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Columbus Custom Carpentry: A Compensation Case Study

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Columbus Custom Carpentry: A Compensation Case Study

OVERVIEW

This case presents a scenario in which a company has various internal and external compensation equity problems. Students are asked first to analyze the status quo, then to develop a compensation strategy and finally to create a set of grades and pay ranges for the company. Students will perform a variety of activities that would be required of an HR professional to assess the company's needs and develop appropriate solutions for the company's strategy and environment. This case study can be coordinated with learning modules already developed or be used with modules that are developed specifically to feed into this experiential application of the concepts.

This case is presented as close as practical to the way students will encounter data in the working world. Materials include an instructor's manual (which consists of the case study, student materials and instructor materials), an employee handbook, an HRIS database and MS PowerPoint Presentation.

The employee handbook provides company background, an organizational chart and additional details regarding compensation practices that students will use to access relevant data. While that may seem time-consuming, it is a closer approximation to the professional world where relevant data must be identified and extracted from the massive amounts of available data. This allows students to develop their qualitative analysis skills. The handbook also serves to demonstrate to the student what a standard employee benefits offering might look like.

Much of the case data is provided in the form of an employee database. This human resource information system (HRIS) will be the primary data source for the quantitative portions of this case. Some of this information will be included only in the instructor's manual. The purpose of providing the data in this fashion is to mimic the way the data would be found in a real-world setting.

Students may be expected to find the turnover problem on their own through data analysis, or the instructor may choose to provide the turnover report to the students to save time and get them started on the right track.

AUDIENCE

The target level for this case is undergraduate students in their fourth (senior) year. However, it can be expanded to a graduate-level course by creating a version in which the company is publicly traded. In this version, executive and board of directors' compensation issues should be included.

SUGGESTED USES

This case study is designed to be used as a capstone to a basic compensation unit. It will build on and reinforce the technical learning from modules on total rewards, compensation strategy, and alignment of HR strategies with overall corporate goals.

SUBJECTS COVERED

- Compensation.
- Total rewards.
- Job analysis.
- Alignment of HR strategy with corporate strategy.

Student Materials

COLUMBUS CUSTOM CARPENTRY CASE OVERVIEW

This case is presented as close as possible to the way you may encounter it in working life. Your role is that of a newly hired HR manager. You will learn about the company by reading the employee handbook, talking with various employees and reviewing the human resource information system (HRIS) database.

When you first join an organization, you will have an idea of what the organization is like, and there will be a few things of which you feel certain, but your list of unknowns will be much longer. Each interaction with employees provides more data, but you will find that not everyone agrees on the facts of a particular situation. Sometimes you may find that the people you are speaking with do not know the information you are asking about; at other times, they know a great deal about the issue but choose to manage the information they provide to you for their own benefit.

We will not intentionally mislead you in this case, but do not expect everything to fall neatly into place. Uncertainty, differences of opinion and competing priorities are the norm in the professional world.

In your role as the HR manager, you are expected to analyze the situation, identify the problems and develop workable solutions. For the purpose of this case, you are asked to provide a written and oral presentation to the company president (your professor). While there is no single best answer, you must identify the key issues so that the solutions you propose are appropriate to the situation.

Columbus Custom Carpentry is a small, successful company. Recently, though, labor costs per unit have risen faster than gross revenue per unit. The company president has also found that human resource issues are taking up more and more of his time and frequently result in production problems. Both overtime and late shipments are increasing. Until now, the president's administrative assistant has handled all HR-related administrative activities. You are the newly hired HR manager.

Subject matter knowledge you will apply in this case includes:

- Internal and external pay equity.
- Job grades and pay range/structure creation.
- Market pricing using salary data.
- Turnover.
- Job analysis and job description development.

STUDENT ASSIGNMENTS

1. **Preliminary report (25 percent of case grade):**
 - a. Identification of major issues (40 points).
 - b. Outline of plans to correct these issues (30 points).
 - c. Weighting of problems/solutions selected (10 points).
 - d. Overall clarity, professionalism and presentation (20 points).
2. **Written formal response to the case (50 percent of case grade):**
 - a. Introduction (20 points).
 - b. Identification/analysis of major issues (20 points).
 - c. Proposed solutions (20 points).
 - d. Development of proposals into finished pay grades and policies (10 points).
 - e. Overall organization, clarity, professionalism, internal consistency and writing (30 points).
3. **Oral presentation of recommendations (25 percent of case grade):**
 - a. Introduction (10 points).
 - b. Identification of major issues (5 points).
 - c. Identification of side issues (10 **bonus** points).
 - d. Range of solutions considered (5 points).
 - e. Implementation of proposed solutions (50 points).
 - f. Overall organization, clarity, professionalism, internal consistency and presentation (20 points).
 - g. Challenge and defense (10 points).

MANAGEMENT INTERVIEWS

Monday, 7:45 a.m.

Jennifer Reen, receptionist

“Good morning, welcome to Columbus Custom Carpentry. You must be our new HR manager. Here is a copy of your schedule for today. The president has already sent out an announcement about you. We are not a big company, so you should get to know the office employees pretty fast. Manufacturing is a bigger department, so getting to know those employees will take more time. The warehouse employees come and go so fast, you will probably get to know them only through the recruiting process. Mr. Cooney told me not to schedule any interviews for you today, but there is a stack of applications in your inbox. Cary Dobbins wants three new hires for next Monday morning.”

Monday, 8:00 a.m.

Anthony Cooney, president/CEO

“Welcome to the Columbus Custom Carpentry family. We have a busy day laid out for you, so I won’t take up too much of your time. You will begin with Barbara Duff, my administrative assistant. She will take you through our employee orientation and get you set up for payroll and benefits. Next, Matt Lee from accounting will give you your computer password and explain our network and backup procedures. The rest of your day will be devoted to meetings with various employees so you can get to know everyone and learn more about our company.

“We had talked during your interview about the employee issues we are having, and I hope your outside perspective will help us get a better understanding of what the underlying problems really are. I would like to meet again on Friday, and you can give me a preliminary idea of what you see as the primary issues. After that, we’ll give you a couple more weeks to develop an action plan to deal with these problems. That may seem like a very fast schedule, but I want you to jump on this before your time gets filled up with other activities. I recently read about the concept of a ‘honeymoon’ during an HR manager’s first 100 days. The article indicated that during this period, you are able to accomplish things that will become impossible later. I want—we need—to make the most of this opportunity.”

Monday, 8:15 a.m.

Barbara Duff, president’s administrative assistant

“I have been doing the employment tasks and record keeping. I’m sure you will find everything in order. I’ll take you through the regular orientation and benefits enrollment process. I’m glad you are here, because I have been asking Mr. Cooney for help for quite a long time; all this HR stuff keeps me from getting my real job done. We will get started by completing the I-9 form.”

A couple of videos and reams of benefit forms later, she gives you the employee handbook and returns to her desk.

Monday, 10:00 a.m.

Matt Lee, accounting database administrator

Matt meets you at your office to go over the company network and show you how to access the HRIS database. At this company, the HRIS is an Excel file maintained by the president’s administrative assistant. Your e-mail inbox has already been created and contains 87 messages. As he is leaving, Matt says, “I’ve been doing the payroll because we didn’t have an HR department. Now that you are here, we should talk about transitioning that function over to you.”

Monday, 10:30 a.m.

Mike Cooney, chief financial officer (CFO)

“We operate in a narrow niche market. We have to maintain a price advantage over the true custom manufacturers, or our customers will have no reason not to take advantage of the wider choices and individualized solutions. This means

that efficiency of operations is our primary competitive advantage. If we lose that operating cost advantage, our business plan collapses like a house of cards.

“We cannot produce at the incredibly low-cost level maintained by the mass market manufacturers. We would not get costs that low even if we mimicked their limited product lines and quality levels. We compete with them by creating styles and options that they don’t offer. Finding the balance between production costs and proliferation of models is a continuing struggle.

“We need to cut out the current levels of overtime to maintain our cost structure. It is not clear why we need this overtime. Our labor hours per unit made have stopped going down and are even up somewhat. Adding overtime to that increases our labor cost per hour as well. Turnover has been useful in the past, allowing us to replace higher-paid workers with more lower-paid new hires, but the pattern seems to be changing, and now it is our new hires who are leaving. The warehouse manager wants to increase wages in his area, but that raises our costs per labor hour without explaining how it will help us get our total costs down.”

Monday, 11:30 a.m. (lunch meeting)

Derwin Boyer, manufacturing manager

“A variety of people issues are hindering our productivity. We have bottlenecks in the warehouse areas. These bottlenecks spill into our manufacturing area because we have to pull people off assembly work to get their own raw materials or to move finished product out of the production area. This also means that we are doing with more expensive manufacturing labor what should be done with less expensive warehouse labor. To operate at our needed levels of efficiency, employees need to be doing the jobs they are trained for. Driving around on a forklift just to find materials or to find a place to put finished units is not efficient.

“We operate under the concept of mass customization. Using modular parts, we can produce designs with features that appear to the end user as custom work but have the manufacturing advantages of mass production.

“The assembly jigs we have developed are the heart of our system. You can think of them as big clamps. They hold the material in just the right arrangement. If the assembler puts in the wrong part, the jig will not close, preventing the assembler from wasting materials. Once the materials are in place, the jig closes and a single lever pull will drill any needed holes in the right place, in the right size and to the proper depth. It is fast, mistake-free and simple for the operator. Much of our assembly is gluing. Here is where the big clamp analogy is the closest. Once the jig is locked with just a couple of levers, proper clamping pressure is applied at exactly the right places. Assemblers no longer spend time placing individual clamps. Once closed, the jigs are tilted upright and rolled on their own rollers to a drying area. If they are to get painted, the paint hanger goes on before the jig is released and no one even has to touch the door unit until it is crated. Zero damage and zero waste in this part of the process.”

Monday, 1:30 p.m.

John Brown, manufacturing supervisor

“It is hard to keep the guys working efficiently. We are always running out of raw materials, or the finished product builds up and I have to pull guys off the production floor to deal with it. The warehouse manager doesn’t do his job, but if I have my guys take loads over, he complains that they did not get stacked right and that the damage is our fault.”

Monday, 2:00 p.m.

Cary Dobbins, warehouse manager

“We are treated like stepchildren; the manufacturing department pays more and has the best equipment. If I do get a good employee, this person transfers to manufacturing at the first opportunity. I tried blocking a transfer once, but the employee got mad and quit. If we get behind, manufacturing just drops product anywhere, and when it gets damaged, they blame it on us. They think anybody can do our job, but they can’t seem to put a blue crate into a blue bin without hitting something.

“I waste time interviewing and training when I should be working on the crating jig project that is supposed to reduce our damage ratio and make packing easier. My best guys can pack better than the jig right now, but I have to train new people all the time, and some just don’t seem to get it. Crating may not be rocket science, but putting nails in crooked damages the doors. Miss a corner—and the whole thing will fall apart the first time we try to move it. People get the idea that because it is manual labor rather than an automated machine, it is simpler. The opposite is closer to the truth. My forklift drivers don’t want to do crating because it has so much bending over and lifting that it is much harder physically than their regular work. The crating jig should make it possible for less-skilled people to do the crating job. This will eventually allow us to save money both on labor costs and the cost of replacing damaged goods.”

Monday, 3:00 p.m.

Brandon Swift, marketing manager

“It is critical that we are seen by our customers as top quality because we charge more than the prices they see at the big-box stores. Damaged goods and shipping problems reflect poorly on our product, even if it is good quality. How many end users can truly judge the quality of our product? Not many; it’s all perception.

“We work directly with the homeowners in the design process, but the builders are the ones who refer the homeowners, do the sizing, place the orders and install the product. They are the ones who take the heat for shipping delays or damage. When they need service, parts or replacements, they want them now, not tomorrow or the day after. Time is money to contractors. We have to win on design but deliver at a price that makes our products a better value.”

Monday, 3:45 p.m.

Stephen Moore, crater (new hire)

“I took this job to get off of second shift, but I am hoping to transfer to the manufacturing group as soon as I can. My friend who works over there told me about this place, but they make you start in the warehouse and work your way up. What I don’t get is why the crating job pays less than the forklift job; running the forklift is easier work. Besides, working on the crating jig is really like working in the manufacturing side, where they use similar jigs to make the doors. The manufacturing techs get paid a lot more than craters. It sure is nice being home with my family in the evening, but if I don’t get that transfer and the raise that goes with it, I will have to get a second job to make ends meet.”

Monday, 4:00 p.m.

Nathan Smith, production technician (manufacturing assembly)

“When I first got here, we made the doors from scratch. You could take pride in a door you made yourself. Now we just throw parts into a jig and stick them together. It allows new people to make a quality door with little training, but it is kind of sad for those of us who consider ourselves craftsmen. Most of my old co-workers have moved into the housing industry as finish carpenters. I came from there originally, and I’m afraid of going back just in time to lose my job due to a downturn in the housing market.”

Monday 4:15 p.m.

Jeffery Green, raw materials warehouse

“I like running the forklift in raw materials. I know I could make a little more in production, but I think it would be boring doing the same thing all day. We have a good team in my area; most of us have been here awhile and know our jobs. The supervisor spends most of his time working on orders and inventory issues rather than standing over us. I like that. It’s not the same in production. The supervisors are always on their tails, and if anything goes wrong, there is lots of yelling. They are always trying to blame other departments because they are under so much pressure to produce. They’ll switch models on the fly, then complain that we don’t have the parts bin correctly stocked. The worst is when they try to help. Talk about screwing things up in a hurry! We should take away all of their forklift licenses.”

ADDITIONAL RESOURCES

Internet Resources

Internet Based Benefit and Compensation Administration | ERI Distance Learning Center | www.eridlc.com/index.cfm?FuseAction=textbook.main (free Internet-based text)

DLC Business Glossary | ERI Distance Learning Center | <http://eridlc.com/index.cfm?FuseAction=resource.glossary&trkid=292-49> (free Internet-based dictionary of compensation terms)

Occupational Wages and Employment | Occupational Employment Statistics (OES) Program | www.lmi.state.oh.us/OES/oes.htm (from the Ohio government wage site)

Job Openings and Labor Turnover Survey (JOLTS) | U.S. Department of Labor | Bureau of Labor Statistics | www.bls.gov/jlt/home.htm

National Compensation Survey | U.S. Department of Labor | Bureau of Labor Statistics | <http://data.bls.gov/PDQ/outside.jsp?survey=nc>

National Compensation Survey: Guide for Evaluating Your Firm's Jobs and Pay | U.S. Department of Labor | Bureau of Labor Statistics | www.bls.gov/ncs/ocs/sp/ncbr0004.pdf

National Compensation Survey: Compensation Cost Trends | U.S. Department of Labor | Bureau of Labor Statistics | www.bls.gov/ncs/ect/home.htm

Salary.com | www.salary.com (free online salary information for the private sector)

PayScale.com | www.payscale.com (free real-time salary reports)

Salary Search | <http://salarysearch.blr.com> (free salary data)

BLS Occupational Handbook | U.S. Department of Labor | Bureau of Labor Statistics | www.bls.gov/oco/home.htm

Hewitt Total Compensation Center | www.totalcompensationcenter.com/TCC/home/select_site.jsp (model of a salary structure)

ERI Distance Learning Center | www.eridlc.com (various compensation educational resources)

Salary.com | www.salary.com/advice/layouthtmls/advl_display_Cat14_Ser65_Par142.html (advice on salary structures)

Towers Watson Data Services | www.wwds.com/Tools/AgeData.asp (calculator for age data)

Towers Watson Data Services | www.wwds.com/Tools/SalaryRanges.asp (calculator for a salary range)

WorldatWork | www.worldatwork.org

Society for Human Resource Management | www.shrm.org

IFEBP | www.ifebp.org

Compensation consulting companies; general research, no free surveys are available through these sources:

www.hewittassociates.com/Intl/NA/en-US/Default.aspx

www.wwds.com

www.imercer.com/default.aspx?page=home&tab=1&newRegionId=100

Other Resources

Purushotham, D.P., & Wilson, S. (2004). *Building pay structures*. Scottsdale, AZ: WorldatWork. Available as a download/e-book.

Stoskopf, G. (2002, 4th Quarter). Choosing the best salary structure for your organization. *World at Work Journal*, 11, 4.

Instructor Materials

LEARNING OBJECTIVES

This case is designed to build on learning modules within the topical area of compensation. The target level for this case is undergraduate students in their fourth (senior) year.

HR KNOWLEDGE ELEMENTS USED IN THIS CASE

Students need a working knowledge of the following concepts to properly analyze this case:

- Internal and external pay equity.
- Job grades.
- Pay ranges.
- Market rates/pricing.
- Turnover.
- Job description development and job analysis.
- For the optional exercises:
 - Basic EEO concepts.
 - Knowledge of FLSA classifications.
 - Knowledge of overtime regulations.

DISCUSSION TRIGGERS

- How much turnover is too much?
- What is causing the turnover at Columbus Custom Carpentry?
- Did pay cause the interdepartmental issues or did interdepartmental issues cause the pay problems?
- How is pay determined? What is fair?
- What are the consequences of poor internal equity?
- What are the consequences of poor external equity?
- How can pay grades help prevent internal equity problems?

- How can pay grades help prevent external equity problems?
- Are the assembly technicians overpaid? If so, how or why did this come about?
- Are the craters underpaid? If so, why? Will they still be underpaid if the custom hand work portion of their job is eliminated by the jig system?

SPECIAL ITEMS OF CONCERN

- The presence of issues unrelated to the central focus of the case provides not only an opportunity for optional exercises, but also a more realistic case in which not every issue is directly involved with the issue under discussion. Depending on their skill levels, students may become overly concerned with these side issues. The instructor must exercise judgment as to the amount of guidance appropriate for his or her students. One of the purposes of the preliminary report is to help keep students on track.
- The EEO makeup of this company is intentionally stereotyped rather than being a politically correct version of reality. This company does have problems, some of which may be salary differentials based on gender or race. The degree to which this is true is subtle and intended to promote discussion rather than provide clear right and wrong answers. Note that in the factory area, the company is probably more gender diverse than many manufacturing companies. In the office, however, where there is lower turnover, job classifications are predictive of gender. These EEO issues are not the core of the case, but they support optional exercises and require students to analyze how these easily spotted issues contribute to or are unrelated to the core case.

OPTIONAL EXERCISES

Pay Discrimination

EEO issues with race- or gender-based discrimination may be discovered in the database by sorting the employee groups by these factors. This may lead to discussions of the HR manager's role in management control, the need for post-salary increase analysis and review, and the benefits of a proactive approach to compensation management. Does having an all-female clerical staff constitute gender discrimination? Do the higher salaries for male office staff prove salary discrimination? Does the all-male top management in such a small company indicate discrimination? This is a family company—what if all the participating family members are male? If family religious beliefs are in conflict with gender equity, does religious freedom or gender equity take precedence?

What might an affirmative action plan look like for this company? Is it required to complete an EEO-1 report? (Yes, because the company has more than 100 employees.) Students could be asked to compile an EEO-1 report.

FLSA Classification Errors

A common mistake made by small companies is to pay the office staff on a salary basis and the plant staff on an hourly basis, therefore confusing “salary” with “exempt” for FLSA purposes. Because office employees rarely work more than their scheduled hours, it can easily be forgotten, even if it was originally recognized as an issue. The easy fix is to simply reclassify the office workers as nonexempt. Note that they receive three days of personal time for being exempt. Which employees should be reclassified and how will they react? What steps could be taken to make them more accepting of the reclassification?

Profit-Sharing and Its Effect on Overtime

The handbook is not specific in the manner of payment or the calculations used for the profit-sharing plan. For this exercise, assume that the profit sharing is paid as a cash bonus equally to all employees. The amount does not matter, but we can use \$500 for the quarter. Look at the effect on the pay of a plant employee who worked 13 weeks at 40 hours per week and also worked 26 hours of overtime for the quarter. Use the pay rate of \$15.39 per hour and an overtime rate of \$23.09 per hour. Find what the overtime pay rate should have been considering the profit sharing.

Adding together the sums of each payment is incorrect since the regular rate of pay and the overtime rate of pay are both increased to include the bonus, which is spread over the time the bonus applies (in this case, the quarter).

For example, this calculation is incorrect:

\$8,002.80	Regular pay at \$15.39
\$600.34	Overtime earnings at \$23.09
\$500.00	Profit sharing
\$9,103.14	Total as paid

However, this is the correct calculation using the employee’s current “regular” pay rate of \$15.39:

$$\begin{aligned} \$15.39 \times 40 \text{ hours per week} &= \$615.60 \\ \$615.60 \times 13 \text{ weeks} &= \$8,002.80 \end{aligned}$$

Then, add the \$500.00 bonus to \$8,002.80:

$$\$8,002.80 + \$500.00 = \$8,502.80$$

The employee worked 13 weeks in the quarter and worked at least 40 hours each week; therefore, 13 weeks x 40 hours = 520 hours.

In order to calculate the new “regular rate”:

$$\$8,502.80 / 520 \text{ hours} = \$16.35$$

\$16.35 is the employee’s “regular rate” for the quarter.

To determine the employee’s new “overtime half-rate,” multiply \$16.35 by .5 for a total of \$8.16.

Then, multiply \$8.16 by 26 overtime hours for a total of \$212.16.

In order to obtain the correct “time and one half” required for overtime pay, combine the 26 hours of overtime at the new regular rate of \$16.35 with the 26 hours of overtime at the half-rate of \$8.16:

$$26 \times \$16.35 = \$425.10 \text{ (this is the “time” in “time and one half”)}$$
$$26 \times \$8.16 = \$212.16 \text{ (this is the “one half” in “time and one half”)}$$

The total overtime pay using the new regular rate and the new half rate will equal \$637.26.

$$\$425.10 + \$212.16 = 637.26$$

Therefore, the employee’s total pay for the quarter including overtime will be:

$$\$8,502.80 + \$637.26 = \$9,140.06$$

Teaching Notes

Turnover History

You have the choice of presenting this information or letting the students discover it from the HRIS data. There are sufficient hints in the management interview section to suggest a problem. The key for students will be to look at the turnover on a departmental level rather than companywide. Again, there are hints in the management interviews that this issue is not companywide. Self-discovery of this issue and the best way to analyze it supports the goal of building experience in using analysis techniques, but it does require more work and greater understanding by the students.

A turnover report is included with the instructor’s copy of the HRIS. Average turnover in the U.S. manufacturing sector is about 15 percent per year. There is substantial variation across sub-sectors, primarily due to traditional pay and benefits practices. This turnover benchmark information is not provided to the students in the case materials.

Students should find the turnover and wage problems easily enough; the core of their work should revolve around the solutions to these problems. Students will need to design solutions around suggested grades and salary ranges. Instructors should ensure that students do not stop at recommending that grade ranges be adopted, but that they actually use the salary data provided to create the ranges. The preliminary report and outline are designed to provide an opportunity for such guidance and to keep students on track.

The assembly workers are overpaid. Before the jig methods were adopted, the assemblers needed to be highly skilled workers. Using the standardized jigs allows workers to work more quickly and productively, partly because the jigs remove the need for judgment and craftsmanship. This reduced the grade match for assemblers from a senior (level III) to no higher than a generic (level II) position or possibly lower. The company did not change its compensation practice to adjust for the new conditions in the assembly area. This is likely a result of the change being gradual. Certainly lowering

wages is never easy. The relatively high rate of pay for assemblers compared with the required skill levels has helped to hold down turnover in this area. As the average length of service increases, so does the average pay rate. This cycle keeps average compensation levels creeping up in the department.

Contrast this to the crating area, where high turnover and a high rate of internal transfers result in a department dominated by new employees earning the entry-level wage. This lower-than-average pay combined with the relatively higher skills needed to custom-form the shipping crates results in high turnover. Students attempting to fix this with a simple pay increase to the craters will find that once the crating jig moves into full use, the crating job will become easier and simpler to do. This can easily result in the craters becoming overpaid in the future.

SAMPLE SYLLABUS

The most common method of teaching this case study would include students working in small groups to produce a report and present their action plan in the classroom.

Introduction to the Case by Instructor

- Brief PowerPoint presentation.
- Distribution of materials.
- Discussion of learning objectives and case guidelines.
- Distribution of schedule of responses and assignments due.

Student Assignments

1. Preliminary report (25 percent of case grade):
 - a. Identification of major issues (40 points).
 - b. Outline of plans to correct these issues (30 points).
 - c. Weighting of problems/solutions selected (10 points).
 - d. Overall clarity, professionalism and presentation (20 points).
2. Written formal response to the case (50 percent of case grade):
 - a. Introduction (20 points).
 - b. Identification/analysis of major issues (20 points).
 - c. Proposed solutions (20 points).
 - d. Development of proposals into finished pay grades and policies (10 points).
 - e. Overall organization, clarity, professionalism, internal consistency and writing (30 points).

3. Oral presentation of recommendations (25 percent of case grade):
 - a. Introduction (10 points).
 - b. Identification of major issues (5 points).
 - c. Range of solutions considered (5 points).
 - d. Implementation of proposed solutions (50 points).
 - e. Overall organization, clarity, professionalism, internal consistency and presentation (20 points).
 - f. Identification of FLSA or EEO issues (10 **bonus** points).

INSTRUCTOR FEEDBACK

(See grading rubrics on the following pages for additional details.)

1. Preliminary report.
2. Written response.
3. Oral presentation.
4. Overall case evaluation.

Grading Rubric for the Preliminary Report and Outline

If students do not identify the core problems presented in this case, the solutions they develop later will likely be irrelevant to the important issues. To keep students on track, ask them to turn in a preliminary report with an outline of the work to be completed for the final report and presentation. In the management discussion section, the company president asks for a similar report. This preliminary report should specifically list the issues students have identified, enabling the instructor to provide guidance as needed to make the solutions phase relevant.

This case is about compensation. The management interview section points to issues about low pay and internal equity. Students should begin there and ultimately present a solution that includes grade and salary ranges for the company.

Suggested Grading Standards for the Preliminary Report and Outline		Points
▪ Internal equity problem identified.		0-10
▪ External equity problem identified.		0-10
Turnover		
▪ Turnover problem identified.		0-5
▪ Accelerating turnover trend identified.		0-5
▪ Turnover analyzed on a departmental rather than companywide basis.		0-5
▪ Identification of how the internal promotion process makes the hiring rate higher for craters than the turnover rate would otherwise indicate.		0-5
Solutions Proposed		
▪ Market studies to identify external equity problems.		0-5
▪ Analysis of crating job proposed.		0-5
▪ Creation of grade and ranges to address internal equity issues.		0-5
Alternative Solutions		
▪ Put limits on promotion from within, temporary or otherwise.		0-5
▪ Ignore the problem until the crating jig project is finished, which should allow the use of less skilled labor in that area.		0-5
▪ Create a “senior crater” position to allow skilled craters who work without the jig to be paid more than the entry-level people doing most of the crating now.		0-5
▪ Valid alternative solutions may be awarded points in lieu of any of these suggested alternatives.		
Appropriate weighting given to each problem and solution.		0-10
Overall qualitative rating on organization, clarity, professionalism.		0-20
Total possible points for this section (25 percent of the case grade)		100
<p>A key purpose of this step in the case is to keep students on track to ensure that their final reports are not widely off the mark, missing the main point of the case and resulting in a low or failing grade and also missing the expected learning and reinforcement that result from a proper case solution. The instructor should provide ample comments beyond a simple numeric score on this report.</p>		

Suggested Grading Standards for the Final Written Report		Points
Introduction		
The introduction and organization of the paper should give a reader not familiar with the case enough detail to understand the context of the information. Report appearance, cover, title pages and table of contents should be done to a standard acceptable in most business organizations.		0-20
Problem Analysis (Practice/demonstrate qualitative and quantitative analysis skills)		
Turnover problem analysis shows understanding of accelerating trend and uneven distribution of turnover across departments. The analysis must demonstrate an understanding of the root causes—internal and external equity problems. It should identify company practices that have contributed to the underlying problems—internal promotion process; lack of pay ranges or grades; setting merit increase budgets to match inflation rate; and building cycle.		0-20
Solutions and Alternatives Considered		
Students received credit in the preliminary report for identification of solutions and alternatives. At this point, consider how they analyzed these options and selected which solutions to implement. Selected solutions must work together to solve the problem. The reasons and logic presented must be internally consistent. For example, increasing the crating pay to above the manufacturing tech pay would be inconsistent with a finding that working a crating jig is the equivalent to working a manufacturing jig. Solutions must be practical; for example, a suggestion to double pay or reduce hours made without an explanation of how this would be accomplished should be penalized.		0-20
Implementation of Proposed Solutions		
<ul style="list-style-type: none"> ▪ The primary solutions should be: grade ranges with employees appropriately assigned; salary ranges appropriate to the grades. 0-20 ▪ Implementation details. Discussion of how the grades and ranges will be implemented—immediately or at the next review cycle—should be included. Will the money come from a reallocation of the existing budget, expected reductions in OT costs, reductions in recruiting costs, or is the company expected to come up with the full amount? A solution suggesting a broad approach should have market anchors for the key roles. 0-20 ▪ Individually market-rated positions. This approach has become more practical recently, but some recognition that this is a one-person HR department should be made, and this is probably not the optimum solution, especially since the turnover problem is not companywide. 0-20 ▪ Quantitative analysis. Such analysis should include the relevant data and exclude irrelevant data. More data than necessary is included, and we expect a few students to try to force all of the data into the analysis, rather than selecting the relevant information. 0-30 ▪ Aging of the data. Students are provided information to indicate the need to age some of the data to make their market rates valid. The exact percentage of adjustment is not important, but students should explain how they chose that number and their presentation should demonstrate the use of aging. 0-10 ▪ Leveling of the data. This concept should be discussed, although it may not be required, depending upon the data and methods used. Overuse of leveling is tempting for inexperienced compensation analysts and should be penalized. 0-10 		
Overall qualitative rating on organization, clarity, writing and professionalism. Appropriate weighting given to each problem and solution. Business standards rather than APA standards for research papers are applicable for this case. Neatness, professionalism in tone and language, freedom from errors and brevity. Excessive or irrelevant text should result in a score reduction.		0-30
Total possible points for this report (50 percent of the case grade)		200
<p>The written report is expected to go into much greater detail than the time and format the oral presentation allows. The purpose of the written presentation is to allow students a forum to display their analytical skills that is not dependent on their presentation skills. Some instructors may find it beneficial to have students submit this in a draft version prior to the oral presentation. Comments made by the instructor on the draft version can then be incorporated into the final version and the oral presentation. An alternative is to allow students the opportunity to amend or correct the final version and resubmit in conjunction with the oral presentation. The purpose here is to give students practice in properly completing an entry compensation assignment similar to what they may encounter in the working world, not to penalize them for guessing incorrectly about the expected contents of the report.</p>		

Suggested Grading Standards for the Final Oral Presentation		Points
Introduction		0-10
<p>The introduction and organization of the presentation should give an audience member who is not familiar with the case enough detail to understand the context of the presentation. The presentation may be accompanied by a PowerPoint display or printed handouts. All materials must be prepared to business standards. Color copies should be used only if absolutely necessary due to their cost; unnecessary use may suggest that the presenter is not considerate of the cost limitations experienced by the other departments represented at the meeting. PowerPoint presentations should avoid excess animation or graphics. Students should dress as they would for a business presentation.</p>		
Problem Analysis (Practice/demonstrate qualitative and quantitative analysis skills)		0-5
<p>Problems and root causes explained. Company practices that have contributed to the underlying problems are identified.</p>		
Solutions and Alternatives Considered		0-5
<p>Enough detail to demonstrate that the students were thorough. However, this is not the focus of the presentation.</p>		
Implementation of Proposed Solutions		0-20
<ul style="list-style-type: none"> ▪ Discussion of how grades and salary ranges will be implemented—timing, sources of funds, gradual phase-in or immediate full implementation. 	0-10	0-10
<ul style="list-style-type: none"> ▪ Discussion of the methodology/process used to set grades and ranges. Explanation of how they chose which data points to use. 	0-5	0-5
<ul style="list-style-type: none"> ▪ Aging of the data. An explanation of how they determined the size of the aging adjustment, including the length of time used and the inflation rate. What information sources did they use? 	0-5	0-5
<ul style="list-style-type: none"> ▪ Leveling of the data. Why they did or did not choose to level the data should be discussed. 		
<ul style="list-style-type: none"> ▪ How will the full implementation of the packaging jig program affect the compensation levels of the crating area? How has the use of jigs changed the analysis of the previously skilled assembly jobs? 		
Overall qualitative rating on organization, clarity, teamwork and professionalism. Appropriate weighting given to each problem and solution. Neatness, professionalism in tone and language used. Freedom from errors, keeping to the allotted time and brevity. Each member of the team should participate.		0-20
Bonus allowed for identification of FLSA or EEO issues that need to be rectified.		0-10
Total possible points for the presentation (25 percent of the case grade)		100
<p>The purpose of the presentation is to give the students practice doing a business presentation before they have to do it in front of their boss.</p> <p>The expected length of the presentation is 20 minutes, with five minutes allowed for questions. It is sometimes difficult to determine from the written report how much teamwork was involved and which students fully participated. The presentations are usually a good indicator of the degree of teamwork.</p> <p>Inviting one to three local business people to sit in on these presentations is a good way to give them more of a business feel rather than another classroom report.</p>		

Challenge Questions for the Presentations

Is the salary grade to market relationship a lead-lag, lag-lag or lead-lead system?

If the market rate began the year below the grade midpoints and finished the year above, then it is lead-lag. If the salary range midpoint remained above market midpoint all year, then it is lead-lead. The opposite is lag-lag. Please note that the use of these terms varies somewhat between the HR and compensation professions.

Did the interest rate for the aging come from wage data or consumer price inflation data?

It should be based on wage inflation rather than the higher consumer price index.

How will the full implementation of the packaging jig program affect the compensation levels of the crating area?

It will lower the level of skill needed to a level more consistent with current pay rates, thereby reducing turnover.

How has the use of jigs changed the analysis of the previously highly skilled assembly jobs?

It has reduced the level of the job because fewer skills are required to do it properly.

Was leveling used? How often? Why?

It is tempting for new compensation practitioners to use leveling to force data to fit expected results.

Is the CFO position best matched to the market for an accounting manager, director or a CFO?

Most important here are the reasons students provide. The best match is an accounting manager. At age 31, with three years tenure, Mike Cooney, joined the company with five to seven years of post-college experience, which is too little for a CFO. Why does he have a CFO title and how did he get hired with so little experience? It is a family-owned business, and he does share the president's last name and is 27 years younger. It is never stated, but a father/son relationship is likely.

Are all employees properly classified under the FLSA regulations?

No. See customer service, receptionists and inside sales.

Are women paid fairly compared to men in this company?

In most areas they are, but there are some exceptions.

Are there differences in pay that appear to be based on sex/race/ethnicity rather than performance or length of service?

Yes. See the EEO report.

Is the number of terminations by department equal to the number of hires?

No. Some departments fill most jobs internally, while others with similar jobs get only outside hires.

How has the practice of internal promotions affected this company?

It has localized new hires into a relatively few positions in one department.

Can you have good internal equity without having good external equity?

Yes. Wal-Mart is a good example.

Would you buy products from this company? Why?

There is no correct or incorrect answer to this question, but it is a good opportunity for students to defend their opinions.

Would you want to work for this company? Why?

There is no correct or incorrect answer to this question, but it is a good opportunity for students to defend their opinions.

What percentage of employees should be within the grade ranges? What percentage will be within your proposed ranges? How will you get to your goal percentage?

Excluding areas in which there is a current salary problem, most employees should be within the range.

Does the president need an assigned pay grade?

No. His salary is set by the family that owns the company; he is probably a family member.

How does the existence of a profit-sharing plan fit into the market match of the proposed salary grades?

Salary information is generally set on the base rate, but some surveys also provide information on variable pay.

Does the richness of the benefits plan at a company of this size affect the match to market of the salaries?

Yes, but only to the extent that it is differentiated from other companies in the survey population.

How does the company practice of holding salaries to wage inflation rates during good times and to affordability in lean times affect the company and its compensation plans?

It creates a negative bias over time that may need to be addressed, but this is preferable to a positive bias.

SUPPLEMENTAL MATERIALS FOR INSTRUCTORS PROVIDED IN SEPARATE FILES

Case Introduction/Presentation MS PowerPoint

This MS PowerPoint presentation provides an outline for the introduction of the case to the class. The notes within the presentation are for the instructor's use. They provide suggestions for the introduction of the case and for the format of the presentations. All materials to be given to the students are combined in the "Student Materials" section.

HRIS Database

1. Employee data

a. Active employees

- Name
- Demographic data
- Status and length of service (LOS) data
- Job title
- Department
- Current salary
- FLSA status (as determined by CCC)

b. Terminated employees

- Data as listed above for active employees
- Termination reason
- Rehire code

2. Job descriptions (for CCC employees): Like many companies, not every job has a complete description. Students will have to judge what to do in some situations without sufficient data.

3. Department headcount report: This provides the baseline data needed to create the turnover report. In the event the instructor chooses to have students do the turnover calculations themselves, the information is available from the raw HRIS employee data.

4. Market wage data: A key to the sources and data effective dates needed for aging of the data are located at the bottom of the data provided in rows 208-212 in the Excel spreadsheet. Note that source B does not offer levels in most cases. Due to the effect of averaging the high and low levels together, this survey tends to overstate wages for the lower-level jobs (Level I) and underreport for more senior jobs (Level III).

5. Turnover report (instructor version only): Note the accelerating trend and the concentration of new hires in the crating department.
6. Sample market rate study (instructor version only): This tab contains an example of converting market data into salary grades development.
7. EEO report (instructor version only): This is not an EEO-1 report, but it shows compensation by sex and race with LOS (length of service) averages for those groups.

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SALARY SURVEY REFERENCES

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Appendix

AGING OF SALARY DATA

Comparing salaries from 1968, when the minimum wage was \$1.60 per hour, with the 2009 federal minimum wage rate of \$7.25 per hour is not a valid comparison. When combining salary data from more than one source, be sure the data are comparable. Different salary surveys will have different effective dates of data. The technique used to bring all of the different data to a single date in time is called aging the data.

Many online sources or computer-based surveys will provide an aging function that helps make this process fast and easy. It is important to understand the mechanics of the process, however, to select and apply the appropriate aging factors.

Step 1: Determine a Target Date

The primary factor in deciding a target date is the intended use of the data. If the information will be used to guide salary increases in April of 2010, then you might choose to set the target date to January 1, 2010. You would be likely to set salary grades on a calendar-year basis as well. This would be called a lag-lag system because it will always lag the market (by three months in the beginning of the compensation cycle to 15 months at the end). The advantages of this system include being able to use real data without having to project wage trends into the future and making the same salary appear to compare more favorably to market than it would under the other systems.

In a lead-lag system, you would set the target date at October 1, 2009, if the salary increase is to occur in April 2010. This means that salary increases would be ahead (lead) of the market for six months, then trail (lag) the market for six months. This system requires some trends projection, it but gives the best match to market comparison for organizations wishing to compare their compensation to market data.

In a lead-lead system, you would set the compensation levels to a date beyond the next pay increase: in this example, use June 2011. Your pay levels are set to stay ahead of the actual market level. This system is rarely used because most organizations try not to lead the market on base pay and because it requires projecting future market trends.

Step 2: Find the Effective Date of the Survey Data

The effective date is not the same as the published or copyright date of the survey. Even the data collection date may be inaccurate, as data are often collected over a period of time and then adjusted to a common effective date by the publisher. The

introduction to the survey document will list the effective date of the data. A survey without this data is useless for most purposes and should not be trusted.

Step 3: Calculate the Time Period

Calculate the time from the survey's date of data to your target date. Fractions of a year or months can be used, but it is important to be consistent with whichever is chosen.

Step 4: Choose an Adjustment or Aging Factor

It is common to think first of the consumer price index (CPI) as representing the inflation benchmark needed to compare wages over time. However, the U.S. Bureau of Labor Statistics publishes more appropriate studies on wages and changes in wage levels that more accurately reflect the data to model. This data can be further refined to include only private-sector jobs or specific areas of the country.

While it is most common to select one wage inflation rate to apply to all jobs, sometimes it is necessary to adjust certain job families separately. This was the case for information technology (IT) professionals in the 1990s. Salaries in this field went up significantly faster than other wages prior to the Y2K scare. Concerns that old software had to be replaced or it might shut down when the calendar hit January 1, 2000, caused organizations to increase IT wages to attract and retain programmers. After 2000, the market readjusted, and IT wage increases lagged other fields between 2001 and 2004.

Wage inflation is not steady over time, but rather varies each quarter and each year. Most programs that will age data for the user will accept only one aging factor. If aging for a longer period, you will need to either determine the average wage inflation over the period, or run the aging program more than once using a different factor each time.

Your aging factor is the percentage by which wages must be adjusted to keep pace with the labor market in which you compete for talent.

Step 5: Calculate

Beginning Data x [1 + (Aging Factor x the Time Period)] = Adjusted Wage Data

Average Salary as of January 1, 2008 = \$40,000

Target Date: April 1, 2010

Length of Adjustment Needed: 2.25 years

Average Annual Wage Inflation for the Period = 3.2% (example, not actual data)

$\$40,000 \times (1 + (3.2 \times 2.25)) =$

$\$40,000 \times 1.072 = \$42,880$ equivalent in April 2010

Cautions

Most professionals do not like to go back more than three years or forward more than one year when aging data. Up-to-date data are much better than simply adjusting older data. In stable economic conditions, you may be able to go longer than these guidelines, but in changing conditions, you would need to shorten the shelf-life of your salary data.

LEVELING OF DATA FROM SALARY SURVEYS

When matching jobs from your organization to jobs in a salary survey, it is not always possible to come up with a direct match. *Leveling* is the term used for adjusting survey data to match the position in your organization. Leveling can be broken down into two primary types: qualitative and quantitative. Many variations exist, but we will focus on the most common methods.

In qualitative leveling, the compensation analyst compares the organization's position with the survey position and arrives at an adjustment, such as plus 10 percent or minus 5 percent. This adjustment is applied to the market data before that data are combined with other survey sources to create the market benchmark numbers. This is a fast and easy method, but it suffers from its qualitative nature when being applied to hard data. Why should a job be considered 10 percent above the market survey instead of 8 percent? An experienced analyst may be very accurate, but an educated guess is still a guess to many people, making such adjustments hard to defend on an issue as sensitive as compensation. Qualitative leveling is also easy to overuse and should be avoided when possible.

Quantitative leveling is more defensible and needed more often. This category is also made up of several methods that vary somewhat. Look at a situation in which an organization has junior customer service representatives and senior customer service representatives. The survey the analyst is using may report only one level of customer service representative. That data can be converted to your two-level system by determining the range spread of your internal grades and applying that to the single-level rate. For example, if the range spread between your junior and senior positions is 30 percent and the market rate is \$40,000, then the analyst could subtract one half the range (15%) from the market rate for the junior position and add one half for the senior position as follows: $\$40,000 - 15\% = \$34,000$ for the junior customer service representative market benchmark and $\$40,000 + 15\% = \$46,000$ for the senior customer service representative market benchmark. This does not mean that the market for a junior customer service representative is \$34,000; the market may not agree with your organization's standard for the difference between the junior and senior jobs.

A similar conversion could be done for market data with three levels, where the organization has only two levels. Slotting is the practice of determining a job's market value by splitting the difference between two known jobs. It is another form of quantitative leveling. For example, you may not be able to find data on an assistant warehouse manager position, but you can find data on a warehouse manager and

warehouse supervisor. The job can be slotted in the middle of the known values. This might be combined with qualitative leveling if the analyst thinks the position should not be halfway in between, but is more like the manager or supervisor position.

Leveling is a tool. It can be used properly, but it can also be misused. The best approach is to know how to use it, but to consider leveling a necessary evil. It is not a substitute for finding good salary data.

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