



advantage

AAP COMPENSATION ANALYSIS REQUIREMENTS

By Mike Brock, SPHR, CCP

Recent revisions in OFCCP regulations require federal contractors to perform in-depth analyses of their compensation practices as part of the Affirmative Action planning process. The purpose of this analysis is to determine whether there are gender, race, or ethnicity-based disparities in their pay system. In place since 2001, the goal of the revisions is to motivate those doing business with the federal government to consistently monitor their compensation practices so that problem areas can be identified and addressed in a proactive manner. The analysis is intended to be preventive in nature and focuses on identifying the elements that impact salary, wages and other aspects of total compensation, and determining if the elements are fairly applied.

While the results of this analysis do not have to be included as an actual part of the Affirmative Action Plan document, organizations who identify pay discrepancies as a result of the analysis process must be able to explain why the inequities exist. In addition, they must be able to demonstrate that they are making a good faith effort to remedy any pay disparities that may be uncovered by the analysis.

A compensation analysis of this nature is privileged and confidential if prepared at the request of legal counsel. As such, it is protected from discovery in the event of a lawsuit against the organization. However, this attorney/client privilege does not protect the information from EEOC or OFCCP review.

This article looks at a number of OFCCP approved methodologies that federal contractors may use to analyze their compensation systems to determine if there are patterns of discrimination in their workforce.

Methods of Compensation Analysis. OFCCP compliance officers consistently use the following three approaches when conducting compliance reviews of federal contractors:

- The median approach
- The average approach
- Table and sort method

All three of the approaches require that the organization must first identify the specific data elements that affect compensation, and must have access to current and accurate data for each of the identified elements.

The first step in the self-assessment process is to select the factors used to determine compensation levels for each specific job. Typical factors are:

- Length of time employed by the company
- Length of time in a position
- Pay grade or pay level
- The market value of the job as determined by the comparable labor market
- Performance evaluation ratings
- Education required
- Years of relevant experience

The above factors are common, but by no means universal. There is a great variation in compensable factors from organization to organization and industry to industry. The important thing to remember is to clearly identify those factors which are actually considered by your organization.

Since these factors are all intended to be neutral and specifically job related, employees with similar levels of these factors should be paid at a similar level regardless of their gender, race, or ethnicity. Each of the following methods can be effective in identifying whether pay disparities exist.

Median Compensation Analysis. The median is defined as that data point which is near the mid-point of a group of numbers and has an equal number of data points above and below it. For instance, in the series 1, 3, 5, 9 and 13, 5 is the median because there are two numbers in the series that are less than 5 and two that are greater. Since the median is a measure of placement, it is not affected by extreme values. For this reason, median is a better measure of central tendency than the average, which can be skewed by extreme values.

In conducting a compensation analysis using the median method, the following steps are followed:

1. The median pay values for males and females or minorities and non-minorities within a pay group or pay grade is computed.
2. The median values for these groups is computed for each compensation element and a comparison is made.

This is illustrated utilizing the data displayed in the following Table.

A Comparison of Median Salary vs. Median Time In Grade for Males and Females

Pay Grade	Median Female Salary	Median Years In Grade	Median Male Salary	Median Years In Grade	Female Salary Difference	Female Years In Grade Difference
15	\$77,896	1.8	\$86,324	2.6	-\$8,428	-0.8
9	\$48,375	1.7	\$49,225	2.2	-\$850	-0.5
6	\$32,765	3.4	\$26,824	3.1	\$5,941	0.3

- In Grade 15, further investigation seems to be indicated since the median annual salary for females is several thousand dollars less than the median annual salary for males, even though the difference in median years in grade is less than one year.
- In Grade 9, further investigation is not indicated, since there is a small difference in median annual salaries of females compared to males and the difference between median years in grade for females is slightly less than years in grade for males.
- In Grade 6, further investigation is indicated, since the median annual salary for males is significantly less than the median average salary for females, even though there is a difference of less than a year between the median years in grade.

Based on the above analysis, further investigation of the salaries in Grades 15 and 6 seems indicated. Based on this investigation, if all other factors are equal and the differences in salaries still exist, it is possible that upward adjustments to the compensation of specific employees may be called for.

Average Compensation Analysis. The average is computed by adding the salaries of a group of numbers and then dividing the sum by the number in the group. For instance, in the series 1, 3, 5, 9 and 13, the average would be computed by adding up all of the numbers and dividing by 5. (In this case, the computed average is 6.2.) As you can see from the example, the average can be skewed by extreme values, so this may not be as accurate a measure of central tendency as the mean.

Utilizing an analytical method similar to that described above under Median Analysis, the analysis looks at some of the following questions:

- Is the average salary approximately the same for each group, or is the average salary of one group much larger than the average salary of the other?

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- Does the group with the higher average salary also have average periods of employment that are proportionately longer?
- Does the group with the higher salary also have higher average performance ratings?

In short, for each element affecting compensation, the average for men and women (or minorities and non-minorities) is calculated and compared in a manner similar to the median method.

Table and Sort Method. Most spreadsheet programs available for use on a personal computer include a variety of statistical procedures that can be used to analyze and present data. In many ways, this is the easiest method to use, since the sorting feature can provide a quick overview of the workforce as follows:

- **Sorting by salaries:** This method quickly identifies the highest paid female or minority group member and the level at which further representation stops.
- **Sorting by hire date:** This indicates whether pay advancement is consistent with longevity.
- **Sorting by department or other organizational unit:** This can reveal concentrations or absences of a particular demographic view.

Given the relative ease in utilizing this methodology, it can be used as a preliminary method for locating potential problem areas. Further analysis of problem areas can then be completed using the Median or Average methods described above.

Summary

- Current OFCCP regulations require federal contractors to include compensation analysis as part of the Affirmative Action Planning process.
- The analysis of compensation data is a proactive way to identify problems that can be corrected without a formal complaint, compliance review or litigation.
- The application of OFCCP recommended methods of compensation analysis can be instrumental in assuring fairness in compensation practices.
- In its initial phases, the analysis of compensation data may be done simply without employing complex statistical methods.

DISEASE MANAGEMENT

By Barbara Stollberg

Rising healthcare costs are a major concern of most employers today. These costs may be compounded by lowered productivity due to workers' absenteeism from illnesses or decreased performance levels because they don't feel well. Enter disease management (DM) programs. These programs are increasingly being offered by many employers and health insurance firms as part of employee benefits.

Disease management is a process that intends to prevent complications of chronic diseases by educating patients about their disease, its progression and contributing factors and by helping them to monitor their conditions. It encourages and empowers them to be active participants in their treatment programs to improve their quality of life. DM is meant to integrate information, treatment programs, medications and communication between patients, physicians, healthcare providers, employers, and insurance carriers.

Serious complications of diseases may often be the result of failure to seek medical care, failure to follow physician's instructions, failure to take prescription medications as instructed, lack of exercise, and poor eating habits. In addition, physicians may be unable to follow-up with patients on a regular basis or may not prescribe the best treatment based on the disease and the individual's lifestyle.

Traditional medicine often focuses on treatment of acute problems (such as diabetic coma) rather than preventive care (for example, diet and regular monitoring of insulin levels). All aspects of the disease complex need to be treated together. There is a greater potential for cost savings and optimal health when treating the entire system.

The most common health problems addressed by DM programs are asthma, diabetes, cardiovascular diseases, lower back pain, and depression. These chronic problems are relatively easy to manage, but can prove costly if not. Proper treatment and intervention may even cure these diseases.

LEGISLATIVE AND LEGAL UPDATES

New Washington law requires care in disposing of inactive personnel files. Do you picture identity thieves combing through your dumpster for discarded social security numbers and other personal information? The Washington Legislature apparently does because it just enacted a new law designed to make things harder on would-be identity thieves. This law, which took effect June 13, 2002, obligates employers (and other entities) to shred or otherwise destroy unwanted files and other documents containing "personal identification information" rather than merely discarding them.

Three types of information are covered:

- (1) personal financial information, such as account numbers, credit card numbers, access codes or passwords;
- (2) health information, including information relating to medical history or status; and,
- (3) personal identification numbers, such as social security, tax identification, or driver's license numbers.

Under the law, employers must take "all reasonable steps" to destroy personal information when disposing of records. "Destroy" means to shred, erase, or otherwise modify the information so it can't be read through any reasonable means. The law applies not only to paper documents, but also to digital and electronic files such as e-mail. Failure to comply could result in a legal action awarding actual damages and attorneys' fees. If the violation is willful, the statute authorizes triple damages up to \$10,000.

It's no longer enough to empty your outdated file cabinets into the recycle bin. You must first pull out any documents containing personal information and shred them. Nor can you safely donate your old computers to the local charity without first making sure that all the data contained in the hard drives is wiped completely clean. Our advice? Check with your systems people or a computer expert. Deleted computer files can often be easily recovered, and sometimes additional steps will be required before you can be sure all personal information is no longer recoverable.

Minimum Wage Update.

Effective January 1, 2003, Washington's minimum wage will increase from the current hourly rate of \$6.90 per hour to \$7.01 per hour. The new wage applies to workers in both agricultural and non-agricultural jobs. Workers who are age fourteen and fifteen may be paid 85% of the adult minimum wage.

Washington adjusts its minimum wage each year based on changes in the federal Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). For the 12-month period ending August 31, 2002, the index increased 1.6% over the prior year, moving Washington's minimum wage upward by 1.6% or 11 cents per hour.

Oregon has passed the initiative which would increase the minimum wage in Oregon from \$6.50 to \$6.90, with annual cost of living adjustments every year thereafter. Alaska's current minimum wage is \$5.65 per hour, which will increase to \$7.15 per hour on January 1, 2003, with annual cost of living adjustments. The federal Department of Labor minimum wage is \$5.15 per hour, but in states which set higher rates than the federal minimum, the state wage applies.

FICA wage limit, Medicare premiums to rise.

Employers and employees will pay higher Social Security taxes next year, while Medicare cost-sharing requirements also will increase.

Effective Jan. 1, 2003, the amount of an employee's wages subject to Federal Insurance Contributions Act taxes will increase to \$87,000 from \$84,900. Employers and employees each pay a 7.65% FICA tax.

In addition, the Medicare Part B premium, which covers physician services, will increase to \$58.70 per month, up from \$54 in 2002. Between 5% and 10% of employers pay all or part of the Part B premium for their retired workers.

In addition, the Medicare deductible for the first 60 days of a hospital confinement will increase to \$840 from \$812. The daily co-payment for extended hospital stays - 61 through 90 days - will increase to \$210 from \$203, while the daily co-payment for stays exceeding 90 days will rise to \$460 from \$420.

The level of Medicare deductibles and co-payments is relevant to employers with retiree health plans that pick up health care costs not covered by the federal program.

Small Business Act - Paper Crunch.

The US Chamber applauded the recent Senate and House passage of legislation to provide relief for small businesses from burdensome government regulations and paperwork requirements.

The Small Business Paperwork Relief Act of 2002 would require the Office of Management and Budget to publish an annual list of compliance-assistance resources for small businesses. It also would establish a point of contact for small business concerns at each federal agency.

To begin to reduce the burden of federal paperwork, this bill would establish a task force to study the feasibility of streamlining information collection requirements. The task force also would explore the creation of an online network to inform small businesses of all relevant federal regulatory requirements.

Additional Whistleblower Protections For Employees.

President Bush signed into law the Sarbanes-Oxley Act of 2002, aimed at curbing corporate fraud, increasing accountability, and creating a regulatory board with investigative and enforcement powers to oversee the accounting industry. A cautionary note: tucked into the Act are some important provisions that will impact publicly traded companies and organizations who provide certain services to publicly traded companies.

Employees who provide information, or assist with investigations regarding conduct they reasonably believe violates Securities and Exchange Commission regulations or federal laws relating to fraud against shareholders, are protected against discrimination or any retaliatory action. Employees may report the behavior in question to a federal regulatory or law enforcement agency, a member of Congress or Committee of Congress, a person with supervisory authority over the employee or such other person working for the employer who has the authority to investigate, discover, or terminate misconduct.

Although the statute is directly aimed at protecting employees of publicly traded companies, the Act's protections also include contractors, subcontractors and agents of publicly traded companies. Thus, employers that perform work for publicly traded organizations (i.e., banks, accounting firms, investment companies) should become familiar with the Act.

Under a separate provision of the Sarbanes-Oxley Act, publicly traded companies with Audit Committees must implement procedures for receiving, keeping, and responding to complaints about accounting and auditing practices. Organizations are to develop processes for employees to submit anonymous complaints regarding questionable accounting or auditing matters.

A portion of the Act (Corporate and Criminal Fraud Accountability) created strict criminal penalties of up to 20 years imprisonment, fines, or both, for intentionally destroying, altering, or falsifying documents relating to any departmental or agency investigation or any bankruptcy filing. The provisions are broad and apply to documents that are used in any investigation or "proper administration" of any matter within the jurisdiction of any department or agency of the federal government.

The key for employers is that while most of the Sarbanes-Oxley Act of 2002 is directed at boardrooms, auditors, and analysts, some provisions have a direct impact for employers. With the number of corporate scandals recently, employers should continue to create a culture where employees are encouraged to raise concerns about business practices with the confidence that they will face no retaliation in response.

(Special recognition to Barran Liebman for the main content of this article.)

THOUGHTS TO THINK ABOUT

"Vivir con miedo es como vivir a medias." "A life lived with fear is a life half lived."

- Spanish saying

Everybody thinks of changing humanity and nobody thinks of changing himself.

- Leo Tolstoy

Experience tells you what to do; confidence allows you to do it.

- Stan Smith

The art of progress is to preserve order amid change, and to preserve change amid order.

- Alfred North Whitehead

A leader is a dealer of hope.

- Napoleon

HOW CAN HR BE A STRATEGIC PARTNER IN YOUR ORGANIZATION?

By Judy Clark, SPHR, and Terri Ano, SPHR, Ph.D

It is critical to the success of an organization that HR be involved as a strategic partner. Unfortunately, some organizations are slow to incorporate this philosophy into their decision making process. They “forget” to invite HR to the strategic planning sessions – effectively preventing them from having a “seat at the table.” If you find yourself being left out of the strategy sessions, you may need to beef up your skills as a strategic partner and increase the positive impression of your contribution. Here are a few things that you can do to increase your value as a strategic partner.

1. Read business publications. While it is important to keep up on your HR reading, it is also critical to understand the business climate. In order to effectively assist your management team, you must understand the business, the world in which the business operates and the trends which will affect the business. Some suggestions might be: Fast Company, Inc. Magazine, Harvard Business Review, Forbes, Washington CEO, Oregon Business, and various e-zines.
2. There are two things that HR can do as a strategic partner: a) understand your organization’s plan for the future and help it get there, and b) remedy current concerns. It is critical that you have a handle on both the current and the future of your organization. You can accomplish this by asking questions, reading/understanding the organization’s finances, and being fully versed in any business or strategic plan.
3. Learn to tie HR strategies to the bottom line. Organizations only have two assets: money and people. They tend to spend a lot of time managing their money, but not much time managing their people (who make and spend the money!!!). Any HR program that enhances the effectiveness of people can, therefore, be tied to the bottom line.

As an example, consider training as a strategic endeavor. Supervisors’ and managers’ effectiveness can be viewed as the key to whether or not employees are truly “engaged” or just “showing up.” Most managers don’t know how to help employees make the shift from showing up to engaged. Training can dramatically impact this process. The result (remember, tie it to the bottom line) is:

- Increased productivity (this is an easy sell).
- Reduced turnover (remember turnover costs the organization approximately 1.5 times the person’s annual salary).
- Higher morale (this is priceless – but also affects both of the above).
- Lower employment claims (wrongful termination, harassment, hiring claims due to less turnover, and others). Just point out some statistics regarding the latest multi-million dollar lawsuits and watch their eyes widen.
- Better safety record (there are lots of lost time statistics out there to help you assess the direct costs of on-the-job injuries). An indirect cost is the impact on your workers compensation insurance premiums.
- Increased creativity and energy (hard to measure, but definitely has an impact).

In a world where everyone has the same access to technology, information and capital, the only differentiator is the organizational talent. Thus, the effective management of people (the “stuff” of HR) is the key to an organization’s success.

Go forth and get that seat at the table – your organization needs you there!

Q & A

WHAT DO YOU KNOW ABOUT THAT?

By Steve Myhre, SPHR

In our last article we asked our readers to respond to this question:

In an effort to minimize the potential for sexual harassment claims, is it a good idea to implement a “no dating” policy? Why or why not?

We received some really great reader feedback. In fact, one reader, Karyl Allen of Serenity Lane, put it especially well:

A: A “no dating” policy? How about a “no sports” policy? After all, you might injure yourself and then there’d be all those pesky leave laws to deal with, not to mention ADA.

Trying to monitor non-work related activities is, in its nature, inviting even more harassment and/or discrimination issues.

How do you define a “date?” Between members of the opposite sex? Between members of the same sex? Meeting after work for a drink with several co-workers? Meeting after work for a drink with only one co-worker? A “no dating” policy would make Human Resources or managers or supervisors the “dating police,” detracting from more important issues and not addressing the real issue of sexual harassment.

Have a strong, clear sexual harassment policy that is enforced consistently, and immediately address, investigate, and resolve all sexual harassment complaints - no matter what situation is the underlying basis of the complaint.

For managers and/or supervisors, I would strongly discourage social interactions outside of work or work-related functions between them and the employees who report directly to them. This is based on a business need of managers/supervisors being required to make business-related decisions based strictly on business-related criteria.

Thanks, Karyl. We couldn't have said it better ourselves.

For our next article our question to you is:

Q: With all the dangers of an employee handbook being construed as a contract, are there times when it is best to just not have one?

Email your answer to me at smyhre@hrnorthwest.com. In our next issue I'll share some of your responses. Please let me know if you'd rather your name not be shared (which I would only do anyway if it made you look good!).

KEY MANAGERIAL COMPETENCIES

By Deborah Jeffries, CPC, PHR

Managers and supervisors have many roles and responsibilities. When measuring their success and evaluating their performance, there are many competencies and abilities an organization should consider. Especially those new to the position may be uncertain what they are responsible for. Take a look at the following list.

A. Managing Others:

- Set high but achievable performance goals for supervised employees; give clear expectations.
- Reward/recognize both individuals and teams for their accomplishments in a timely manner.
- Listen effectively; invite discussion; ask for feedback.
- Monitor employee performance against productivity and quality standards/goals.
- Build a strong employee team that is mutually supportive of one another.
- Show a sincere interest in employees; keep each employee well informed.
- Resolve conflicts effectively among employees.

B. Managing Self:

- Set goals for professional development.
- Work well under pressure (tolerate stresses of job); stay calm and objective.
- Act with credibility, integrity, and consistency; deliver on promises; “walk-the-talk.”
- Show flexibility in adapting to changing work needs or trying new methods.
- Be open to influence; be willing to consider the suggestions of others.

C. Problem Solving and Decision Making:

- Define a problem fully, precisely, and logically.
- Formulate a clear, specific action plan or set of recommendations.
- Evaluate/critique rigorously the chosen course of action.

D. Working with Others throughout the Organization:

- Communicate accurate information up, laterally, and down in a timely fashion.
- Negotiate daily working agreements with other supervisors/managers.
- Work effectively with other supervisors.

E. Business Skills:

- Implement changes initiated by organization.
- "Pitch-in," as needed, to be sure the job gets done.
- Find or create opportunities to advance the business plan.

F. Technical Skills:

- Be knowledgeable of the technologies in assigned area, including forthcoming innovations.
- Know emergency procedures.
- Be sufficiently computer literate.

G. World Class Competitiveness Competencies:

- Communicate vision and philosophy of continuous improvement and exceeding customer expectations.
- Collect/use customer (external and internal) expectations data in the decision making process.
- Encourage/ask for employee input on decisions and for improving processes; seek buy-in.
- Lead team meetings and efforts to improve processes.
- Trust employee judgment; allow them the right to succeed or fail.
- Act promptly on employee suggestions.
- Measure/chart section or unit progress and customer satisfaction for all to see.
- Take action to simplify work processes to respond faster to customer requests.

HR NORTHWEST CALENDAR

Open up your daytimers, computer calendars and palm pilots. The following is a look at upcoming events, special days and other diverse and fun activities you will want to be aware of and get scheduled. To register for our workshops, please call any of our offices, send an e-mail to Susan Jeffries at sjeffries@hrnorthwest.com, or just register online at www.hrnorthwest.com under Consulting services.

NOVEMBER

American Diabetes, Lung Cancer Awareness, National Adoption, and Peanut Butter Lovers' Month

November 8 Pursuit of Happiness Week

November 11-17 American Education Week

**November 12 HRN Workshop - Puget Sound
Introduction to Safety Programs
8:30 - 12 noon**

November 12 HRN-sponsored Women in Business
Event
Oregon Convention Center
Tickets \$30 by calling 503-885-9815

**November 13 HRN Workshop - Portland
Keys to Supervisory Success
8:30 - 12 noon**
Please note change in venue for this program!

**November 14 HRN Breakfast Briefing - Puget Sound
Compensation - What's Hot, What's Not
7:30 - 9:30 a.m.**

November 21 Great American Smokeout

November 28 Thanksgiving

November 28-29 HRN Offices Will Be Closed

November 30 Hanukkah Begins

DECEMBER

No Workshops - On Hiatus

December 25 Christmas - HRN offices Will Be Closed

ON MY SOAPBOX

The holiday season is drawing closer. It's the one time of year when I see advertisements for "coffee table" books. If all other ideas fail, perhaps he/she needs (or would at least appreciate or look at) a lovely large book dedicated to a single topic of interest. There are so many to choose from. In fact, it's when examining these that you learn how many hobbies, interests, and unusual subjects have been captured in their full glorious color just for display.

There are books on virtually every war, animal, car model, state, country, etc. There are exotic ones covering little known territories, objects, and species. There are elegant ones obviously done by designers intent on giving us at least one classy item in our homes.

While different, there is some similarity between the breadth of coffee table books and magazines that populate the lobbies of business offices. I certainly wouldn't classify myself as an expert, but I have visited lots of offices and had the chance to wait in many lobbies for a few minutes. This gives me time to peruse the magazines displayed on the tables.

There are usually some of the general business magazines. You know, those traditional five or six that are seen everywhere. I am surprised by how seldom I see *B2B* or *Fast Company*. It may be that these are being squirreled away by people reading them cover to cover who don't wish to run the risk of them being lost or taken. But in addition to these, there are often some trade journals not seen in every office. They may pertain to manufacturing, retail, not-for-profit, or other industry specific operations. I have had the chance to scan periodicals about fishing, apparel sales, wholesaling struts, power washers, homeopathic remedies, and a host of others that I never imagined existing.

The great value of this is the occasional article that provides insight or stories that would never be encountered if it weren't for those few minutes waiting in the reception area. I found one in *CFO* magazine about the President of an eastern power generation company who used teams of employees selected at random to make major company decisions. The teams were provided financial support, educational programming about the project they were assigned, and told to study, learn and recommend a course of action for the company. The CEO commented that his peers thought he was "nuts", but he could point to several very positive outcomes as a result of this process. He thought it generated commitment, increased understanding of the business operations, and far more skilled employees. I have shared that story often in my training programs as an example of empowerment and capability development. It is one of my favorite magazine finds.

And then there was the article entitled "Grateful Faces in our Nation." The anecdotes were about people who had endured great hardship but could only talk about all the individuals who had reached out to help them. It was a small piece in an obscure magazine, but it packed a substantial emotional impact. I am better because I got a few minutes to read it.

There is much to learn, new points of view, broader perspectives to gain, and even just a few moments of quiet to be had by picking up an unfamiliar magazine. I never know what I might find there. It's a little like panning for gold and discovering a wonderful nugget under all the sand and gravel.

There is one caveat – if it's a barbershop, a hair salon, or a doctor's office, please don't blame me if all you can find is only the latest on the soap operas, clothing, make-up, or the best way to be "buff." And if it isn't that, it appears to be at least a few months out of date. I don't know who buys their subscriptions, but they are certainly looking for something different than I am.

- Judy Clark, President



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