Compensation Analysis: Total Compensation

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Biddle Consulting Group Institute for Workforce Development (BCGi)

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Presenter

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- Experienced in modeling complex data
- Experienced in Title VII discrimination matters
- Over 10 years experience analyzing compensation data

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Analyzing Total Compensation

- Why Analyze Total Compensation?
- Total Compensation—Defined
- Analyzing Base Pay
- Analyzing Total Comp—Doing it wrong
- Analyzing Total Comp—Doing it right

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Analyzing Total Compensation—Why?

- Total Compensation is the most appropriate compensation analysis.
  - Compensation analysis needs to evaluate compensation as a whole and not just partial (base-pay).
- The OFCCP is going after Total Compensation in it's audits

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Analysts Beware

- It is easy to mess-up a total comp. analysis and draw incomplete and/or inappropriate conclusions.
- Analyzing total comp. is complex
- Analyzing total comp. is much more involved than analyzing base-pay

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Total Compensation—Defined

- Total Comp = Base + Incentive
- Base Pay: Guaranteed and fixed
  - Wage rate per hour
- Incentive Pay: Varies and usually tied to performance
  - Example: Commission, Bonus, Tips

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Incentive-based Compensation

- Commission
  - Tied to sales performance
- Bonus
  - Ties to performance goals/objectives (e.g. company performance)
- Tips/Gratuities
  - Ties to hospitality service/performance

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Analyzing Base Pay

- Classical
  - *t*-test
    - Comparing pay with NO explanatory factors
  - Multiple Linear Regression
    - Comparing pay WITH explanatory factors
- Example 1

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Analyzing Total Compensation

- Just add Incentive/Non-base compensation to base-pay and analyze, right(?)
- Example 2a
- WRONG!!!

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Analyzing Total Compensation

- Incentive Pay is tied to <u>performance</u>
- You must control for <u>performance</u>
- Example 2b

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Analyzing Total Compensation

- Opportunity for performance
- Is performance under control of employee?
  - Yes, example: producing widgets
  - Yes/No, example: producing widgets
    - Yes: all factors are the same
    - No: some machines/tools are better
  - No: assignments
- Example 2c

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Analyzing Total Compensation

- One more Example (#3)
- Position: Restaurant Server

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Take Aways

- Analyzing total compensation is complex
- Incentive Pay must be analyzed with:
  - Performance
  - Opportunity
    - Make sure Incentive Pay analysis is on same metric
    - Locus of control
  - Qualitative investigation of incentive pay factors

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THANK YOU

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