Both internal and external equity are supported by the job evaluation system based on these grades. There are low level grades, mid level grades, and high level grades. The low level grades are comprised of the entry level positions, while the mid level grades encompass the core positions at the next levels, and the high level grades include executive level positions. The entry and lower level positions fall within lower level of ranges. These positions have a clear path to advancement with proper performance. The higher level positions fall within the upper level grades due to the additional qualifications necessary for individuals to perform the duties of these positions. This is also done to insure that supervisors are not placed in the same grade as their subordinates. The compensation team does not foresee any problems arising in the future relating to the equity of the chosen job evaluation and compensation systems.

The subsequent compensation structure aids the human resources department in meeting the organizations goals to both contain and control costs and continue to attract and retain a talented, productive workforce. In both the near and distant future, the pay structure will help attract, retain, and reward new and current employees that are what makes FastCat such a successful company. The final compensation structure will be reviewed and updated if necessary as new positions are created and as the organization continues to grow. It is anticipated to require review once each year.

**Number of pay structures**

**FastCat**

MCj03561490000[1]

**NUMBER OF PAY STRUCTURES**

FastCat employs a diverse group of people with vastly different responsibilities and has therefore categorized the positions of these employees into two different categories to distinguish these diverse tasks. The two categories are referred to as administrative and technical. The vast majority of positions here at FastCat fall into one of these two categories with very few exceptions.

Administrative positions include office support, management, the marketing department staff, and many more similar positions. These employees handle the administrative duties of the company which may include things such as simple tasks like desk work or computer entry, as well as more difficult tasks such as providing services to customers, performing marketing activities, and examining the company’s finances.

The second category is the technical job family and the positions within this category are fairly self-described. These are technology oriented positions such as software technicians, engineers, and many more similar positions. The positions which fall into this category are involved in product development, testing, and software related issues.

These two systems have very distinct compensable factors and the two categories of positions have very different job requirements. These categories of job families involve very different Knowledge, Skills, Abilities, and Other characteristics (KSAO) to perform the job adequately and the positions contribute to the company in various ways. If FastCat were to use one single structure to compensate all positions within the company, it would create difficult issues with both internal and external equity. It would be nearly impossible to defend how the same set of compensable factors could apply to the two different sectors of positions within the company. These different sectors of positions are also linked to different sectors of the available labor market. One compensation system would hamper our ability to recruit and compete in relevant labor markets.

It would be in a company’s best interest to have the least amount of pay structures as possible. The reason being is to increase internal equity and team cohesiveness. Due to this fact, the compensation system has been limited to only two structures, rather than say five or six structures.

If FastCat used multiple structures, it would put a serious damper on the atmosphere of teamwork which they worked very hard to create. One of the most important parts of FastCat is that every employee considers themselves part of a large family and feels as though they are making a visible contribution to the future of the company. For this reason, it was decided that the positions not be further sub-divided, for pay purposes, into more specific groups.

It is also imperative to ensure that each employee’s career path is well defined and can be easily understood. Employees should feel that the path to promotion is well defined and simple to follow. The steps that employees need to take, and the KSAOs they need to obtain in order to move up in the company, must be clearly labeled and defined. This gives employees something to work towards which provides for motivation will ultimately increase the productivity of FastCat’s employees to keep them competitive.

All these factors have contributed to the decision for FastCat’s compensation system to be built around two distinctive pay structures.

**PAY FORMS FOR ADMINISTRATIVE structure**

**FastCat**

MCj03561490000[1]

**POLICY REGARDING PAY FORMS FOR ADMINISTRATIVE PAY STRUCTURE**

The use of pay forms are very important when it comes to compensating employees within a company. These decisions are critical for FastCat in regards to labor costs, customer satisfaction, performance, and its ability to attract and retain the employees who are vitally critical to successful business. These decisions cannot be taken lightly and must align with FastCat’s strategy and objectives regarding pay forms. These strategies include:

* Provide fair and equal pay rates.
* Encourage innovation and reward performance based on objective goals.
* Boost performance, as labor costs are aligned with performance of employees or group.
* Meet and surpass competitors’ systems through its design and implementation strategy.
* Increase productivity and customer satisfaction through the creation and execution of interdepartmental teams.
* Attract well qualified employees and develop employee retention and job satisfaction via creating admirable employees.
* Promote higher customer satisfaction by having part of their compensation tied to stock options.
* Obey all federal, state, and local laws and regulations.

Due to their strategy and objectives, FastCat has decided to pay at market rate. One reason for this is because currently, due to the economic downturn, the company does not have the resources to pay above market rates. Instead it has been decided to pay at market, which should retain the company’s invaluable innovative workers. Another reason to pay as market rates is because FastCat is dedicated to meeting and surpassing competitors and must therefore provide comparable pay rates. Paying at market allows the company to meet these objectives and goals will also allow the company to keep their current employees and attract new innovative employees.

Other advantage of paying at market pay rates is that it allows the company to retain, attract and entice current and potential employees through other pay forms. Using market rates for base wage allows more money to be provided to employees as bonuses, stock options, and benefits. This provides a competitive advantage because FastCat can provide more stock options and benefits than other small software companies comparable to themselves. This combined with the mean base wage allows for more total compensation than possible with competitors.

These decisions of total cash and total compensation would be evaluated on the idea of merit. This will increase the productivity of employees and their level of creativity. This strategy will also provide for good morale of the employees and set their aspirations higher because they will witness good and productive behaviors being rewarded by FastCat executives. This will also increase customer satisfaction because customers will be provided with better service and more innovative products from motivated employees.

**PAY FORMS FOR TECHNICAL structure**

**FastCat**

MCj03561490000[1]

**POLICY REGARDING PAY FORMS FOR TECHINCAL PAY TRUCTURE**

FastCat’s business strategy is designed towards encouraging employees to feel comfortable within the organization and to know how their specific performance relates to the company’s success measures. FastCat hopes to accomplish these measures and keep the employees happy through the competitive pay structure that has been designed. Much like the Administrative pay structure, the Technical pay structure will include at market base salary, bonuses and stock options.

In order for FastCat to stay competitive within the software industry, and other related industries, it is believed that at market base salary will assist in retaining current employees and attracting new qualified employees. Paying our employees competitively and communicating their importance to FastCat is an important goal because of the innovation we rely on to create new business and retain current clientele. Our employees are the most important asset here at FastCat and if we do not reward them competitively, we run the risk of them leaving for other work.

Much like the administrative pay structure, evaluation and feedback is important for the technical pay structure. This will ensure that employees understand how their performance is evaluated and their pay is determined. Bonuses will be given individually to the employees who perform the tasks to the fullest extent. These bonuses will be higher than those given to the administrative side due to the requirements of high technical expertise needed from the technical employees.

On the technical side of FastCat, teamwork is encouraged between technicians and engineers when developing new products or software. In some cases, team bonuses will be given. Standard evaluation forms will be given to the employees with the knowledge that each team will be assessed evenly. FastCat believes it is important for the employees to know where they stand and how they are performing in order to improve their performance as needed. If improvement is needed, support will be given to these employees.

The employee benefits for the technical pay structure will be the same as the administrative pay structure. FastCat employees will have the ability to choose which benefits they choose much like a cafeteria plan. The technical pay structure benefit options are:

* Medical
* Dental
* Vision
* Retirement Planning
* Life Insurance

With a new pay policy in place, FastCat hopes to achieve their goals of making employees feel more valuable to the organization, and thus elevating employee satisfaction. We feel as if the new pay policy will give us a competitive advantage over our competitors and will allow us to attract and retain quality employees for the future.

**EXTERNAL COMPETITION FOR ADMINISTRATIVE PAY STRUCTURE**

**FastCat**

MCj03561490000[1]

**POLICY REGARDING EXTERNAL COMPETITION FOR ADMINISTRATIVE PAY STRUCTURE**

After extensive market research, three options are available for FastCat with regards to the pay structure. These options include paying below, at, or above market level. This decision is extremely important to the survival of the company because it determines what kind of employees the company will attract and retain, which could ultimately either increase or decrease profits.

Deciding to pay below the market level could prove to be advantageous but could also present a problem for FastCat. Paying below market would significantly reduce the cost of labor for the company and provide higher profits because costs would be lower; potentially allowing FactCat to pull ahead of their competitors within their industry. However, paying below market could lead to unsatisfied employees (especially in lower rated jobs) who would be more apt to leave FastCat to work for a company who pays a higher wage. This could severely affect turnover rates within the company which would prove to be quite expensive for FastCat. Therefore, paying below market would lead to unhappy employees and a more hostile workplace due to the fact that employees will feel unappreciated and unfairly treated by their company.

Deciding to pay above the market level could also prove to be both advantageous and disadvantageous for FastCat. Paying above the market would give FastCat the advantage of attracting and retaining the best and brightest employees to fill the positions. They would even have the advantage of possibly attracting the competitions best employees by enticing them with above market wages. While this may sound like a great idea, the question is whether or not FastCat can afford to pay their employees above market wages and the answer is no. This is because higher wages mean s higher expenses for the company, which ultimately would lower Fastcat’s profits making them less competitive.

Therefore, it has been concluded that for the Administrative pay structure, at market pay will be used to determine wages for employees of FastCat. This allows for fair wages for all employees which should attract and retain excellent employees without hurting the company’s profits.

**EXTERNAL COMPETITION FOR TECHNICAL PAY STRUCTURE**

**FastCat**

MCj03561490000[1]

**POLICY REGARDING EXTERNAL COMPETITION FOR TECHNICAL PAY STRUCTURE**

To determine an appropriate pay structure, FastCat must consider three distinct options. FastCat can choose to lead the market, lag in the market or pay at the market level. This is a very important decision in the company’s plan to create a competitive pay structure and will allow the company to both attract and retain top talent. After extensive research into the available options, FastCat chose to pay at market levels for its technical pay structure.

If the company chose to pay above market, it would be able to attract more applicants, but as previously mentioned, labor costs are rising faster than profits in our current marketplace. Therefore, paying above market would put the company at a strong disadvantage financially. FastCat has managed to survive a tough market while other companies failed by making sound financial decisions. FastCat will continue to succeed by following that same strategy.

If FastCat chose to pay below market, the advantage would be an even better financial position initially. This would put our labor costs below that of our competitors and allow us to pull ahead in the industry by competitively pricing our products. However, this is a dangerous and risky decision to make because paying below market will significantly limit our applicant pool and eventually the workforce will realize the disparity and seek employment elsewhere. This would in turn decrease employee morale and ultimately, productivity. Paying below market will impair retention efforts and FastCat may lose its best and brightest employees. It would also significantly increase recruitment costs as we will no longer be the employer of choice.

It has been decided that FastCat will pay at market level for its technical positions. This will include base pay, total cash and total compensation. By following this strategy, FastCat will be able to contain labor costs, while still attracting applicants as well as our competitors’ employees. This is the most advantageous position to take and will put the company in the best possible financial position to compete within the marketplace.

**ADMINISTRATIVE SURVEY ANALYSIS**

**FastCat**

MCj03561490000[1]

**SURVEY ANALYSIS FOR ADMINISTRATIVE PAY STUCTURE**

**Data Analysis**

To determine the specific companies to use in a market analysis, FastCat had to create numerous charts to compare and contrast pay differences. This was to help FastCat determine which companies paid their employees comparable to that of FastCat’s compensation system. Looking at all of the charts, it was clear to see that not one industry was a forerunner in all compensation means.

Taking these charts and adding the averages of all the sizes together, FastCat found that overall, manufacturing in the administrative aspect, is the highest paying industry; followed by software, finance, semi-conductors, and lastly the computer and hardware industry.

Certain industries pay more than others in many different aspects. Looking at total salary for administrative positions alone, although the companies are scattered all over the place, the manufacturing companies overall pay more than any other company in this discipline. When it came to total cash, there was little difference between the companies; most of the companies where around the same amount with little room for dominance. Software companies, overall, supply the highest amount of total compensation.

Software companies are fairly higher in compensating their employees when compared to other companies. As discussed above, the software companies have the highest amount of total compensation compared to all other industries. They are also the second highest in combined wages. Software companies are in addition the second highest in base salary, and third in total cash.

Size partially matters in terms of compensation. In about half of the industries, the smaller firms pay more for jobs than say the other larger companies within the same industry but the other half of the industries are completely opposite. This may be due to the high competitiveness of a certain industry and the variable need for more valuable employees.

The market analysis does show that job compensation does vary across the board within the same job across different industries. Some jobs, such as office support one, vary a great deal. This specific job has a range from $19,400 to $25,874; a $6,474 range. This is about a third of the total sum of that specific salary; a huge difference and enough for a employee to leave their current position. This is just one example of many provided in the survey.

**Relevant Labor Market**

To choose companies for comparison, FastCat first compared itself to several companies that had a similar location to FastCat and then the next step was to compare those companies. Companies that FastCat felt were similar and passed a rate of similarity in job structure of 50%, were selected for further investigation. To further the analysis and eliminate more incomparable companies, FastCat compared their positions to those of others of different sizes and within different industries; if the difference was not a substantial amount, not enough to leave the company, then that size of company within that industry would continue on in the investigation. The next step was to then determine if the selected companies had a similarity rating of 70% to be a final consideration. This ultimately led FastCat to compare itself to large semi-conductors, small computer and hardware companies, and large and small software companies.

**Benchmark Jobs**

For the company to compare itself against others, the company needs to figure out if other companies have jobs that are similar in nature to those at FastCat. In general, to develop a pay structure, the company needs to be able to connect FastCat’s internal ratings with market wages inside the company. When selecting benchmark jobs, FastCat needs to keep in mind that benchmark jobs should be common in the marketplace, vary in terms of job requirements, and vary on compensable factors. Benchmark jobs should also represent all salary levels.

When selecting benchmark jobs, FastCat conducted an intense market analysis. The Human Resource Department wanted to ensure that they would be able to match a large amount of their specific jobs to jobs within the market. With information regarding similar jobs, FastCat decided to match their jobs with those jobs held in the market that were felt to be the best match, although not all jobs had a specific match.

The next task was to ensure that these benchmark jobs were common in the marketplace. To ensure this, FastCat compiled a list of the available companies and tallied the amount of times a specific job occurred. The FastCat team decided to keep any market job that was held in over 34% of the companies. The jobs that passed the test became the company’s benchmark jobs.

**Appropriate Salary Measure**

FastCat believes that the best method to use for a salary measure is the mean of the base salary. This measure gives each company in the market analysis equal weight and informs FastCat of how their competitors value the work of similar jobs. Using the mean, allows FastCat to keep all companies in the study as equal and not allow one company to inflate or deflate the average compensation rate because they employ more people in a specific area; this could have resulted had the weighted mean been used. Also, by using base salary, it allows for FastCat to determine bonuses and other incentives to motivate the employees.

**Updating the Survey Data**

An important aspect of a pay structure is the updated percentage. The updated percentage used for the administrative positions used at FastCat was three percent. This percentage was based off of the World At Work Survey Analysis Data, year over year increases, Chamber of Commerce Research, and many more pieces of relevant studies and analyses. This structure should be updated to assure an accurate comparison for the administrative positions as information and jobs change.

**TECHNICAL SURVEY ANALYSIS**

**FastCat**

MCj03561490000[1]

**SURVEY ANALYSIS FOR TECHNICAL PAY STUCTURE**

**Data Analysis**

Upon completion of the survey market data analysis, FastCat has the ability to compare different industries such as software, finance and semi-conductor as well as the ability to compare different size companies such as small, medium, and large.

For Technical positions, the software and manufacturing industries statistically have higher pay rates. Here at FastCat, we compare base salary with the market pay of the highest paying industry, which has been determined to be software. This decision is fitting because FastCat is a part of the software industry. Therefore, it provides for closer results when comparing benchmark jobs from other software organizations, and higher results when compared to other industries for the particular benchmark jobs.

The second industry that pays similar to the benchmark jobs chosen is manufacturing because job importance is significant in this industry. The higher job importance the benchmark jobs play in an industry, the more likely it is to be paid more greatly. For example, in the financial industry, the need and importance of software jobs is minimal compared to software, therefore they are paid less and not utilized as thoroughly in their industry.

The software industry can easily be compared to all industries within the market survey, with the exception of the financial industry, which is not worth the time to compare and analyze because as there is little risk our employees or potential employees would leave FastCat to seek out an organization within that sector.

When comparing size among software and manufacturing indsutries, the smaller sized companies tend to pay more than the medium or large industries. In the semi-conductor and Computer HW industries, the medium and large industries tend to pay more. Pay varies by size from industry to industry and no consistent pattern can be utilized in every industry.

In the software industry, the industry FastCat most focused on, small sized companies pay highest followed by the large size and medium sized respectively. This pattern was consistent with total cash, base pay and total compensation analyses. The difference in base pay, total cash, and total compensation varied differently throughout the industries. There was a large difference between base salary and total compensation, although there was a small difference between base and total cash. The breakdown for base, stock option and bonus varies with each position; giving the competitive edge where it was necessary.

**Relevant Labor Markets**

FastCat first compared sizes within the software industry using base salary market data. FastCat compared small software companies to both medium and large software companies on a job by job basis to determine which jobs paid more, and by how much. FastCat chose to use small software companies to compare against other industries because these industries were those that compared most to FastCat and are therefore FastCat’s greatest competition and serve as the highest threat.

Small software companies were then compared to each size and industry, comparing averages and adjusted averages to determine if other sizes or industries served a threat as well. Other then small software companies, the only other organizations that could be comparable to FastCat are large semiconductor companies. Small software only paid more in half of this industry’s jobs, and the averages were very similar.

The organizations that met the small software and large semiconductor criteria were selected for the attached exhibit, and the organizations with fifty percent of the benchmark jobs selected from FastCat were used in the pay structure. At least one third of the benchmark jobs showed up in the selected companies and therefore, no benchmark jobs had to be dropped. However, two organizations were dropped because they failed to meet the fifty percent mark for having benchmark jobs. In the case of a position needing outside comparison, such as matching a competitor to retain an employee that has significant importance relative to FastCat, it will be done on a case by case situation and not across the board.

**Benchmark Jobs**

In order for FastCat to stay competitive, the organization needed to compare their positions with other organizations to develop benchmark jobs. In order for FastCat to develop a pay structure, the organization needed to connect the internal ratings developed with market wages. When selecting the benchmark jobs to be used, it was important to select jobs that were common in the marketplace, have similar job requirements as found in the job description, vary on compensable factors, and represent all salary levels.

When determining the benchmark jobs to be used, FastCat conducted a market analysis. The Human Resource Department wanted to ensure they could match a large amount of specific jobs to jobs within the marketplace. With information about similar jobs, the HR Department matched as many jobs as possible; though not all jobs had a specific match. The next task in determining which benchmark jobs to use was to compile a list of available companies and how many times the jobs selected were available in those organizations. The FastCat team decided to keep any market jobs that were held in over 34% of the organizations, and those jobs which met this criterion became the benchmark jobs.

**Appropriate Salary Measure**

Here at FastCat, we believe the method to use for a salary measure is the mean of base salary. This measure gives each company in the market analysis equal weighting, and clarifies to FastCat how the competition values the work of similar jobs. Using the mean will allow FastCat to keep all organizations on the same level, and not allow any specific organizations to inflate or deflate the compensation rate which would occur had FastCat decided to use the weighted mean. By using base salary, FastCat will be able to determine how much should be offered in terms of bonuses, benefits, and stock options.

**Updating the Survey Data**

An important aspect of a pay structure is the update percentage. The update percentage used for the technical positions was five percent; determined by using the World at Work Survey Analysis Data. The pay structures should be updated to assure an accurate comparison for all technical positions as information and jobs change. The Technical positions have a higher rate because of the more frequent and rapid changes that occur within the technical industry as compared to administrative.

**CREATION OF ADMINISTRATIVE STRUCTURE**

**FastCat**

MCj03561490000[1]

**DECISION MAKING RELATED TO CREATION OF ADMINISTRATIVE JOB STRUCTURE**

**Data Analysis**

While regression and market composites both have advantages and disadvantages, regression is the only technique that incorporates the internal structure with external pay. In addition, market composite techniques assume that the number of grades and placement of jobs in grades is correct. On the other hand, regression uses a more basic data and avoids some judgment error and assumes linear progression in salaries. Therefore, FastCat has decided to look at the regression data to analyze the administrative pay structure.

The regression graph created for the administrative job structure was analyzed and a number of things were determined from this analysis, they are as follows:

* The y-intercept on the regression graph is positive. This is important because it means that no employees would have to actually pay FastCat to work for the company, which is what an opposing negative y-intercept would conclude.
* A positive y-intercept also proves that the job ratings are fairly accurate because they are neither severely over nor under-rated. If there had been a negative y-intercept, this would mean that the lower level jobs had been overrated and the higher level jobs had been underrated. The positive y-intercept confirms that the jobs were rated effectively.
* R-squared is above .90. It has been calculated to be .935, which is important because it shows that our job ratings are fairly accurate to the calculated line on the regression graph.

If FastCat creates more job positions, the pay structure will need to be re-evaluated in the future to ensure that the grades correlate with expected career paths within the company and obvious hierarchies with regards to supervisors and subordinates.

**Development of Grades**

FastCat has decided to use 8 grades for the administrative pay structure. This number of grades is the proper number of grades for FastCat because it allows for career progression without making the top of the ladder seem impossible to those stuck in lower grades. If there are more than 8 grades, employees will get promotions more often. However, these promotions will provide for small raises with much greater expectations. These employees may begin to feel undervalued and underappreciated which would lead to lack of motivation and lost productivity.

On the other hand, less than 8 grades would lead to the opposite effect. Employees may start to feel as if it takes too much time and energy to achieve the next level or pay grade and consequently, lose motivation to work towards the next level because it will seem impossible. More pay grades will also lead to a sense of unfairness because even though some employee’s positions may require much more than another within their pay grade, they will be paid virtually the same. This will lead to lower productivity, since employees will not see this policy as fair.

**Midpoint Progression**

After calculating the midpoint progressions, it has been determined that the percentage difference for administrative grades are at good levels; staying fairly steady around 20% for the first six grade jumps and then moving to around 30% to 38% in the last two jumps. This is important because it means that FastCat will be able to afford giving employees pay increases for promotions which would be the result of large percentage increases. Likewise, had the percentage differences been too small, there would be no real differences being determined among jobs.

**Ranges**

After analyzing the pay ranges, it was determined that they are all increasing. This is acceptable because in general, the more sophisticated the job, the more opportunity for pay raises. This means that these positions should have a wider range to allow for these increases; which is why the ranges should increase rather than decrease or remain the same.

**Range Overlap**

Having a range overlap is important because it eliminates the need to give enormous raises to employees for promotions before they are producing enough to justify it. On the other hand, too much overlap limits the ability to give meaningful raises. The overlap for the administrative job structure is only slightly increasing, with most overlap ranges staying under 20% but never exceeding 32%; allowing for FastCat to give justifiable raises.

**CREATION OF tECHNICAL STRUCTURE**

**FastCat**

MCj03561490000[1]

**DECISION MAKING RELATED TO CREATION OF TECHINCAL JOB STRUCTURE**

**Data Analysis**

When determining what to pay technical jobs within FastCat, there are ten steps one should follow:

1. Determine overall point differentials.–
2. Rank order jobs by total evaluation points.
3. Develop job groupings
4. Develop preliminary point bands.
5. Check intra-family and supervisory relationships.
6. Incorporate market data.
7. Review market inconsistencies.
8. Smooth out grade averages.
9. Review differences between midpoints and market averages.
10. Resolve inconsistencies between internal and external equity.

When choosing the appropriate salary measure, one should start by looking at base salary, total cash, and total compensation.

* Base salary tells how competitors are valuing the work in similar jobs. The downfall of base salary is that it fails to include performance incentives and other forms; so, it will not provide a true picture of whether or not competitors offer low base pay but high incentives.
* Total cash tells how competitors are valuing work and determines the cash pay for performance opportunity within the job. The downfall for this is that not all employees may receive incentives. Therefore, it may overstate the competitors’ pay and nor does it include long-term incentives.
* Total compensation tells the total value competitors place on this work. The downfall to total compensation is that all employees may not receive all the forms of compensation.

So, it was decided that base salary was the salary measure that should be used because it keeps fixed costs as low as possible, and allows the company to adjust incentives with respect to changes in profits.

After this was determined, FastCat was then compared the small industry to median and large industries and determined which one was more compatible with the small industries. After completing the data population, a regression analysis was ran on the data and compared the base salary. When looking over the data, it was decide that regression would be used.

Usually when regression is used, lower jobs and higher jobs are underpaid while middle jobs are overpaid. When jobs are overpaid, it is harder to reach the next higher position, and there is little incentive to reach it. When jobs are underpaid, use there is lower productivity and higher turnover.

However, one advantage of regression analysis is that it is very dependable and constant, while also aligning the internal structure with the external pay. The pay system has been adjusted so this pay system should not have to be revaluated for several years.

The regression analysis yielded the r2 =.891. Usually r2 is compared to .9; this figure was very close but a little lower. The system has a slight negative y-intercept, it was decided that the appropriate response was to look at distribution of the points among positions. The resulting negative y-intercept was determined to be attributed to the two highest jobs, which rapidly increased and pulled the slope up. However, it was determined that the points and dollar amounts were distributed fairly and no change was necessary.

**Development of Grades**

A pay grade is the range in compensation, with which many jobs are grouped together and treated the same. It was decided to use pay grades because there were only a few different points with most the jobs. Also, these jobs can be revaluated in the future.

Pay grades were decided upon in evaluating FastCat, and then rank ordered. The points were then distributed to all the jobs. It was decided that there would be a total of 2000 points. After evaluating them, it was decided to smooth most of the pay grades so that they were more consisted, and then we add one dummy grade in which one job fits into that position. Lastly, jobs were banded together and assigned a grade.

**Midpoint Regression**

Midpoints are often used as a target point. The midpoint regression refers to the percentage difference between pay grade midpoints. To figure this out, the lower midpoint was subtracted from the higher midpoint then divide by the lower midpoint. The first grade was 24,700, and the second grade was 29, 825; creating a difference of 5,125. Then, 5,125 was divided by 24,700; 20.75. This percent should stay consistent, or get larger, but should never get smaller.

**Ranges**

Pay ranges are the maximum wage paid in a grade minus the minimum wage in a grade. Lower grades start off at 20% then go up to 50%. It was decide to start grade one off at 20%, grade two and three at 25%, grade four at 30%, grade five at 35%, grade six at 40%, grade seven and eight at 45%, and lastly grade nine at 50%.

**Range Overlap**

It is a good idea to have some overlap between grades. There is no set amount of overlap to use; however, too much is bad. If there is too much overlap, then there is not a great amount of difference between raises in jobs. While, evaluating the grades, it was discovered that there was overlap between all of the grades.

**EVALUATION OF ADMINISTRATIVE PAY STRUCTURE**

**FastCat**

MCj03561490000[1]

**EVALUATION OF ADMINISTRATIVE PAY STRUCTURE**

By being able to give employees pay raises and bonuses, FastCat is able to attract and retain better qualified employees. If the employee is willing to better themselves with more skills and knowledge in order to receive more pay, then they have something to strive for to make FastCat a better place. Internally, the pay structure leaves more room for promotions with higher ranked jobs and less room for promotions with regards to lower ranked jobs. The decisions about the pay structure are consistent with the company’s needs. FastCat’s fair and equal pay rates adheres to educate each employee about the pay system and just how much effort is needed for them to be able to increase their pay. The pay system will surpass the competitors’ systems because of FastCat’s implantation strategy and design.

The key to success within the company is to educate each employee about how the pay grades work. The pay grade includes the base pay, which is where they start out, and then the higher number, a max pay or a pay ceiling, which is where an employee can maximize their earnings if they choose to do so by obtaining more skills. These pay ranges are found by evaluating each job on six factors, and then comparing each job to a survey job and matching it up with pay grades; FastCat will help employees understand their part in the organization with consistent pay rates and rewards. Everyone will be treated fair and equally, leading to a more cooperative, teamwork driven environment. The company should always be competitive and looking to expand their horizons at all times if possible. FastCat is always open to new ideas that would give them a leading edge against competitors and a way for more employees to join the force. FastCat wants its employees to feel driven and motivated while taking the lead.

The human resources department will ensure that the pay structure is equitable, consistent, and fair by ordering the jobs according to the important to what FastCat’s objectives are. Once the jobs are aligned, the organization will assign monetary value and determine fair wages with benchmark jobs. Job evaluations and pay grades provide framework that enforces consistency and fairness. If FastCat pays comparable to their competitor, more qualified candidates will be drawn to the company. People who are hired at FastCat reflect the business strategy and are energized to keep up with the company goal, which is why the company is so team oriented.

The data that FastCat will look at in the future to evaluate the pay structures is the market rate composites. It provides the best estimate of value for a benchmark job. The year-over-year increase statistics that are reported in most surveys and the World at Work Survey of compensation managers are the two best resources for trend rates. The World at Work Survey looks at the expected increase in budgets for certain positions and the year-over-year survey indicates the percentage of increase in positions surveyed from one year to the next year.

If the survey population changes, of course the numbers are going to be suspected. There are also cost of living studies and industry studies that should be analyzed to come up with the appropriate trending percentage. If FastCat decides to use the World at Work Survey, this approach assumes that the actual pay within the labor market increases by the budgeted increase amount. Quantitative information is included in this analysis and it allows the company to compare actual pay “today” with competitive market pay representative of “today”. For future analysis, FastCat will do the same thing but trend both the data and incumbent pay to the same future date.

When FastCat came up with pay grades, there were many things to look and think about. After the grades were established, a great deal of “smoothing” was done to adjust the groupings to see if the jobs placed together seemed to be near each other in pay purposes and represented similar skills and responsibilities. The question was, when the company smoothed out the grey areas, if the transfer of an employee from one job to another would be considered a lateral move not requiring a pay increase of if those two jobs should be in the same grade. The grades follow a natural breakdown of the jobs at FastCat.

Most companies, including FastCat, have pay grades instead of rates for each job because of minor differences in point values, and because jobs are trivial and it might not reflect real differences in value. Another reason might be that jobs can be changed in little ways without the need to totally re-evaluate the wages that are paid. FastCat has eight pay grades which match up with twelve benchmark jobs; ten of which match up to survey jobs. Jobs such as a supervisors and managers are not usually in the same pay grade as a subordinate or a lower end job like office aide. If there are two jobs that are close to each other in job evaluation points, but they have different values to the organization, they should probably be in different pay grades in terms of internal equity.

The natural breakdown of jobs can be easily distinguished by management, and/or employees, at FastCat, by looking at a subset of jobs, such as typist, file clerk, and clerk typist, and determining if there is a meaningful distinction between these jobs. If there is, then the grade system should be designed to reflect upon these distinctions, even if there might not be a difference among these certain jobs on an actual point basis.

For pay ranges, grades, and range overlap, FastCat has used data to conclude results. If the degree of spread is held constant and the number of grades increases the amount of overlap, although overlap is needed, there are conflicting views as to how much overlap is enough and how much is not acceptable. For the administrative job structure, FastCat set grades by looking at the market which suggests what companies should be paying for that particular job. The correct amount of overlap depends on a few things, such as the number of grades and size of needed ranges.

Range progressions are supposed to be equal or increasing as you go up to higher grades. The company did not go past the midpoint of the next job, but was about a third into the next grade. Regression analysis incorporates the internal structure with external pay; it uses more basic data and tends to avoid judgment error. Career paths are how employees’ progress through FastCat and it is supported within the company. All jobs at FastCat fit into grades that were established; eight grades were chosen. When developing point bands, the most important thing for the company is to focus on whether the jobs that are similar in skill, effort, or value to FastCat are grouped together.

The final pay structure for FastCat achieves the objectives by boosting performance and rewarding performance based goals. The pay structure complies with state, federal, and local law regulations. Pay and rewards are clearly defined, and encourages innovation with the employees internally and externally.

**EVALUATION OF TECHNICAL PAY STRUCTURE**

**FastCat**

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**EVALUATION OF TECHINCAL PAY STRUCTURE**

The job evaluation system created for FastCat employs a reliable and valid method for the organization to maintain their job structure hierarchy. The decisions made while creating the job evaluation system are consistent with FastCat’s need to be competitive in the currently recovering marketplace. It was decided upon to pay at market level for technical positions and also to provide additional benefits to our employees as an incentive to join and remain with our organization. By choosing this strategy, FastCat will be able to remain competitive in a very spirited marketplace. FastCat takes great pride in their history and success since surviving the dot com bust, and it is essential that they maintain the leading edge.

In deciding how to evaluate FastCat’s numerous positions, it was important to take into consideration the work requirements and the levels of KSAOs (knowledge, skills, abilities and other traits) that are required to be successful at each particular position. These types of evaluations have been successful in creating and maintaining a strong workforce with very skilled, happy, well trained and knowledgeable employees. Each position was evaluated in great detail, and the requirements verified in order to insure that each job’s salary was no more than the next highest position’s salary. Basically, this defines each employee’s career path and gives them an easy to understand path to advancement within the organization. This detailed system will help FastCat gain a competitive advantage in the small software industry while remaining both financially stable and profitable.

The individual pay grades used in the technical structure were created using what is called a smoothing technique. The grades were created in order to form a division of the different levels of positions. In one instance, a dummy grade was inserted in order to create flexibility and retain space for certain positions that did not fit within the grades determined by the survey data and smoothing technique. The number of grades chosen, allows for the midpoint progression between the grades to increase, as well as the range of each subsequent grade. All of the jobs fit into a specific grade based on their attributable points, which were determined through extensive job evaluation techniques. There are also some grades where multiple jobs fit within one grade. The regression line created when all grades were entered into the database of salaries, summarized the data and is explained in more detail in the Data Analysis section of the manual. The ranges were estimated to provide a greater ability to allow for performance adjustments and promotions, and to support the longevity of the compensation system.

Both internal and external equity are supported by the job evaluation system based on these grades. There are low level grades, mid level grades, and high level grades. The low level grades are comprised of the entry level positions, while the mid level grades encompass the core positions at the next levels such as management of the departments, and the high level grades include the executive level positions. The entry and lower level positions fall within lower level of ranges. Since many of these are entry level positions, there is ample room for advancement as long as all specified job requirements are met at a satisfactory level. These positions have a clear path to advancement with proper performance. The higher level positions fall within the upper level grades due to the additional qualifications necessary for individuals to perform the duties of these positions. This is also done to insure that supervisors are not placed in the same grade as their subordinates. The compensation team does not foresee any problems arising in the future relating to the equity of the chosen job evaluation and compensation systems.

The subsequent compensation structure aids the human resources department in meeting the organizations goals to both contain and control costs and continue to attract and retain a talented, productive workforce. In both the near and distant future, the pay structure will help attract, retain, and reward new and current employees which are what make FastCat such a successful company. The final compensation structure will be reviewed and updated if necessary, as new positions are created and as the organization continues to grow. It is anticipated to require review once each year.

**pROJECT TWO**

**EXHIBITS**

**FastCat**

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**JOB MATCHES FOR ADMINISTRATIVE STRUCTURE**

**FastCat**

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**JOB MATCHES FOR ADMINISTRATIVE STRUCTURE**

|  |  |  |  |
| --- | --- | --- | --- |
| **This Job At FastCat** | JE Points | **Matches This Survey Job** | **Comments On Match** |
| Admin Assistant I | 487 | Office Support 3 | 2-4 yrs experience. Word processing duties ensure accuracy of other data entered. |
| Admin Assistant II | 438 | No Match |  |
| Business Account Leader | 1617 | Marketer 5 | Bachelor’s degree plue six years experience. Lead marketing product or productions set. |
| Business Solutions Consultant | 1236 | Marketer 3 | Bachelor’s degree plus 4-6 yrs experience. Provide direction for few products and direct positions. |
| Data Processor | 471 | Office Support 2 | One year of experience and routine info duties. |
| Executive Staff Assistant | 586 | Office Support 4 | At least 4 yrs experience. Maintains files, scheduling, meetings and coping documents. |
| Field Marketing Rep. | 1023 | Marketer 2 | Bachelor’s degree plus 2-4 yrs experience. Develop strategy and generates presentation. |
| Marketing Support | 923 | No Match |  |
| Office Aide | 105 | Office Support 1 | Performs clerical work, support duties and simple data entry. |
| Office Leader | 864 | Office Support 6 | 5 + years experience plus associates degree or training equivalent. Information source for others. |
| Technical Marketing Consultant | 1558 | Marketer 4 | Bachelor’s degree and 4-6 years experience. Develops products specification and strategies. |
| Visionary Champion | 1770 | Marketing Manager 3 | Manages overall project. Keeps current forth next generation and manages many employees. |

**JOB MATCHES FOR TECHNICAL STRUCTURE**

**FastCat**

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**JOB MATCHES FOR TECHNICAL STRUCTURE**

|  |  |  |  |
| --- | --- | --- | --- |
| **This Job At Fastcat** | JE Points | **Matches This Survey Job** | **Comments On Match** |
| Project Manager | 1514 | Engineering Manager1 | Bachelor degree plus a minimum of 5 yrs experience with 1 yr in management. Begin level of management position. Limited of number people who report to this position. |
| Senior Fellow | 1911.5 | Engineering Manager 3 | PhD plus over 8 yrs of experience in all phases of software development. Manages engineering product group to ensure timely delivery of product. |
| Senior Technician | 966.5 | Technician 5 | Associates degree plus 4 yrs experience. Designs, researches and develops mew system while providing guidance to support staff. Provides technical direction and advice. |
| Software Development Engineer | 1125 | Engineer 1 | Bachelor’s degree and 1 to two years experience required. Participates in development, testing and documentation of software programs. As project team member performs tasks to design and analysis development of products |
| Software Interface Designer | 1288.5 | Engineer 2 | Master’s degree and up two to years experience. Establishes work environment for development of complete products and programs. |
| Software User Interface Architect | 1468.5 | Engineer 3 | Master’s degree and four to six year experience. Develops plan functional specifications and schedules. Provide guidance to others on complex technical issues. |
| Technical Analyst A | 408.5 | Technician 2 | Two years of experience with computers Under supervision, evaluates new or unique software to ensure its validity and accuracy. |
| Technical Analyst B | 658.5 | Technician 3 | Associate’s degree with two to four years experience. Responsible for ensuring internal consistency of complete software. |
| Technician | 313 | Technician 1 | Under close supervision, assists in routine destructive testing. Entry level, no experience required. |

**mARKET ANALYSIS for technical and administrative structures**

**FastCat**

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**STATISTICAL ANALYSIS FOR ADMINISTRATIVE STRUCTURE**

**FastCat**

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**not currently available**

**statistical analysis for technical STRUCTURE**

**FastCat**

MCj03561490000[1]

**Not currently available**

**ADMINISTRATIVE pay STRUCTURE**

**FastCat**

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**See pay STRUCTURE**

**technical pay STRUCTURE**

**FastCat**

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**See pay STRUCTURE**

**company survey data**

**FastCat**

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**Not currently available**

**summary of job ratings**

**FastCat**

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# SUMMARY OF JOB RATINGS FOR ADMINISTRATIVE JOBS

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Job Title** | **Factor 1** | **Factor 2** | **Factor 3** | **Factor 4** | **Factor 5** | **Factor 6** | **Total Points** |
| **Visionary Champion** | 512.80 | 225.61 | 307.60 | 282.00 | 256.40 | 132.13 | **1716.54** |
| **Business Account Leader** | 512.80 | 225.61 | 215.32 | 282.00 | 232.04 | 149.68 | **1617.45** |
| **Technical Marketing Consultant** | 512.80 | 317.91 | 30.76 | 282.00 | 232.04 | 182.57 | **1558.08** |
| **Business Solutions Consultant** | 269.21 | 317.91 | 123.04 | 192.70 | 183.32 | 149.68 | **1235.86** |
| **Field Marketing Representative** | 350.40 | 317.91 | 0.00 | 103.40 | 158.96 | 92.57 | **1023.24** |
| **Marketing Support** | 269.21 | 225.61 | 0.00 | 192.70 | 85.90 | 149.68 | **923.10** |
| **Office Leader** | 269.22 | 225.61 | 30.76 | 192.70 | 110.25 | 35.66 | **864.20** |
| **Executive Staff Assistant** | 188.02 | 133.32 | 30.76 | 103.40 | 61.54 | 68.55 | **585.59** |
| **Administrative Assistant 1** | 188.02 | 41.02 | 0.00 | 103.40 | 85.90 | 68.55 | **486.89** |
| **Data Processor** | 188.02 | 41.02 | 0.00 | 103.40 | 61.53 | 68.55 | **470.64** |
| **Administrative Assistant 2** | 188.02 | 41.02 | 0.00 | 103.40 | 37.18 | 68.55 | **438.17** |
| **Office Aide** | 25.64 | 41.02 | 0.00 | 14.10 | 12.82 | 11.54 | **105.12** |

# SUMMARY OF JOB RATINGS FOR TECHNICAL JOBS

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Job Title** | **Factor 1** | **Factor 2** | **Factor 3** | **Factor 4** | **Factor 5** | **Factor 6** | **Total Points** |
| **Senior Fellow** | 500 | 440 | 360 | 271.5 | 200 | 140 | **1911.5** |
| **Project Manager** | 398.5 | 308 | 246 | 271.5 | 150 | 140 | **1514.0** |
| **Software User Interface Architect** | 338 | 440 | 189 | 211.5 | 150 | 140 | **1468.5** |
| **Software Interface Designer** | 344.5 | 440 | 75 | 129 | 100 | 200 | **1288.5** |
| **Software Development Engineer** | 290.5 | 308 | 75 | 211.5 | 100 | 140 | **1125** |
| **Senior Technician** | 236.5 | 176 | 75 | 129 | 150 | 200 | **966.5** |
| **Usability Engineer** | 195.5 | 176 | 132 | 100.5 | 50 | 70 | **724** |
| **Technical Analyst B** | 189 | 44 | 75 | 100.5 | 50 | 200 | **658.5** |
| **Technical Analyst A** | 189 | 44 | 75 | 43.5 | 50 | 70 | **408.5** |
| **Technician** | 87.5 | 44 | 18 | 43.5 | 50 | 70 | **313** |