# **Developing & Maintaining A Sound Base Pay Program**

By Ronald C. Phillips and Jeffrey M. Robinson

# **Synopsis**

#### Introduction

Base Pay Program Objectives

**Establish Fairness** 

Insure Competitive Pay

**Directs Work Activity** 

**Controls Payroll Costs** 

Compliance With Laws & Regulations

Is Efficient

## Components Of A Wage Structure

Job Families & Pay Grades

Minimum Wage

Midpoint

Maximum Wage

## How To Develop A Wage Structure

Step 1 Identification Of Jobs and Job Content

Step 2 Documenting The Principal Features Of The Job

Step 3 Building A Job Hierarchy Step 4 Establishing Job Worth

Step 5 Assigning Pay & Pay Ranges

**Establishing Midpoint** 

Determining Maximums And Minimums

Calculating Spreads Spread Overlaps

**Smoothing Pay Grades** 

#### Shaping A Misshapen Structure

When, How And For What Is Compensation Given

Timing And Frequency Of Pay Adjustments

Pay Periods

Basis For Starting Pay And Granting Increases

**Starting Pay** 

Cost Of Living Increases

Blanket Increases

**Longevity Increases** 

**Merit Increases** 

**Promotions** 

#### **Demotions**

Maintaining The New Wage Structure
Maintenance Tips
Holding The Base Pay Program Accountable

## Variable Pay

#### **Tables**

Table 1 Sample Pay Structure

Table 2 Market Value Ranking

Table 3 Job Content Ranking

Table 4 Pay Grade Overlaps

Table 5 Smoothing Pay Grade Midpoints

Table 6 Sample Merit Increase Guidelines

## **Appendix**

Sample Job Description

Sample Job Content Questionnaire

Sample Supervisor's Verification Questionnaire

Sample Wage Survey Data

Sample Performance Appraisal Form

Federal Laws and Regulations

#### About The Authors

Jeffrey M. Robinson is President of PAS, Inc. (Saline, Michigan), a survey research company and consulting firm specializing in construction compensation information. Mr. Robinson is a noted speaker, writer and consultant on wage and benefit trends and a member of the CFMA, AGC, ABC, and the American Compensation Association

Ronald C. Phillips is Executive Vice President of PAS, Inc. Mr. Phillips consults and writes extensively on contractor organization, compensation, and employee development. He is co-founder and Director Emeritus of the Construction Innovation Forum (The Nova Awards) and is the Editor in Chief of *Contractor Compensation Quarterly*.

# **Developing & Maintaining a Sound Base Pay Program**

## Introduction

A construction company's compensation program should be designed to achieve three overall objectives. The program should assist in the attraction and hiring of the most qualified professionals available in the disciplines of engineering, construction technology, construction management, and business administration. Second, the compensation program should direct employee efforts toward achieving the company's strategic objectives, such as business development, profitability, safety and work quality. Third the compensation program should insure the development and retention of a qualified workforce.

A compensation program that is capable of achieving these overall objectives is typically composed of three distinct parts. One part is employee *benefits*, such as health insurance, life insurance, and retirement. These, of course, are part of an employee's compensation package and must be balanced with direct pay. The other two parts of the compensation program involve cash distributions. They are *base pay* and *variable pay*. Base pay is the pay that appears in the employee's paycheck each pay period and to which all riders, such as FICA, Medicare, Workman's Compensation, etc. are attached. Variable pay, on the other hand, is cash compensation that varies in both its amount and timing. The most common type of variable pay is an annual cash bonus distribution. It is called variable pay because unlike base pay which is constant from pay period to pay period variable pay changes. Frequently the variation in amounts paid is associated with the achievement of company goals, divisional goals, or project goals, such as sales and profit targets.

Base pay, of course, is the core program to which benefits and variable pay must be coordinated. Base pay or "salary" is usually a key factor in attracting and maintaining a skilled work force. As such, a base pay program must be carefully constructed and maintained so that employees perceive their paychecks as equitable relative to other employees within the firm and relative to the paychecks of employees in similar jobs across the industry. If employees view their base pay as inconsistent relative to effort and responsibility or they believe it to be less than market value, they quickly become disenchanted with their work situations and seek employment elsewhere. Hence, it is important that contractors develop and maintain a sensible, consistent and competitive base pay structure.

This chapter is not a textbook on the ins and outs of compensation. Rather its purpose is to assist contractors in developing and maintaining a useful base pay program. To accomplish this purpose, the chapter explains in practical terms: what a base pay program is intended to do; the basic elements of the program; steps to take in developing the base pay structure; and finally ways to keep the program up-to-date. There is also a brief section on the use of variable pay as a supplement to the base pay program along with practical examples and tools for building and administering the base pay program.

# **Base Pay Program Objectives**

A well constructed and managed base pay program achieves the following objectives that are an important part in attracting and retaining qualified construction professionals.

- The program establishes fairness in pay among job positions
- The program insures competitive pay rates
- The program helps direct work activity toward company objectives
- The program helps to control payroll cost
- The program complies with laws & regulations
- The program is effective and efficient

Each of these objectives must be understood from the perspective of employees and company management because the base pay program must satisfy the needs of both.

#### **Establish Fairness**

A key outcome of a sound base pay program is that employees and managers experience the company as treating them fairly. In terms of pay, exactly what does this mean?

From an employee's perspective, he or she is being treated fairly when the company makes an effort to be consistent in the way it hires, promotes and pays its employees within the company. Compensation professionals refer to this element of the base pay as *internal equity*. A company establishes internal equity by doing whatever is necessary to treat its employees with dignity and consistency. In terms of base pay, this means the pay is adequate and consistent relative to skill levels, degree of effort, scope of responsibility, and the general conditions under which the work is performed.

For example, a Superintendent works crews around the clock under difficult or hazardous conditions. That Superintendent and his crews will compare their treatment to the treatment of Superintendents and crews that work straight shifts under safer and less trying conditions. Does the company reward the employees in both circumstances the same or are allowances made for the differences in effort and working conditions? Company practices in such matters influence how employees judge the company's fairness.

Hiring practices pose yet another test of company fairness. What if a company finds that in order to hire qualified candidates, starting pay must be above that of employees with the same qualifications and job responsibility? Management may view this as a business necessity. Employees, on the other hand, will likely view this practice as unfair. The fact is both are correct. It is a business necessity because supply and demand has escalated market rates. Qualified candidates cost more to hire. Current employees are also correct. The new starting pay proves that they are being paid less than fair market value.

In summary, one objective of every good base pay program is to develop and maintain pay schedules such that jobs of similar skills, responsibility, effort and working conditions are compensated equally. The result is that employees view the company as having consistent and fair compensation practices.

## **Insure Competitive Pay**

To reiterate, employees compare pay to other jobs within the company <u>and</u> with jobs in other contractors. Compensation professionals refer to this cross-organization comparison as external equity. In other words, the company must pay the market rate.

When an employee thinks that Joe Smith down the street at Bridgestone Contractors is getting five thousand dollars more a year doing the same job, the employee more than likely will conclude that something is not right. Either Joe Smith is being paid too much (a likely conclusion of management) or the employee is underpaid (a likely employee conclusion).

Especially in good economic times such antidotal stories both true and rumored, abound. Fortunately, a job's value is not based upon one, two or even a half-dozen instances of how other contractor's pay. Market value is established through the evaluation of what hundreds of contractors pay for comparable qualifications and work. Luckily this information is readily available through journals, trade publications and professional associations. Consequently, most construction professionals have a pretty realistic measure of their current value in the employment market. Furthermore, most professionals within the construction industry know that compensation is a balance of base pay, bonus, and benefits. The fact that one company pays a higher base does not necessarily mean the company pays a higher rate of total compensation.

When dealing with the issue of external equity, an important principal to be kept in mind is this. Employees must take the view that their total compensation package is within the current competitive range of the industry. If the company pays competitively and communicates its pay policies and practices openly and often, the more likely its employees will understand that they are compensated as well or better than employees of other firms. One more point is important as well, particularly in tight employment markets. Many construction professionals have skills that are transferable to other industries. Employees compare themselves within the construction industry and across sister industries where they may have contacts. Consequently, the contractor that wishes to maintain competitive pay must be sensitivity to the trends in wages within and across industries.

Every good base pay program factors in the market rates for similar jobs, performance and experience. This does not mean, however, that all contractors pay essentially the same base. Some contractors may choose to pay a higher base and less in benefits. Others may provide more benefits or variable pay but less in base pay. This combination of base pay, variable pay and non-cash benefits determines the contractors *pay strategy*. Pay strategy is simply the combination of base, variable and benefits that best fits the specific needs of the contractor's employees. This strategy is influenced by such factors as the type of construction, the type of contractor, the contractor's size and the geographic region in which the contractor operates.

## **Directs Work Activity**

Besides the issues of fairness and competitive pay, a good base wage program can help direct work activities. This is done through the careful use of what are referred to as *merit* and *incentive pay*. Generally speaking, merit pay helps to direct individual performance while incentive pay helps direct group performance.

Individual performance targets, such as learning a new computer program or achieving some important certification or licensure can be part of an employee's performance plan. Performance plans are usually developed on an annual or semi-annual basis as part of the company's performance evaluation program. For achieving all or a portion of the performance plan objectives, the employee is rewarded with extra compensation called merit pay. This extra compensation can be in the form of bonus, a percentage increase in base pay or both.

Carefully crafted performance plans and well-communicated merit pay programs help direct employee effort to higher levels of skill and performance – a win-win for the employee and the company.

The second way a pay program can help direct employee effort is by the use of corporate, divisional, and project objectives. An example of a construction company's group objectives might be safety records, sales targets, work quality or profit targets. Typically, company leadership sets these targets in the company's annual business plan. These targets are communicated throughout the organization along with the *incentives* offered for their achievement.

Incentives work like this. A company wants to improve its safety experience rating. The target is set to some reasonable improvement over the previous year and an incentive is offered for its achievement. Again, it's a win-win for the company and the employee. By achieving the target the company pays less in insurance premiums and the employees go home with extra money in their paychecks.

Well-planned and executed pay programs can play a meaningful part in improving a company's productivity both for the individual employee and the organization.

# **Controls Payroll Costs**

Payroll is usually a contractors biggest overhead cost. A general rule in compensation is that the more people on the company payroll, the more difficult it becomes for a contractor to control payroll cost. This is where a well-developed and maintained base pay program really helps. It establishes and implements the policies, procedures and pay guidelines necessary to monitor and control payroll cost.

For example, a good base pay program establishes pay ranges for various classifications of jobs. A pay range works like this. A company employs a Purchasing Agent. This Purchasing Agent is with the company twenty years. In those twenty-years, the employee's wages steadily increase. Is there a point where the employee's pay exceeds the market? The answer is absolutely. The pay range tells the employee and management

when the wage paid for a particular job is at the market top. Without the pay ranges incorporated into a well designed and maintained pay program, it is common for the pay of such loyal employees to continue to increase far beyond the job's market value. The result is the company has excessive payroll cost and employees are no longer competitive in the job market – not good for the company and not good for employees.

A well-developed and maintained pay program establishes a maximum pay level for each job. This maximum pay is based on market value and the job's importance to the company. This works well because both the company and the employee know the maximum pay for a specific job. This leaves the control of the amount of pay an employee can potentially receive in the employee's hands. If the employee wants to increase pay beyond the range maximum, the employee can choose to negotiate a different job configuration.

# **Complies With Laws & Regulations**

There are local, state and federal laws and regulations that impact virtually every aspect of the construction industry. As any comptroller can attest, payroll is one of those highly regulated areas. From payroll taxes to retirement programs; from excessive pay to pay discrimination; from overtime exempt to non-exempt, virtually every aspect of compensation must comply with some law or regulation. A well-developed and maintained base pay program greatly assists corporate management in meeting these compliance obligations. As will be covered later, the construction of a wage structure requires the company develop the basic written policies, procedures and guidelines that these laws and regulations require.

## Is Efficient

Support functions like accounting and human resources exist to make doing the job of construction easier and more efficient. Unfortunately a common mistake of support staff is to create programs that operational managers find overly complex and difficult to administer. Such cumbersome programs impede rather than expedite the business. Wage and salary administration is a support function. As a specialty it has many different facets and methods of doing things. It, too, can be overly complex and cumbersome. A well designed base pay program should expedite operations by virtue of the fact that it fits the needs of the organization; it is easy to understand and communicate; and, it is simple to administer.

# **Components Of A Wage Structure**

The basis for all base pay programs is what is called a *wage structure*. A wage structure is a hierarchy of jobs that are assigned pay grades and pay ranges. Hence, one of the first steps in developing a base pay program is to construct a job hierarchy for all the jobs within the organization. The second step is the assignment of grades and pay ranges to this hierarchy. The basic elements of a wage structure are illustrated in Table 1.

#### **Job Families & Pay Grades**

Table 1 describes a typical job family, project supervision. What makes all the jobs within this job family belong to the same family is that all the jobs function in a similar

capacity. In this case, it is oversight of construction activities on a construction project. Job families are distinguished by the fact that their primary functions are distinct from other job families. For example, an Estimator's primary functions are fundamentally different than those of a Project Supervisor. Hence, Estimators fall into a separate job family.

Note that each job title within this project supervision family is assigned a pay grade, a minimum, mid-point and maximum. The pay grade refers to all jobs that are of similar worth to the company in terms of job content and pay. One reason for using pay grades is to combine jobs that have quite different functions but have similar worth. For example, an Estimator and a Superintendent might be in the same pay grade even though their job responsibilities are quite different. The reason they can be in the same pay grade is because the functions they perform are of relatively equal value to the firm and reasonably fit within the same pay range of the employment market.

## Minimum Wage

Each title in the table has a minimum wage. Minimum wage is the base pay assigned to an employee that has the minimum level of skill, knowledge and experience to perform the functions required of the job. Any employee performing the functions of this job that is paid below the minimum is said to be out of range (sometimes referred to as *green circled*). This "out of range" pay flags the fact the employee is paid less than what the firm has determined the job is worth internally (the job's content) and externally (the job's market value). Paying below the minimum of the pay range impairs equity among employees and eventually leads to high turnover. In the case of protected classes of employees, such as woman, foreign nationals, minorities, employees over forty and those with a disability, paying below minimum may also be construed as evidence of discriminatory pay practices.

## **Midpoint**

The midpoint is an important base pay number because it is pivotal in establishing wage ranges and measuring structure distortion. The midpoint is supposed to be the wage that is exactly in the middle of all the employees within the pay grade. Half of the employees should have a wage greater than the midpoint and half should have a wage less than this number. If this is not the case, which it seldom is, the ratio of those below to those above the mid-point shows the skew or distortion of the wage structure. In addition, the mid-point is also used to establish wage ranges. The importance of the midpoint will become more apparent later in this chapter.

#### **Maximum Wage**

The maximum wage plays the same boundary role in a wage structure as that of the minimum. It establishes the highest pay the company is willing to pay an employee to perform the duties and responsibilities of a particular job in the pay grade. Employees that are paid greater than this maximum are referred to as "red circled." Based upon the going market rate and the company's internal perception of value, the employees paid beyond the maximum are overpaid for the functions they perform. These *red circled* 

wages add questionable cost to a company's payroll, put pressure on wage increases, and jeopardize employee perceptions of fair practice.

# **How To Develop A Wage Structure**

Having described components of a wage structure, it is time to demonstrate how to build one. The construction of a wage structure that functions like the sample just described is a five-step process.

- Identifying and analyzing jobs and job content
- Describing each job's principal features
- Building a job hierarchy
- Collecting job wage information
- Assigning pay rates and pay ranges

The degree of difficulty in completing these tasks is directly proportional to the size and complexity of the organization and the availability of adequate job content and wage information.

# Step 1 Identification Of Jobs And Job Content

This first step involves two tasks. First, the company needs to list all job titles currently in use. Then, because job titles do not define the essential duties and responsibilities of the job, the title's actual job content must be analyzed. Step one is complete when each title has an accurate description of the duties and responsibilities that are signified by the title.

The relevant information to be collected about a job is the nature of the work, including purpose of the job, the principal duties performed and the level of responsibility the employee carries. In addition, any special requirements need to be assessed. For example, are special knowledge and skills required? Are registrations or licensures necessary? Does the job have any special physical requirements such as climbing, lifting heavy weights, or ability to discriminate colors? Is there anything special about the work environment such as, special hazards, noise, close quarters, etc. that make the job more challenging.

The collection of this job content information is the work of a Job Analyst. Job Analysts are human resource specialists that are trained and experienced in collecting relevant information about job content. To expedite the job analysis process it may be cost effective for a contractor to hire one of these specialists on a consulting basis. This is especially true if the contractor has many different types of jobs or the jobs are unique to the industry.

On the other hand, if the contractor's titles are not too numerous or unique, analysis and documentation can usually be performed in-house. To make that job even easier, many construction jobs have already been analyzed and documented by private as well as State and Federal organizations. For example, the *Dictionary of Occupational Titles* published by the Department of Labor describes many of the traditional jobs found within the

construction industry. In addition, the DOT is particularly useful in demonstrating the type of the information required to properly analyze and describe job content. The entire DOT is available on the Internet at <a href="http://www.dol.gov">http://www.dol.gov</a>. Whether from the DOT, association sources or private companies specializing in the construction industry, it is relatively easy to modify these "pre-built" descriptions so that they accurately reflect the actual work performed.

This process of customizing generic descriptions to fit the company job is usually best done in conjunction with the knowledge of the employee and the employee's supervisor. With the generic job description and a simple job-content questionnaire, the employee and the employee's supervisor can usually provide the job content modifications needed. A sample job description and job content questionnaire are located in the appendix of this chapter.

A frequent finding of job content analysis is that companies have more job titles than they do jobs. Two different titles do not necessarily mean there are two different jobs. The assignment of pay on the basis of titles rather than job content is such a common mistake it even has a name. It is called the *title game*. The way the title game is played goes like this. An employee's base pay is at the company maximum for the job. The employee's supervisor, for one reason or another, wishes to see to it that the employee is paid a higher wage. Presto, the supervisor invents a title that sounds more important. For example, a construction firm distinguishes between Secretary and Senior Secretary. The employee is already paid the maximum for Senior Secretaries so the supervisor invents the title Executive Secretary. On the face of it, the Executive Secretary title "sounds" more important than just Senior Secretary. But is it really a different job? Paying on the basis of title rather than job content is the fallacy of the title game. As such, the game distorts payroll budgets, creates the perception of unfairness among employees, and may lead to litigation.

## Step 2 Documenting The Principal Features Of The Job

Once the contents of a company's jobs are determined, the next step is to organize this information into a formal job description. Unfortunately, this task is frequently not done as completely and thoroughly as it needs to be. There a many uses to which job description are put, but the four principal uses in base pay administration should be reason enough to make sure this vital step is not omitted.

The first two uses of job descriptions are in developing the wage structure itself. As stated previously, all base pay programs are built from a job hierarchy. This hierarchy simply means some jobs have less importance and some jobs have greater importance in achieving the company's goals and objectives. Job descriptions are critical to the judgment of a job's worth compared to other jobs in the job hierarchy. This job ranking depends upon the content of the job. And, as one can imagine, job descriptions are even more critical when the evaluators judging the importance of a particular job are not particularly familiar with the job or how it fits within the organization. To make accurate determinations of job worth it is important to know the job's nature, purpose and

organizational level. In addition, the evaluators must consider comparable duties, responsibilities, education, skill levels, physical capabilities and working conditions.

The second use of job descriptions is the assignment of an appropriate base pay and pay range for each job in the job hierarchy. To accomplish this critical task jobs within the contractor's organization must be appropriately matched with jobs and pay rates within the industry. The job description provides the necessary tool the contractor needs in order to properly match jobs and pay rates within the industry. This matching permits the contractor the means to determine the "market value" of the various jobs within the organization.

A third use of job descriptions is in communicating job expectations. A well organized and written job description provides the employee and supervisor a clear picture of what work the employee is to perform. This can be instrumental in setting up training programs and in providing employees with proper job instruction. Furthermore, the job description, by documenting the principal duties of the employee's job, provides the factors to be assessed at appraisal time. With an accurate job description in hand, creating a custom performance appraisal for annual reviews is a relatively trivial matter.

The fourth principal use of job descriptions is to ensure compliance with employment laws and regulations. Court cases involving allegations of wrongful employment practices frequently use company job descriptions to determine the legality of employment and pay decisions. Particularly in cases of alleged discrimination, accurate and up-to-date job descriptions significantly aid a company's ability to defend against unwarranted charges of wrongful doing.

The minimum elements a job description should include:

A job title, General description of the job's purpose, The job's principal duties and responsibilities, Any special working conditions, and a Disclaimer of inclusiveness (see sample job description).

In addition to these essential features, it is useful for some jobs to include the

Education/training/testing, Skill sets, Certifications, Work experience, and Physical abilities

required for the employee to perform at the level expected of an average worker in this job.

## Step 3 Building A Job Hierarchy

Once jobs are identified, analyzed and documented, the information is in place to create a job hierarchy of value. Within the compensation field, there are a number of different methodologies used to create this hierarchy. The intricacies of how these methodologies are selected and used go well beyond the scope of this chapter. Let it just be said that some methods are far more complex than others. Some of these methods depend more heavily upon job-content. Some methods depend more heavily upon market value. Regardless of the methodology used or its degree of complexity, however, the creation of a job hierarchy always involves using some combination of both job content and market value.

For most contractors, the creation of a job hierarchy need not be a daunting task. The reason is that most construction jobs have considerable tradition and commonality from contractor to contractor. When titles and job-content are well established within an industry, the easiest and the most reliable method for verifying the job's value and pay is the job's *market value*. This method relies on industry wage survey data to determine a job's ranking. If the market data says one job is paid more than another, that job is assumed to be more valuable or important in the job hierarchy. Hence, the next step in this market value approach is to build a hierarchy of worth based on what the industry says the company's jobs are worth.

The market value for a job simply means the wage companies are currently paying employees doing that job. The assumption of the market value method is that to retain qualified personnel a contractor must pay an employee a wage that is competitive with other contractors. Where is this industry wage information to be found? In industry wage surveys, of course.

Hence, the contractor must research authoritative sources for current industry wage information. There are both private and governmental sources for construction wage surveys. One place to research is the Bureau of Labor Statistics (BLS). BLS periodically surveys a number of construction jobs and the information is free of charge. The weakness of BLS wage information is the age of the data. BLS wage surveys are frequently two to five years old. So while it is not a good idea to depend on the BLS wage data for a job's current market value, the data can be appropriately used to compare the relative worth of one job to another. Another governmental source is the Securities and Exchange Commission (SEC). All construction companies that are publicly owned must file annually with the SEC. These filings include current pay for company officers. The problem with SEC filings is that although the data is current, it covers only company officers and is not terribly representative of the industry since ninety-nine percent of construction firms are privately held.

In addition to Federal sources, some state labor departments collect construction wage information as do some industry associations. Check with local state and association sources, such as the Associated General Contractors of America, the Associated Builders and Contractors, the National Society of Professional Engineers and the Consulting Engineers Council. It is worth checking with specialty trade associations, as well, since

some do periodic wage surveys of their members. For "local hire" positions such as, clerks, secretaries, switchboard operators and receptionists, the local Chamber of Commerce, City Governments, and Better Business Bureau can be useful sources for wage information in a local area.

Private companies specializing in wage surveys are also an important source of information. While there is usually a cost involved for the survey information, private survey companies that specialize in the industry generally do a better job of matching job descriptions, insuring current wage information, and in providing that all important *customer service*.

The private surveys come in two types: *primary source surveys* and *meta-surveys*. Primary source surveys are surveys that use only wage information that is reported by an employer. Meta-Surveys compile wage information from other surveys. Most compensation professionals as well as the Federal government prefer to use only primary source information. Regardless of which type of survey is used, it is prudent to purchase wage surveys from companies with industry experience, a good reputation, and a *real person to answer questions*.

Besides company's that specialize in wage survey information, there are any number of other sources, such as university placement centers, recruitment firms, and industry trade publications. Use these sources as suggestive, meaning always verify the data with other sources. In fact, it is a good practice to always use multiple sources for wage information simply because there is no one single number that is the industry norm for any specific job. The best that market data can do is to provide a range.

Hence, what evolves from these multiple sources is a range of wages that companies pay for specific jobs. The wage information that should be given the most weight, of course, is data coming from contractors of similar type, size and locality. A well-done industry wage survey will have not only a title but also a job description so that company jobs can be matched with the survey jobs. To establish the wages paid by comparable companies, the survey needs to be broken down by type of contractor, type of construction, revenue size and geographic areas. Once the job and company match is completed, the survey will define the pay of the comparable companies. Usually the survey numbers include average annual base pay as well as any variable compensation, such as bonus and other cash incentives. An added plus for the contractor is if the survey also includes midpoints and quartiles. (See a sample wage survey in the appendix of this chapter)

Once the survey data is collected, the next task is to match up survey jobs with company job descriptions. Jobs that closely match are identified as *benchmark jobs*. These benchmark jobs become the anchor points of the wage hierarchy. Other jobs within the company for which survey information may be lacking or incomplete are *slotted* into the benchmark structure based upon job content and the company's average pay.

## Step 4 Establishing Job Worth

Up to this point, much of the work in building a wage structure involves collecting and organizing information. Job titles and their job contents are organized into narratives called a job description. Wage information is researched, collected and matched with company job descriptions. Finally, a skeleton wage structure of benchmark jobs is created using *market value* as the means for ranking job worth. In other words, everything done up to this point is largely administrative in nature. As such, any reasonably competent staff person can complete steps one through three. Steps four and five, however, require the participation of senior management. The decisions that must be made in completing these steps directly impact the company's ability to hire and retain qualified personnel. Thus, it is time to assemble the *Wage Committee*.

The Wage Committee is a committee of company officers, senior managers and administrators responsible for implementing and maintaining the company's compensation program. The mission of this Wage Committee is to make decisions regarding job worth, rates of pay, methods of compensation adjustments, and various other important matters of compensation policy and procedure needed to effectively administer the company's base pay program.

The first task of the Wage Committee is to rank the worth of each company job. The ranking is begun in step three by using the benchmarked jobs The Wage Committee's role is to review this initial ranking and to modify it as necessary in order to fit the Committee's judgment as to each job's worth to the company. After this rank of the benchmark jobs is completed, the Wage Committee then slots all remaining jobs within this job hierarchy.

Table 2 illustrates how this process is done along with providing a useful tool that makes the job easier. Table 2 lists the benchmarked jobs ranked by their midpoint pay rates (columns one and two). Columns three and four list the non-benchmarked jobs ranked by their current average base pay. The Committee then slots the non-benchmarked jobs into the benchmarked job structure using the average company pay rate. The result is an initial job hierarchy based *solely upon market midpoints* collected from the survey data and the average current wage paid to non-benchmark jobs.

According to the market value approach to building the job-worth hierarchy, rank is based solely on current pay. Those jobs paid more are placed higher on the job-worth scale and those jobs paid less are placed lower on the job-worth scale. This is the market value method for establishing a job worth hierarchy. As previously stated, however, all final decisions of job worth involve a combination of *market value* and *job content*. Consequently, the next task is to combine the market value method with the Committee's ranking of job content.

A simple technique that helps combine the two approaches is to set up a table with the wage information removed (See Table 3). What is left is the ranking based upon actual wages paid but without showing the wages (Column one). This permits the Committee to focus strictly on job content. The task is to now rank the jobs in column one in

accordance with the Committee's evaluation of job content. These jobs are then re-ranked in columns two through five by evaluating comparable duties and responsibilities.

This ranking based on job content quickly reveals that some jobs, though having different purpose and duties are of equivalent worth to the company regardless of the current pay rates. Thus, not every job must be ranked above or below the other. The fact that job duties and responsibilities differ does not necessarily mean that one job is worth more than another is. Table 3 shows jobs with different job content on the same level of worth. The table should allow for as many columns as needed in order for the committee to slot each job on its *level* of importance to the company.

Also note that Table 3 introduces a new column titled *Grade*. A benefit of not forcing all jobs to be worth more or less than all other jobs is what is called natural pay grades. A pay grade, as discussed earlier, is composed of jobs that are judged to be of comparable worth but that may have very different job duties and responsibilities. This combining of jobs into grades allows pay ranges to be established for jobs of relatively equal value to the business. Pay grades result in fewer pay ranges and the recognition that though employees may be doing dissimilar jobs, their worth to the company is relatively the same.

Once the Committee completes the job content ranking, the next step is to make sure that the pay grades created are reasonable and practical. This means the Committee must take a step back and look at the big picture of what they have created. Does each job assigned to the same pay grade fit the wage range assigned to that grade? Likewise, the committee must determine that the jobs in different grades truly warrant different pay ranges. This fine tuning process is done by looking at each job's market value within the industry, the job's actual content, and the perceived worth of the job to the firm. To do this final check, however, requires that the Committee assign a wage range to each grade – the next step in the creation of a base pay program

# 5 Assigning Pay & Page Ranges

Before jumping directly into the recipe for assigning pay and pay ranges, it is important to recognize that a company's Wage Committee is also responsible for establishing pay philosophy, guidelines, and pay procedures. As the Wage Committee undertakes the task of assigning pay rates and ranges to the newly formulated pay grades, questions will naturally arise that need to be answered. Some of the typical questions that arise during pay assignments are these.

- Is it better for the contractor to pay higher than market, to match the market, or to lag the market?
- What kinds of incentive pay such as bonuses are to be given?
- What is the right mix of direct wage and benefits?
- How frequently should pay increases be given?
- Should the company make pay adjustment for such things as:

Time in service.

Job content,

Performance.

Skill development, Cost of living, And hardship factors, such as frequent moves and time away from home?

In the perfect world, all these questions are answered before the Committee assigns pay and pay ranges to specific grades. In the real world, however, questions of policy, philosophy and procedure come up in the course of determining pay and pay ranges. Having the answers ahead of time is not particularly important. What is important is that the Wage Committee decides and documents their decisions. By doing so, the Committee creates a sound and consistent pay-policy across jobs. Additionally, company managers and supervisors now have the policies, practices, and guidelines they need to properly communicate and implement the company's pay practices.

The subject of pay, of course, is a moving target. By answering pay practice questions as they arise, the Committee insures their continuous review and modification. This continuous review process is essential for the company to successfully adapt to its everchanging business climate.

## **Establishing Midpoints**

The first and most significant number in the assignment of a grade's pay range is the *midpoint*. The midpoint is the number that separates the grade's pay range into a lower and upper half. This midpoint along with a *percentage of spread* is used to calculate the grade's pay minimum and maximum. The result of this calculation is a range of pay within which all jobs belonging to the grade should be bound.

The Wage Committee assigns midpoints to each pay grade. Where does this midpoint number come from? It comes from the market data of the benchmark jobs. That number could be the 25<sup>th</sup> percentile, the 50<sup>th</sup> percentile, the 75<sup>th</sup> percentile or any other point on the survey's wage continuum. The important selection criterion that the Committee must abide by is that the number used should represent what competitive firms are *currently* paying or *anticipate* paying for jobs in the pay grade.

Selection of this midpoint number raises one of the first policy questions the Committee must address. What does the company wish to communicate to the outside world and to their employees about the way the company chooses to compensates its people? Does the company want to offer greater benefits and less base pay? Does the company want to offer high base pay and lower bonus? Does the company want to match the market's midpoint and build benefits and variable pay around base pay? Does the company want to pay current rates or hedge and pay what is believed to be anticipated rates? In other words, how the Committee chooses to answer these questions determines the meaning of base pay as it is used within the company. High base pay may attract certain types of employees while strong benefits may attract and retain other types of employees. Some employees prefer high incentive pay and lower base pay. The Committee must determine how base pay fits the company's compensation philosophy.

From a practical point of view, the best philosophy of pay is the one that works for the particular company in its particular circumstances. To find this optimum mix usually takes some trial and error. Nothing is fixed in concrete and as long as the Wage Committee assumes its responsibility for keeping the wage structure up-to-date wage grades can be adjusted as circumstances warrant. Regardless of the company's philosophy of base pay, however, the bottom line is total compensation. The sum of benefits, variable pay and base pay must be competitive with other companies and industries vying for the same talent pool.

For the sake of an example as to how midpoints may be selected, let us suppose that the Wage Committee decides the company is to be a *pay leader*. In this case, the mid-point number can be any number higher than the market median (50<sup>th</sup> percentile). Most quality surveys will break down base pay into at least the 25<sup>th</sup>, 50th and 75<sup>th</sup> percentiles, known as quartiles because these numbers divide the surveyed population into quarters. For pay leaders, it is common practice to pick the upper quartile (75<sup>th</sup> percentile) as the midpoint number for benchmark positions. The Committee's choice of this number as a midpoint means that a grade's pay range will be in the upper half of what the industry typically pays for this job. Thus, by selecting the 75<sup>th</sup> percentile as the midpoint, the company is assured that its base pay competes with the majority of higher paying contractors in the industry.

## **Determining Maximums And Minimums**

The second decision the Wage Committee must make is the *spread* appropriate for each pay grade. Spread is the distance between the minimum and maximum pay in the range. For example, a spread of ten percent means that the minimum pay is five percent below the midpoint and the maximum pay is five percent above the midpoint. In theory, every job within the grade is paid a base wage that falls within this range.

The spread creates the room necessary to make incremental pay adjustments for such factors as performance, time in service, and enhanced skill levels. The breadth of the spread determines how quickly the employee will reach the top of the grade. The narrower the spread the less time in grade to reach the maximum the company is willing to pay for that position. The wider the spread, the longer the employee can remain in that grade before reaching the maximum pay. Consequently, for lower grades, the spread is usually narrow, 10% to 25 % whereas the higher grades like project management can have spreads of 50, 60, and 80 percent or more.

#### **Calculating Spreads**

Once the decision is made regarding the typical time expected in a grade, the spread percentage can be selected. As an example, Grade 1 usually will represent non-skilled positions such as a runner or mailroom clerk, etc. Time in grade before advancement to the next grade is short, perhaps a year or two at the most. Ten dollars an hour is selected as the midpoint for the wage of this grade. Hence, the minimum and maximum are calculated as follows:

Here is how this range calculation is derived.

We know that the midpoint of any range by definition is the ceiling of the range minus the floor of the range divided by 2 added back to the floor. That's the center most number of the range. Hence, we can derive the following formula for determining a range minimum by knowing the midpoint and the range spread.

M is the midpoint of the range S is the percentage spread of the range F is the floor or minimum of the range C is the ceiling or maximum of the range

M = (C - F) / 2 + F	Midpoint definition
C = F + (FS)	Ceiling definition
M = ((F + (FS)) - F) / 2 + F	Substitution for C
2M = F + (FS) - F + 2F	Clear the fraction
2M = FS + 2F	Simplification
2M = F(S + 2)	Factoring F
2M/S+2 = F	Solving for F

Hence, using this derived formula we have 2 \* \$10/2.1 = \$9.52, the range floor or minimum and \$9.52 \* 1.1 = \$10.48, the range ceiling or maximum. To prove this is the correct minimum and maximum for this range we can use the minimum and maximum to calculate the midpoint.

From a wage structure perspective, an employee can be hired as a Runner at \$9.52 per hour as starting wage. Incremental increases might represent \$9.75 in six months and then to \$10.00 after a year of satisfactory employment. Beyond the second year, however, the employee must advance to a more skilled position or be capped at whatever the wage structure adjustment is for Grade 1 each year. The reason for this narrow range is that the Wage Committee decided that jobs in this lowest grade have a low maximum worth to the company and that advancement to a higher skilled job is desirable.

Along with the selection of midpoints, the Wage Committee must determine the percentage spread for each grade. Range spreads will typically start at 20% for entry level, unskilled jobs on up to 80 or 90 percent or more for jobs that are at the top of the corporate ladder. There really isn't anything scientific about the selection of spreads.

They simply need to fit the range of the market for the jobs that fall within the grade and provide for flexibility in pay adjustments.

## **Spread Overlaps**

Overlaps of grades are needed when there is intent for employees to progress from one grade to another. This overlap permits the employee to advance to the next grade with or without a change in pay. It also means that if a pay increase is called for, it represents a reasonable step increase. For example, Table 4 illustrates an overlap from Grade 7 to Grade 8. This permits a Project Superintendent in Grade 7 with a base wage of \$65,000 that is ready to assume greater responsibility to be promoted to Grade 8 either with the same pay or with a reasonable increase of perhaps five percent, \$68,200.

The spread in Table 4 is 40% for both Grades 7 and 8. This represents a theoretical time-in-grade of five to seven years for Project Superintendents and Project Managers. The actual overlap shown is about twenty percent from midpoint to midpoint. There is no magic overlap percentage, but many compensation specialists tend to prefer overlaps of 12 to 15 percent simply because they seem to work best. The objective is to try and achieve a career ladder whereby employees can move into positions of greater challenge and responsibility with a subsequent enrichment in base pay. Consequently, where there may be too much or too little overlap, adjustments may be needed. These adjustments can usually be accomplished by tightening or loosening grade ranges and/or the midpoints.

#### **Smoothing Pay Grades**

When using market midpoints and internal averages to establish a job hierarchy, the result is seldom an even progression. If the midpoints are plotted on a graph and then these midpoints are connected with straight lines, the result will frequently be a line that zigs and zags from midpoint to midpoint. Sometimes these zigs and zags are too extreme to establish a reasonable pay grade progression. Thus, to preserve internal equity and facilitate reasonable grade overlaps, it is helpful to "smooth" out these zigs and zags. If the company's number of pay grades is somewhere between 8 to 12 different grades (the likely case of contractors for whom this chapter is written) here is a practical means for smoothing the midpoints of pay grades. First, plot the midpoints on graph paper. Second, draw a straight line through the central tendency of these points. The central tendency is a straight line that falls as near as possible to all the points. This central tendency summarizes the actual data and provides a smoothed progression of midpoints. Table 5 illustrates how this is done.

Note that Grade 12 is omitted in the smoothing process. Frequently, extreme highs or lows are not used in the smoothing process. This is done when their inclusion seriously distorts midpoint alignment with actual market wages. In the case of grade 12, the Executive Vice President's wage, if included, would have the effect of ratcheting virtually all of the midpoints above current market values.

After ranges are mathematically calculated and smoothed, they may still need to be massaged to fit the realities of the economy, the employment market, and the company's

business needs. It is important to remember that pay ranges are guidelines, not absolutes. In the final analysis, a grade's pay range represents the minimum and maximum that the company is willing to pay for jobs within that grade.

# **Shaping A Misshapen Structure**

Once the wage structure is created, its time to judge how the company actually pays in comparison with this newly created wage structure. Hence, the company's actual pay for each of its current jobs is plotted on to the structure. This comparison likely shows some wages below grade minimums and some above grade maximums. Below grade wages, as discussed earlier, are called *green circled* wages. The green stands for "GO" or the need to accelerate increases. Those wages above grade are referred to as *red circled* wages. These are wages that need to "STOP" or slow down acceleration. Now that there is a useful picture of the company's actual versus desired pay structure, a plan can be put in place for achieving alignment with the new base pay structure.

The first part of the plan is to double check all jobs with wages that are out of range. Have these jobs been properly identified and placed in the proper pay grade? This task calls for re-checking job content. Using the employee and supervisory job questionnaires is a good way to proceed (see appendix). This confirms whether the job description used to assign the pay grade actually describes the job's current responsibilities and duties. Depending on the outcome of this check, the job is either assigned a different pay grade or circled as red or green.

The second part of the plan is to address the wages that are determined to clearly be out of range. Here it is very helpful to involve the employees that are most impacted by this new wage structure. These employees need to understand how they are impacted and, as much as possible, they need to have input into the way their wages are to be adjusted. In dealing with these green and red circled jobs, it is important to keep in mind that wages did not get out of alignment overnight. They most likely are misaligned because of long standing practices, oversights, and misjudgments on the part of managers and supervisors. For this reason, wages should not be abruptly "forced" to align with the new structure. While there may be exceptions to this rule, it is generally more appropriate and fair to everyone concerned to develop a schedule of adjustments. For green circled jobs, there needs to be a schedule of step increases over a reasonable period of six months to a year that accelerate the wage to grade minimum or above. For red circled jobs, there are two means of realignment. The preferable option is to redesign the job such that the level of responsibility and duties warrant a change in pay grade. If redesigning the job is not an option then the typical practice is to suspend wage increases until structure adjustments reach the job's current wage. All wage structures are adjusted at least annually to allow for market changes and inflation.

Success in payroll shaping is largely a matter of patience and persistence. Once a plan is put in place it is important to stay the course. It is not unusual for the re-alignment process to take two or three years to complete. What is to be avoided, of course, is the tendency for managers to violate the structure's integrity. For example, suppose an

Estimator's wage is red circled (above grade maximum). The Chief Estimator decides to "promote" the Estimator to Assistant Chief Estimator claiming the "new" job warrants a change in pay grade. Sounds like a promotion, but is it? That decision is up to the Wage Committee to determine by analyzing the new job's content. If the job content analysis shows that the employee is doing substantively the same tasks as before, the fact is it is the same job but with a new title.

There is always reason for upward pressure on wages. It is important to keep in mind, therefore, that the wage structure is based upon the company's need for and assignment of a particular set of responsibilities and tasks. Secondly, the structure is built upon the value the company and the industry place upon employees who can successfully carry out those responsibilities and tasks. So in the case of the Assistant Chief Estimator, the questions to answered are:

- What duties and responsibilities does an Assistant Chief Estimator perform?
- Is it vital to the company's business to hire these tasks to be done?
- What is the market wage for employees who function in this capacity?
- What is the job worth to the company (e.g. pay grade).

The third part of the alignment plan is often the most neglected. The new wage structure and reshaping process must be clearly communicated to all company employees. Most employees respond positively when they understand the purpose of the wage program. Thus, the core of the new wage structure's "employee relations campaign" is to promote the goals of the program. The goal of the program is to ensure that the company pays its employees fairly and competitively. As always, a general rule to follow is this. The more information employees are given and the more input employees have, the more likely they will see the company's efforts in a positive light.

# When, How, And For What Is Compensation Given

With a wage structure in place, the Wage Committee must determine when, how and for what pay is given. Keep in mind that pay in this instance refers to base pay only. Base pay is the pay given weekly, bi-weekly or monthly, excluding any variable pay associated with incentives and bonus programs. Hence, the Wage Committee's policy decisions regarding the company's base pay program directly impact the fixed cost of payroll. Here are some of the base pay issues for which the Committee must make policy, build procedures and establish guidelines.

What is the frequency of pay adjustments?

Are adjustment periods based on the calendar year or employment date?

What are the pay periods?

How will inflation be addressed?

On what basis will individual increases be given?

Do raises or reductions occur when an employee moves into a different grade?

How does the company determine starting wages for new employees?

Does the company pay based upon individual performance?

Does the company pay for years of service?

To have an effective, efficient and defensible pay program, each contractor needs to assemble these policies and procedures in a wage administration manual. This documentation provides the means for communicating the company's pay policies to its employees and for administering pay practices fairly and consistently across the company.

# **Timing And Frequency Of Pay Adjustments**

As a general rule, contractors choose to make pay adjustments either for all employees at once based on a calendar year or throughout the year based upon employment date. The larger the company, the more likely employment date is selected simply because of the administration time involved. Doing performance appraisals and adjusting pay rates for 500 employees at the same time is a daunting administrative task. If the contractor has only 10 or 15 employees then the calendar year is probably easier because the administration can be completed relatively quickly.

In addition to annual pay adjustments, it is common practice to adjust the pay of entry-level jobs more frequently. For example, a starting clerk may get quarterly adjustments the first year then annual adjustments each year thereafter. Pay adjustments may also be provided to employees that are promoted to a new grade during the year. An Estimator moving to a Project Superintendent role, for example, may receive starting pay in the new pay grade. That pay may be adjusted once or twice during the year as the employee becomes more productive in the new job.

The Wage Committee needs to make policy regarding how and when adjustments in pay are to made that are appropriate to the specific size and needs of the company.

## **Pay Periods**

Work conducted under the Davis Bacon Act must pay craft personnel weekly. Other than pay periods mandated by law and regulations, such as Federal work (see employment laws and regulations in the Appendix), companies may choose the pay periods they wish to follow. Typically, hourly employees are paid on a weekly basis while salaried employees are paid bi-weekly. Managerial and executive level employees are, in some cases, paid monthly. The Wage Committee must determine when the payroll checks are cut in accordance with law, administrative efficiency, and the economic needs of different employee classifications.

# **Bases For Starting Pay And Granting Increases**

**Starting Pay:** It is usually the Wage Committee's role to determine what a new hire's experience and qualifications are worth to the company. Generally, the policy should be to hire in new employees with less experience and qualifications at rates of pay below those of current employees. Minimum qualifications for the job usually equate to the Grade's minimum pay. The Committee's decision becomes more difficult, however, when the new hire is experienced and highly qualified. This situation calls for balancing competitive pay and fairness to current employees. It is always a judgment call and requires careful consideration on the part of the Wage Committee of many factors

specific to the hiring decision. On the other hand, if job applicants simply cannot be hired at rates that fit the job's pay grade, this may mean the wage structure is out of step with the market. A booming economy and tight labor market will sometimes drive market rates up faster than regular structure adjustments can match. In such cases, the Wage Committee may find it useful to have a private industry survey conducted for specific jobs. Such surveys are very useful in determining rates in a seller's market.

**Cost Of Living Increases:** A *general increase* is a set amount paid to all employees of a specific classification. Two types of general increases are frequently given within the construction industry. The most common is the so-called *cost of living increase*. Time erodes an employee's buying power because of inflation. A measure of this erosion is provided by the United States Department Of Labor and is called the Consumer Price Index (CPI). The CPI tracks the monthly rate of inflation. If inflation outpaces pay increases, the employee's buying power is reduced. For this reason, some companies include an inflation percentage in pay increases. This cost of living increase is usually given to all employees across the board since all employees are impacted by inflation.

**Blanket Increase:** The second kind of general increase is simply a fixed amount or percentage of base pay given to all employees within a specific classification. At one time these so-called blanket increases were commonly used to adjust the pay of all employees. The appeal is that it treats all employees of the class exactly the same. No arguments that one employee received more than another did. Today, pay-for-performance programs are favored over blanket increases. In these programs pay increases are based upon variation in group or individual performance.

General increases, however, are still effective tools in pay administration. As already described, cost of living is a type of general increase. General increases are also used when a specific pay grade, say project supervision, significantly trails the industry. In this case, a general increase is used to bring a pay grade up to market value.

Longevity Increases: By and large, the bases for granting increases in base pay are market rate, cost of living, longevity and performance. Of these, performance and longevity are the only factors that have not been discussed. Longevity is the easiest to understand and administer. Longevity is simply the length of time the employee has been with the contractor. Some contractors will give automatic step increases for certain periods of employment. For example, there may be an increase for 3, 5, 10, 15 and 20 years of continuous service. The intent of longevity pay is to increase the likelihood that employees will stay with the firm through good times and bad.

**Merit Increases.** A merit increase is the result of a pay-for-performance philosophy whereby high performers receive greater pay increases than lower performers. How merit increases are determined is fairly easy to explain. Administering these programs, however, is a different matter.

Merit increases are conducted by the employee's supervisor. Based upon the supervisor's evaluation of the employee's performance, a variable percentage increase in base pay is

awarded to the employee. These performance increases are commonly referred to as *merit increases* and are granted in addition to any other general or cost of living increases.

What makes these performance-based increases difficult to administer is clearly illustrated when they are compared to longevity increases. Longevity increases are tied to a quantifiable measure, namely, time. Measuring an employee's performance, on the other hand, is largely subjective. For example, what does it mean when an employee is said to have "outstanding performance"? There simply is no objective unit of measure. Second, longevity increases are determined by the Wage Committee's policy and is uniformly implemented for every employee. In a performance-based system, many different supervisors, all of whom vary in their evaluation skill and experience, judge employee performance. The end result can be inconsistent or misleading evaluations.

To try and minimize these administrative difficulties the company provides guidelines for its supervisors to follow. These guidelines include performance factors to evaluate and a uniform scale for describing how well the employee has performed. The scale is then matched to the merit increase percentage that is usually established by the Wage Committee. Table 6 illustrates a common descriptive scale and how it is tied to merit increase percentages.

**Promotions:** Promotion and demotion are also bases for wage adjustments. Therefore, the Wage Committee must decide in what situations a promotion into a higher grade or demotion into a lower grade warrant a change in base wage. With regard to promotions into the next grade, increases in base wage should correspond to an expanding scope of work and a higher degree of responsibility. If a wage increase is given and this is not the case, it sends the message to employees that work responsibility, performance, and pay have no cause and effect relationship. In a pay-for-performance program, this is not the message the company wants to communicate.

**Demotions:** Though relatively rare, demotions occur for a variety of reasons. For example, an employee may suffer a health problem or a family trauma that warrants the employee to assume a less demanding role. An employee may be promoted to a new job and after a time discover that the job is not suited to the employee's interests or abilities. The employee may transfer to a job having a lower pay grade. Then, of course, there is the case where, for one reason or another, an employee's performance does not meet the minimum requirements of the job. Some contractors choose to handle these situations on a case by case basis. In an increasingly litigious work environment, however, it is best to follow written policy. For this reason the Wage Committee should develop consistent and defensible policy and guidelines for continuing employment and pay adjustments.

# **Maintaining The New Wage Structure**

Neglect is the primary reason a company's wage structure fails to achieve its principal objectives. Unfortunately, it is all too common to find contractors who have hired a consulting firm to develop a company wage program only to see its collapse after a year

or two. The reason is poor maintenance. Just as a new car requires an oil change, so does a company's wage program require periodic adjustments.

Virtually from the day a wage structure is put in place it is in need of adjustment. A new job is added; an employee assumes additional responsibilities; part of the company is reorganized. Changes in jobs, job content, market rates, company organization and even changes in who is looking after the wage program quickly put any wage program in danger of becoming obsolete. Maintenance is the key to keeping the company wage program current and effective.

## **Maintenance Tips**

Here are some tips on keeping the wage structure an effective tool that works for the company's benefit.

- It is good practice to have job descriptions reviewed by the supervisors and employees annually. Keeping job descriptions current is necessary to assure an up-to-date wage structure. The appropriate time for this is during the employee's performance appraisal since the job description is the basis for the evaluation anyway.
- Whenever an employee changes titles care must be taken to insure the pay fits the job's content. Having the employee and supervisor prepare a detailed job description of the content of the new job is one essential step in keeping the wage structure current.
- New job titles are not permitted in the wage structure until a job content analysis is performed and the Wage Committee has slotted the job into the wage structure.
- Grade midpoints are re-evaluated at least annually against benchmark jobs within the industry.
- Whenever there is re-organization in the company, a new wage structure needs to be created for that re-organized segment of the company. That means a proper job analysis and job description are completed and that the Wage Committee makes appropriate pay assignments.
- When there is a change in the person(s) that administer the wage program, proper attention needs to be given to orientation and training of the new wage administrator(s).
- The program needs to be audited periodically to make sure it is achieving its intended objectives.

# **Holding The Base Pay Program Accountable**

At the very beginning of this chapter the primary objectives of a company base pay program were described. Every wage program needs to be held accountable to its stated objectives. The best way to insure this accountability is by periodically evaluating the

program's performance against these objectives. Here are some key program elements that need to be reviewed and evaluated.

- 1. The wage program is intended to enhance employee perceptions of fairness in the way they are treated and compensated. The achievement of this goal can be measured through employee surveys and focus groups. What are employee perceptions of the company's base pay, benefits, pay increases, promotions, and bonuses?
- 2. The wage program is intended to insure competitive pay with like organizations within the industry. The achievement of this goal can be measured by comparisons with State, Federal, association, and private wage surveys. In addition, employee turnover rates and exit interviews are excellent indicators of pay problems.
- 3. The wage program is intended to improve employee productivity and direct employee efforts toward company objectives. Achievement of employee productivity goals can be measured through an analysis of performance review documentation and data on the achievement of company objectives.
- 4. A wage program should help to control payroll cost. A sound base pay program should have a projected annual budget within which adjustments in total compensation are contained. The achievement of this goal is the extent to which the wage program meets its budget objectives.
- 5. Finally a sound wage program is intended to insure that the company is in compliance with federal, state and local employment laws and regulations. Periodically, the program's policies and guidelines should be checked to insure that they are properly documented and that managers and supervisors are following the intent of these policies in their day-to-day supervisory duties.

# Variable Pay

Variable pay means just that. It is pay that varies in accordance with some set of circumstances. Types of variable pay include the traditional Christmas bonus, performance incentive payments, piece rate payments, safety awards, and the like. For the purposes of this chapter, the focus is on a contractor's short-term variable compensation also referred to as *incentive pay*.

The construction industry has long been a leader in providing incentive pay at the staff and executive levels. For example, the annual Christmas bonus has been a traditional favorite of contractors for rewarding exceptional managers and staff. Though these awards may appear to be both subjective and arbitrary, in their defense, owners and managers frequently give considerable thought to the equity and proportions of their distribution. Criteria typically considered are the way employees perform and work together; the degree of their individual contributions to their work units; and, the impact they have on the company's overall profits, industry image, and client satisfaction. Even

so, however, the notion of the Christmas bonus as a useful incentive program is waning. Contractors recognize the need for more formal and objective programs given Federal and State regulations; emphasis upon cost control, as well as changes in employee attitudes, values, and expectations.

For these reasons, incentive plans found in construction companies today are based upon the measurable achievement of company goals, division goals, department goals, sales goals, and project specific goals. These modern incentive plans provide the means for objectively measuring and rewarding individual and group accomplishments. Hence, core to modern incentive plans is the standard (goals) by which results are to be measured. This core of measurable goals and objectives holds true whether or not actual payouts are determined by formula or management discretion.

Just as with a base pay program, the creation of an incentive pay plan begins with the identification of the overall program goals. This identification process follows three steps.

- 1. Articulation of the company's business plan The company's strategy for moving the business forward is contained in this plan. It can be formal or informal but it must state clearly and measurably the key goals the company is directed to achieve. These larger goals then are broken down into specific performance targets for projects, departments, as well as individuals.
- 2. Determination as to how performance incentives fit the company's total pay strategy As previously discussed, the sum of benefits, variable pay (incentives), and base pay comprise total compensation. This total package must be market competitive. Hence, the contractor must determine the percentage incentive compensation plays in this important mix. The appropriateness of this percentage depends on a number of factors, such as the size, type and locality of the business as well as what competitor contractors are offering.
- 3. Fit the compensation strategy with the company's goals Clearly communicated company goals provide employees with direction and momentum. Knowing the direction and extent of achievements needed, the next step is to synchronize the company's overall compensation program with these corporation goals.

For example, a contractor may wish to penetrate the telecommunications market. This company goal then is broken down into its basic elements, such as marketing, sales, recruiting, project management, and budgets. From a compensation stand point, the achievement of results in each of these areas will require a balanced program of appropriate employee benefits, base pay and incentives. In this case, incentives are synchronized with the pay of the people who can achieve the results that are particularly critical to the success of this new initiative.

Putting together this kind of integrated business plan and incentive program requires the careful consideration of a number of factors. Here are some of the questions that must be asked and answered for the proper development and administration of an integrated business strategy and incentive pay plan.

Who should be involved?
What is the scope of the plan?
What basic structure is called for?
What size and type of rewards are appropriate?
How will results be measured?
Who and how will the plan be administered?

- Who should be involved? The people and functions to consult in designing the incentive program generally include the Chief Operating Officer, Chief Financial Officer, key management team members, the human resources group, and project or site management. In short, the people that are needed and expected to lead and support the business initiative need to have input into its development and implementation.
- What is the scope of the plan? The plan must consider such issues as the number and type of incentives to be employed. Should marketing and sales have incentives? Should recruiting have incentives? Should projective management have special incentives? How many different incentives are needed (one plan or different plans)? Who is eligible to receive incentive rewards (everyone or critical positions only)? How much total monetary investment does the program(s) require? In short, whoever is designing and implementing the plan must determine how encompassing the program needs to be?
- What is the basic structure of the plan? Plan structure is the blue print for how the plan goes together. For example, incentives may be tied to individual performance. Incentives may be tied to group results or total company results. Incentives may be allocated based upon a mathematical formula or management discretion or a combination of objective formula and subjective judgments. The plan's structure is the *nitty gritty* of how the plan is to be administered.
- What size and types of awards are appropriate? What amount and type of award makes sense relative to goal achievement. What is success worth to the company? What does the industry generally expect to pay for the achievement of similar initiatives? Whatever answer is given to these questions of worth, the reward options are three: cash, stock, and non-cash awards. Since most contractors are closely held and/or family owned businesses cash and non-cash awards are the norm. Stock incentives are reserved for publicly or employee owned contractors.

Regardless of award type it needs to once again support the business strategy. If the goal is safety, for example, perhaps the best awards are non-monetary. This avoids hourly wage problems. If the goal is project profitability, on the other hand, then the

incentive needs to balanced by the amount of project profit, company profit and industry norms for individual compensation.

- How will results be measured? Along with the incentive plan structure, the answer to this question of measurement is especially key to the development of an effective incentive program. Measures must quantifiable and the method of measurement must by clear, simple and well understood by plan participants. Fortunately, contractors have a number of traditional measures of performance, such as project profits, backlog, and jobs-under-bid that are quantifiable and reasonably well understood. These kinds of measures can be applied to individual positions, work groups, divisions, projects, and departments. Objectives can be financial in nature (such as project profits or work under contract) or non-financial (such as safety record, scheduled completions, customer satisfaction and the like). Obviously, incentive plans can be and often are based upon a combination of financial and non-financial objectives that are reflective of corporate, group and individual successes.
- Who and how will the plan be administered? Effective incentive plan administration clearly establishes who is responsible for implementing and maintaining the program. In addition, successful implementation requires communicating the plan to those involved; determining the total incentive pool; calculating individual incentives; modifying the plan to fit changing circumstances; and finally, auditing the plans effectiveness against its stated objectives. Hence, whether performed by a committee or a staff department or an individual officer, these responsibilities and functions are the day-to-day work of plan administration.

In summary, a good incentive plan is constantly reviewed and modified just as is the base pay program. Such continuous monitoring insures the "incentive" truly results in better performance. While it's important not to make changes for the sake of change, it is important to adjust the program in order to increase the plan's effectiveness. This continual monitoring should include feedback from key decision makers and plan participants as to their experience with the plan's strengths and weaknesses.

# **TABLES**

# Table 1

A sample wage structure (for the supervision job family) as it might appear in a construction company. The key components are pay grades; job titles within those pay grades; and, the pay range as described by the minimum, midpoint and maximum dollars of base pay.

Pay Grade	Job Title	Minimum	Mid-Point	Maximum
9	Project Manager	\$60,000	\$73,515	\$96,200
8	Construction Manager	\$49,032	\$65,840	\$86,500
7	Project Superintendent	\$41,600	\$54,050	\$61,918
6	Superintendent	\$36,000	\$47,550	\$61,176
5	Assistant Superintendent	\$28,650	\$39,320	\$49,400

# **Table 2 – Market Value Ranking**

Table 2 illustrates a technique used to rank benchmark jobs hierarchically according to market value and then and to slot non-benchmark jobs within that hierarchy.

- **Benchmark Jobs** are jobs within the firm that match the descriptions of jobs within a current industry salary survey.
- **Non-benchmark Jobs** are jobs within the firm for which there is no current industry salary information available.
- **Mid** refers to midpoint which is the median pay (50<sup>th</sup> Percentile) given as base pay according to the survey information. It is shown in thousands of dollars.
- **Ave.** refers to the average base wage the firm currently pays for the job.

Mid.	Benchmarked Jobs	Ave.	Non-benchmarked Jobs
116	Executive Vice President		
86	Chief Financial Officer		
85	V.P. Administration		
		80	Secretary/Treasurer
		78	V.P. New Construction
76	Chief Estimator		
		71	V.P. Services
68	Executive Project Manager		
58	Project Superintendent		
		54	Projects Administrator
53	Manager of Accounting		
50	Superintendent		
		45	Network Administrator
		43	Internet Specialist
		42	Proposal Coordinator
		42	Personnel Coordinator
41	Foreman		
41	Office Manager		
		38	Executive Secretary
37	Marketing Coordinator		
		35	Equipment Supervisor
33	Accountant		
		28	Secretary
		26	Accounting Clerk
		26	Project clerk
		23	Data Entry Clerk
		20	Receptionist
		18	Runner

# **Table 3 – Job Content Ranking**

Table 3 illustrates a simple technique for establishing grades on the basis of job importance using job content analysis and an appointed company Wage Committee. The column marked wage ranking is how all jobs were forced ranked by either the benchmark jobs market midpoint or the non-benchmark job's current average base pay. The committee rankings are done on the basis of job content rather than pay and are not forced. The result is a series of plateaus whereby jobs viewed by the committee as having equal worth to the company are placed together. The plateaus then form the bases of possible grade assignments.

Wage Ranking		Grade			
Exec. Vice President	Exec. Vice President				12
Chief Financial Officer	Chief Financial Officer	Secretary/Treasurer			11
V.P. Administration	V. P. New Construction	V.P. Services			10
Secretary/Treasurer					9
V.P. Services	Exec. Project Manager	Chief Estimator	Projects Administrator		8
Chief Estimator	Project Superintendent				7
V.P. Services	Superintendent	Manager of Accounting	Equipment Supervisor		6
Exec. Project Manager	Foreman	Proposal Coordinator	Internet Specialist	Office Manager	5
Project Superintendent	Accountant	Executive Secretary	Network Administrator	Personnel Coordinator	4
Projects Administrator	Secretary	Receptionist			3
Manager of Accounting	Accounting Clerk	Project clerk	Data Entry Clerk		2
Superintendent	Runner				1
Network Administrator					
Internet Specialist					
Proposal Coordinator					
Personnel Coordinator					
Foreman					
Office Manager					
Executive Secretary					
Marketing Coordinator					
Equipment Supervisor					
Accountant					
Secretary					
Accounting Clerk	·			·	
Project clerk					
Data Entry Clerk				·	
Receptionist					
Runner				-	

# Table 4 - Pay Grade Overlaps

Table 4 illustrates spread overlaps for two grades, grade 7 and grade 8. The spread for each grade is 40%. The over lap from grade to grade is 20% as measured at the grade midpoints.

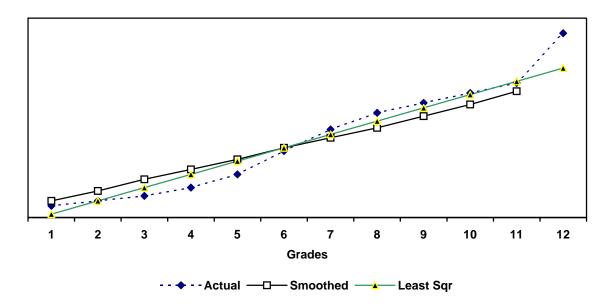
Spread	20%		20%
	Minimum	Midpoint	Maximum
Grade 8	\$62,960	\$78,700	\$94,440
Grade 7	\$52,160	\$65,200	\$78,240
Overlap		20%	

# **Table 5 – Smoothing Pay Grade Midpoints**

Table five and the accompanying graph illustrate how pay grades can be smoothed if necessary to make for a more orderly progression in ranges. After midpoints are graphed, a straight line is drawn through the central tendency of the points. Table 5 shows the actual numbers in thousands representing the midpoints before (Actual) and after smoothing (Smoothed) for each grade. In this case the extreme case of grade 12 is omitted from the smoothing process because it would have significantly elevated wages above their current market ranges.

Grade	1	2	3	4	5	6	7	8	9	10	11	12
Actual	17	25	28	33	41	50	58	68	74	80	86	116
Least Sqr	12	20	28	36	44	52	60	68	76	84	92	100
Smoothed	20	26	32	38	44	50	56	62	68	78	86	
Difference	+8	+6	+4	+2	0	-2	-4	-4	-8	-6	-6	

#### **Best Fit**



# **Table 6 -- Sample Merit Increase Guidelines**

Often guidelines are used for the assignment of merit increases. The Wage Committee determines what percentage increases should be given based upon a performance scale. The column designated as Scale Descriptors below is one example. The column designated Merit Increase shows the matching increase percentages for each descriptor. The better the employee performs the higher the increase that is given.

Scale Descriptors	Merit Increase
Exceeds Expectations On A Majority Of Factors	3%
Exceeds Expectations On Some Factors	2%
Meets Expectations On A Majority Of Factors	1%
Meets Expectations On Very Few Factors	0%

# Sample Job Description Superintendent

Primary Purpose: Directs activities of all personnel assigned to medium highway

(federal and state) projects.

**Typical Duties:** 

Studies specifications to plan procedures for construction on basis of starting and completion times and staffing requirements for each phase of construction, based on knowledge of available tools and equipment and various building methods. Assembles members of organization (supervisory, clerical, engineering, and other workers) at start of project. Orders procurement of tools and materials to be delivered at specified times to conform to work schedules. Confers with and directs supervisory personnel and subcontractors engaged in planning and executing work procedures, interpreting specifications, and coordinating various phases of construction to prevent delays. Confers with supervisory personnel and labor representatives to resolve complaints and grievances within work force. Confers with supervisory and engineering personnel and inspectors and suppliers of tools and materials to resolve construction problems and improve construction methods. Inspects work in progress to insure that workmanship conforms to specifications and that construction schedules are adhered to. Prepares, or receives from subordinates, reports on progress, materials used and costs, and adjusts work schedules as indicated by reports. May direct workers concerned with major maintenance projects for existing structures.

#### Comments:

The above description covers the principal duties and responsibilities of the job. However, the description shall not be construed as a complete listing of all miscellaneous, incidental or similar duties which may be required from day-to-day.

# **JOB CONTENT QUESTIONNAIRE**

Nonexempt Construction and Maintenance Employees

Please review all of the items on this questionnaire before answering any of them. Please print your answers and make all of your answers as complete and clear as possible. If you run out of space, you may attach additional pages. After you have finished the questionnaire, return it to your supervisor.

Please Print Name:	Date:
Classification or Job Title:	
Immediate Supervisor:	
Location/Project:	
Check Where Appropriate:Full TimePart Time	Temporary
The following two areas (General Summary and Typical Duties) questions on the form. Use your own words and with enough defunfamiliar with your position can understand exactly what the journal of the position why it is done.	tail so that persons
General Summary - Briefly describe the primary purpose of you	r job:
Typical Duties - Describe the 5 to 8 major duties that are performed work week. Be specific. Each task performed should be briefly be accordinary or occasional assignments. The task which important should be listed first, followed by the next important value your major job activities are described. For each task described, of time spent on that function.	out clearly explained. The you consider the most work item and so on until

Schooling Required - What is the minimum amount of schooling that a person would need to do this job? Also, what is it that they would normally learn in the classroom? For example, basic math, blueprint reading, electricity, welding, etc.? Are there any special courses that are needed in order to perform this job satisfactory?

General Edu	ucational Attainment Requ	iired:		
Less	s than high school			
□ High	h school or equivalent			
□ juni	or college or trade/vocation	nal training	(describe)	
Other infor	mation:			
last question	n, how much actual job ex		ng or training stated in answer to the uld it take before they would be able to	
_	job satisfactorily?			
	One week or less		1 to 3 months	
	6 to 12 months		•	
	3 to 5 years		more than 5 years (Years)	
practical ex				_ _
-	Received - How frequent	-	ly is work monitored by a supervisor or	
Does anyon	e check or review the wor	k? If so, wh	at kind of review is made question	
What kinds	of decisions do you make	on your ow	n? (Please describe)	
				_
Consider lif	Eting, climbing, walking, st	tooping, ben	d visual effort required by your job. ding, standing, seeing colors and close	

disagreeable or uncomforta		l work environment that are eather. Are there unavoidable aplain:
	e "helpers" or "apprentices",	any responsibilities which are or do you work as a
□ Instructing	☐ Allocating personnel	☐ Planning others work
☐ Assigning new work	☐ Review Work	☐ Maintaining Standards
	☐ Acting on employee pro	
Responsibility For Tools, E materials do you use regula or equipment, how costly w	ould your mistake be for the	What tools, equipment, and ed or lost these tools, materials,
	ety of Others - Could others busly?	
	ease list any additional information	
Employee signature		Date

# SUPERVISOR'S VERIFICATION QUESTIONNAIRE

This section to be completed by the immediate super-	visor.
Do you agree with the employees response and descrexplain:	iption of his/her job? If not, please
Sum up what you consider to be the distinguishing fa job duties or assignments which the employee perform	1 0 0
Please provide any additional comments concerning t	the employee's job.
Other persons under my supervision performing the s	same duties at the same skill level.
Supervisor's Signature	Date

# **Sample Wage Data**

# **Position: Foreman**

#### **DESCRIPTION:**

Assists in coordination of contractors or supervision of crafts within a particular construction work (discipline) area. Observes and interfaces with contractors or trades to monitor work performance, progress, and productivity of crafts. Provides liaison between field engineers and contractors or crafts to insure construction complies with drawings and specifications.

#### **ALL FIRMS**

	Number Of Firms	Number Of Employees	15th Percentile	25th Percentile	Median 50th Percentile	Average	75th Percentile	85th Percentile
Base Salary	198	1,696	\$31,000	\$35,000	\$41,450	\$41,173	\$46,994	\$51,100
<b>Bonus Amount</b>	128	1,101	\$1,000	\$1,313	\$2,472	\$3,534	\$4,000	\$6,303
Total Comp - All	198	1,696	\$31,600	\$36,278	\$42,814	\$43,458	\$50,265	\$54,200

## TYPE OF CONSTRUCTION PERFORMED

	Number Of Employees	Average Total Compensatio n	Average	Weighted Average	25th Percentile	50th Percentile	75th Percentile
Building	1,151	\$42,829	\$40,771	\$45,216	\$34,150	\$40,000	\$46,170
Highway	443	\$47,746	\$45,693	\$46,645	\$38,951	\$46,733	\$51,680
Heavy	650	\$45,544	\$43,767	\$45,548	\$36,910	\$45,550	\$50,160
Industrial	985	\$44,290	\$41,856	\$46,167	\$36,000	\$43,189	\$48,495
Municipal Util.	426	\$46,409	\$43,867	\$46,727	\$37,580	\$45,335	\$52,640
Residential	316	\$44,017	\$40,687	\$40,651	\$35,586	\$40,665	\$46,000

# **Sample Performance Appraisal Form Performance Scale**

On each of the work related statements below indicate the degree the employee has met your expectations since the employee's last review.

"1" Less than I expect

"2" Meets my expectations
"3" Exceeds my expectations

Technical Competence Work has been technically accurate and complete.
Has the technical knowledge and skill needed to perform current assignments.
 Has used the appropriate technical information (applications) in performing work assignments
Work has met company/industry standards and policy
Communication  Has listened and responded positively to instruction, advice, and criticism.
Written work has been completed carefully and on time.
 Supervisor and fellow employees have been kept informed of important work related information (ie. work status, etc.  Has made sure that instructions (given or received) were clearly understood before being acted upon.
People Relations Has pitched in and helped others needing assistance.
Has maintained good working relations with fellow employees, supervisor and clients.
Has effectively resolved differences/disputes which have arisen between self and others.
Has worked as a team player by listening, giving credit and encouraging others.
 Total Problem Solving Has resolved problems in workable, cost-effective ways.
 Has used resources well in solving work problems, ie. expertise, man-hours, materials.
Has quickly and effectively gotten to the root of problems.
 Has used planning to effectively minimize problems.
Total Decision Making Has effectively carried out management decisions and instruction.
Has appropriately involved others in making decisions.
Has assumed responsibility for bad decisions and has corrected them.
 Has taken the initiative to make needed decisions and follow them through.
Total Results Has produced the quantity of work needed.
 Work has been thorough and complete the first time.
Has produced quality, cost effective results.
Has met schedule and budget objectives.

# Federal Laws and Regulations Affecting a Contractor's Employment and Compensation Practices

#### **Davis-Bacon Act**

The Davis-Bacon and related Acts requires that all contractors and subcontractors performing on Federal contracts, (and most contractors or subcontractors performing on federally assisted contracts under the Related Acts) in excess of \$2,000 pay their laborers and mechanics not less than the wage rates and fringe benefits determined by the Secretary of Labor to be prevailing in the area. In addition, contractors and subcontractors are required to pay employees one and one-half times their basic rate of pay for all hours worked over 40 hours per workweek. Contractors and subcontractors must pay employees weekly and submit weekly certified payroll records to the contracting agency.

## Fair Labor Standards Act of 1938, as Amended

The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, record-keeping and child labor standards that affect over 100 million full- and part-time workers in the private sector and in federal, state and local governments. For all practical purposes this Act covers virtually every business under Federal jurisdiction.

#### Defining Exempt & Non-Exempt Status

The terms "exempt" and "non-exempt" are derived from this Act because some employees are exempt from the Act's overtime pay and minimum wage provisions. These exemptions are, however, quite narrowly defined. For this reason, contractors should carefully check the exact terms and conditions for each position in question with the local Wage and Hour Division of the Department of Labor. In general terms, job classifications exempt from both the minimum wage and overtime pay requirements are considered to be executive, administrative, and professional level employees.

## Minimum Wage

This Act requires contractors of non-exempt employees to pay a minimum wage of not less than \$5.15 an hour beginning September 1, 1997. Youths under 20 years of age may be paid a minimum wage of not less than \$4.25 an hour during the first 90 consecutive calendar days of employment with an employer. Contractors may not displace any employee to hire someone at the youth minimum wage.

## Overtime Pay

The Act requires that non-exempt employees be paid not less than one and one-half times their regular rates of pay for all hours worked in excess of 40 in a workweek.

## Record Keeping

The Act requires contractors to keep records on wages, hours and other items as set out in the Department of Labor's regulations. These requirements are now standard business practices in virtually all payroll programs.

#### Child Labor Protection

The Act specifically is designed to protect children from abusive labor practices. For this reason the Act establishes fourteen as the minimum age for agricultural employment, sixteen for all non-agricultural, non-hazardous jobs and eighteen as the age for unrestricted employment.

## The Contract Work Hours and Safety Standards Act

The Contract Work Hours and Safety Standards Act (CWHSSA) is applicable to contractors and subcontractors with Federal service contracts, federally funded construction contracts, and Federal supply contracts over \$100,000. This Act requires contractors and subcontractors with covered contracts to pay laborers and mechanics employed in the performance of the contracts one and one-half times their basic rate of pay for all hours worked over 40 in a workweek. This Act also prohibits unsanitary, hazardous, or dangerous working conditions in the construction industry on Federal and federally financed and assisted projects.

#### **Executive Order 11246**

Executive Order 11246 prohibits construction contractors with Federal or federally assisted contracts of \$10,000 or more from discriminating against employees or job applicants because of race, color, religion, sex or national origin and requires them to take affirmative action to ensure equal employment opportunity for these protected groups. Covered construction contractors and subcontractors must strive to meet geographic goals established by the Office of Contract Compliance for the employment of women and minorities in all crafts and trades in the area. Covered contractors are required to pursue such goals on all their construction work, whether or not Federal or federally assisted. Race, color, religion, sex and national origin distinctions may not be made in recruitment or advertising efforts, employment opportunities, wages, hours, job

classifications, seniority, retirement ages or job fringe benefits such as employer contributions to company pension or insurance plans.

# Immigration Reform and Control Act of 1986 (IRCA)

Under the Immigration Reform and Control Act of 1986, contractors may hire only persons who may legally work in the United States (U.S.): citizens and nationals of the U.S. and aliens authorized to work in the U.S. Contractors must verify the identity and employment eligibility of anyone to be hired which includes completing and retaining the Employment Eligibility Verification Form (I-9). Employers must keep I-9s on file for at least 3 years (or one year after employment ends, whichever is greater). The Immigration and Nationality Act also protects U.S. citizens and aliens authorized to accept employment in the U.S. from discrimination in hiring or discharge on the basis of national origin and citizenship status.

# Family and Medical Leave Act of 1993

The Family and Medical Leave Act (FMLA) is applicable to any contractor who averages 50 or more employees. Essentially the Act entitles an up to 12 weeks of job-protected, unpaid leave during any 12 months for birth and care of the employee's child; care for an immediate family member (spouse, child, parent) who has a serious health condition; or, for the employee's own serious health condition. During such leave, the contractor must maintain group health benefits that the employee was receiving at the time leave began during periods of FMLA leave at the same level and in the same manner as if the employee had continued to work.

#### Rehabilitation Act of 1973

Section 503 of the Rehabilitation Act of 1973, as amended, requires contractors with Federal contracts or subcontracts in excess of \$10,000 to take affirmative action to employ and advance in employment qualified individuals with a disability. The Act also prohibits discrimination on the basis of a disability in recruitment, hiring, pay rates, upgrading and selection for training. Employers with contracts of \$50,000 or more or who employ 50 or more employees must prepare and maintain a written affirmative action program.

## **Employee Retirement Income Security Act (ERISA),**

The provisions of Title I of ERISA cover a contractor's employee pension plans and so called welfare benefits, such as health, disability, vacation, apprenticeship and training. ERISA regulations set uniform minimum standards to assure that a contractor's employee benefit plans are established and maintained in a fair and financially sound manner. Contractors have an obligation to provide promised benefits and to satisfy ERISA's

requirements for managing and administering these private pension and welfare plans. Title I of ERISA requires agents who manage and control plan funds to manage these plans prudently for the exclusive benefit of participants and beneficiaries; avoid conflicts of interests, comply with investment limitations; and, report information on the operations and financial condition of plans to the government and plan participants.

# **Federal Anti-Discrimination Laws Applicable to Contractors**

## Title VII of the Civil Rights Act of 1964

This Act prohibits employment discrimination based on race, color, religion, sex, or national origin;

## Equal Pay Act of 1963

This Act protects men and women who perform substantially equal work in the same establishment from sex-based wage discrimination.

# Age Discrimination in Employment Act of 1967

This Act protects individuals who are 40 years of age or older from discrimination based upon age.

#### Title I of the Americans with Disabilities Act of 1990

This Act prohibits employment discrimination against qualified individuals with disabilities in the private sector, and in state and local governments.

## Civil Rights Act of 1991

This Act provides for penalties and damage awards for employers who demonstrate wilfull disregard for these anti-discrimination laws and regulations.

# **Impact On Contractor Personnel Policy**

It is the purpose of these Acts to eliminate work place discrimination. To this end, it is prohibited by law for a contractor to make decisions regarding hiring and firing; compensation, assignment, or classification of employees; transfer, promotion, layoff, or recall; job advertisements; recruitment; testing; use of company facilities; training and

apprenticeship programs; fringe benefits; pay, retirement plans, and disability leave; or other terms and conditions of employment on the basis of race, color, religion, sex, disability, age or national origin.

## **For More Information**

For further information and discussion of the interpretation and application of these Acts as they may apply to the construction industry go to <a href="http://www.dol.gov">http://www.dol.gov</a> and <a href="http://www.eeoc.gov">http://www.dol.gov</a> and