

August 21, 2007

Review and Refinement of the Compensation Program

Report of Findings and Recommendations

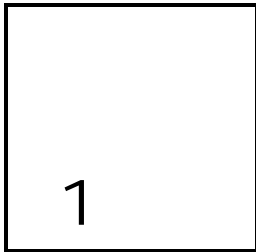
Shawnee State University

MERCER

Human Resource Consulting

Contents

1. Purpose and Objectives.....	1
2. Market Benchmarking Methodology.....	3
3. Market Study Findings.....	5
4. Pay Structure Review and Redesign.....	7
5. Job Evaluation.....	8
6. Program Implementation	10
7. Pay Guidelines and Program Maintenance	14
8. Executive Plan Administration	18



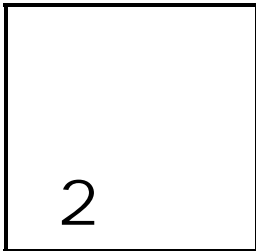
Purpose and Objectives

Shawnee State University (SSU) engaged Mercer Human Resource Consulting (Mercer) to conduct a review of the current compensation program for Administrative Technical Support Staff (ATSS), Administrative Staff, and Executives. The current program, which was adopted in 1989, had not been comprehensively reviewed for a number of years and concerns existed over the market competitiveness of salaries and the degree to which the existing evaluation methodology for grading the jobs adequately captures the market.

The goals of the study were to accomplish the following:

- A market analysis of a series of benchmark jobs representing various families, levels and departments throughout the University;
- A competitive assessment of the University's current salary practices and the pay structures in relation to the market findings;
- Redesign of the current pay grades and ranges to support the University's overall pay policy position;
- Development of a market based job evaluation methodology to establish a stronger linkage to the external marketplace;
- Review of the positions for appropriate placement within the grading hierarchy to ensure external and internal equity;
- Review of selected pay policies with recommendations for changes, where appropriate, to support the compensation program;

- Development of an implementation plan to determine the financial impact of adopting changes;
- Inclusion of a Compensation Advisory Committee made up of administrators and administrative technical support staff in order to:
 - Solicit their input on various compensation related issues;
 - Involve them in reviewing draft data and providing feedback at key junctures;
 - Engage them in conducting research on a variety of policy topics of interest to the overall population.



Market Benchmarking Methodology

Shawnee State University and Mercer identified approximately 100 jobs to benchmark against the market. These benchmarks covered jobs within the ATSS, Administrative, and Executive groups. It was determined that external salary data would be gathered from the higher education surveys as well as general industry survey publications for those jobs where the recruiting markets are not limited to higher education.

At the beginning of the study, the University and Mercer discussed how the jobs would be priced in terms of industry and geography. The goal was to market price each job to reflect the job's typical recruiting market. For higher education specific jobs, the College and University Professional Association (CUPA) surveys were utilized. For CUPA's Administrative Compensation Survey and Mid-Level Professional Survey, comparisons were made to public institutions with budget sizes that were similar to SSU and those which SSU could conceivably aspire to reach. Many of the Administrative jobs and all of the Executive jobs were market priced from the CUPA surveys.

General industry surveys were used to market price those jobs where the recruiting markets are not restricted to higher education. The majority of ATSS jobs and several of the Administrative jobs were market priced from the general industry surveys. Data from these surveys reflected the geographic region largely encompassing Ohio and in some cases, the surrounding states of Kentucky and West Virginia.

Based on a review of the job descriptions and the availability of comparable survey jobs, 14 ATSS jobs, 74 Administrative jobs, and 10 Executive jobs were benchmarked. The salary data collected by Mercer is reflective of actual base salaries paid by organizations at the 50th percentile (median). For comparative purposes, data was also gathered at the 25th and 75th percentiles, where available; however, the 50th percentile is the point that the vast majority of organizations compare to.

In instances where salary data was gathered for a job from more than one survey, the data was averaged across the surveys to arrive at an overall composite market rate. It is the composite market rate at the 50th percentile (median) that serves as the point of comparison for each job priced. Market summary profiles have been previously provided to the Compensation Advisory Committee (CAC) for review and feedback.

The following survey publications were used in gathering external pay data. All market data was aged to a common date of July 1, 2007 to reflect current information.

Source Abbreviation	Survey Publisher	Survey Name	Survey Date
ADMIN-CUPA-07	College & University Professional Association	Administrative Compensation Survey	10/15/2006
MID-CUPA-07	College & University Professional Association	Mid-Level Administrative and Professional Compensation Survey	10/15/2006
MBD-MER-06	Mercer Human Resource Consulting	Benchmark Database	3/1/2006
SAL-ERI-2006	Economic Research Institute	ERI Salary Assessor	10/1/2006
CUST-SSU-07	Shawnee State University	Portsmouth & Scioto County Pre-School Custom Survey	1/1/2007
TRIO-COE-05	Council for Opportunity in Education	TRIO Salary Survey	2/1/2005
OFC-WYA-06	Watson Wyatt Data Services	Report on Office Personnel Compensation	1/1/2006
PAS-WYA-06	Watson Wyatt Data Services	Report on Professional Administrative Services Personnel Compensation	3/1/2006
PSS-WYA-06	Watson Wyatt Data Services	Report on Professional Specialized Services Personnel Compensation	3/1/2006
SUPV-WYA-06	Watson Wyatt Data Services	Report of Supervisory Management Compensation	2/1/2006
TECH-WYA-06	Watson Wyatt Data Services	Report on Technician & Skilled Trades Personnel Compensation	1/1/2006

3

Market Study Findings

In assessing the competitiveness of SSU pay practices, Mercer compared actual base salaries for single incumbent positions and the average of actual base salaries for multiple incumbent positions to the market. For each job, competitive ratios were computed and then aggregated across all of the jobs to arrive at an overall market competitiveness composite for the University. Competitive ratios were computed as follows:

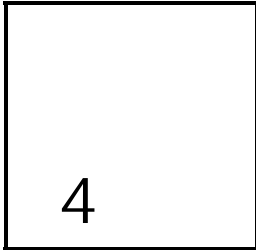
- $\text{Average Base Salary Ratio} = \text{Average SSU Salary} / \text{Market Median Salary}$

The results of the market analysis revealed the following:

- When compared to market median salaries (50th percentile), SSU salaries paid are competitive with market.
- In aggregate, the competitiveness of actual pay practices is at 95% of market median.
- The market competitive results have been previously provided.

While actual salaries, in aggregate, were found to be competitive with the market, competitiveness did vary among the jobs ranging from 65% to 136%. However, it is not unusual for individual salary ratios to vary from market median. The credentials of each employee in terms of knowledge, skills, experience, and performance history are all factors that influence where the salary of an individual is set. It is not uncommon for salaries of inexperienced employees who are in a learning mode to be paid more than 20% below market median. Conversely, it is not atypical for employees who are highly experienced with strong skills and excellent

performance to be paid 20% or more above market. That is why organizations establish salary ranges in order to accommodate these variations in skills, knowledge, and experience.



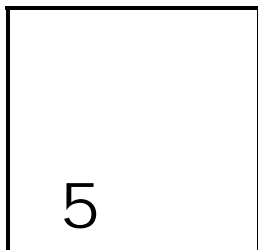
Pay Structure Review and Redesign

As part of the study, Mercer reviewed the current pay structures for ATSS, Administrative, and Executives for design soundness. The fact that there are 11 grades for the ATSS group and 15 grades for the Administrative group poses a concern because of the fine-line distinctions that have to be made between jobs that otherwise would be assigned to the same grade. The excessive number of grades, coupled with the fact that the existing ranges for the ATSS group were relatively narrow, has led Mercer to recommend the development of new pay structures for the ATSS, Administrative, and Executive groups. The characteristics of the new pay structures may be described as follows:

Employee Group	Number of Grades	% Midpoint Progression	Range Width
ATSS	5 grades (20-24)	11-13%	40-50%
Administrative	11 grades (40-50)	10-14%	45-65%
Executive	4 levels (E1-E4)	11-7%	65-70%

For the executive structure, the midpoint progression does not follow a smooth progressive build up due to the fact that the structure applies to only 10 jobs. In this case, the goal was to develop ranges that would capture the market for the 10 executives that were market priced.

The proposed pay structures have been previously provided and reviewed by the CAC, members of the University Administrative Assembly (UAA), Human Resources, and the Executive Cabinet.



Job Evaluation

Following completion of the market analysis and development of the pay structures, a job evaluation methodology was devised based on a market driven approach. This represented a departure from the current point factor method of evaluation that the University had been using. Under a point factor approach, the jobs are rated on a series of compensable factors which then determines where the jobs are graded. While the existing point factor plan had operated relatively well over the years, the relationship to market had eroded to the point that a change in the evaluation methodology was advised. Mercer therefore recommends moving to a market driven evaluation system so that the placement of jobs more appropriately reflects how the market would rank them.

Utilizing the market based approach, each benchmark job was placed in a grade where the range midpoint fell in close proximity to the job's market median salary. With the benchmarks having been equitably placed in grades, a comparative framework was established for slotting the non-benchmarks. Each non-benchmark job (i.e. those where external market data could not be collected) was then evaluated in relation to the benchmarks to determine where it should be placed. Internal equity factors largely dictated where a non-benchmark would be assigned.

To facilitate the process of slotting the non-benchmark jobs, Mercer developed a job evaluation tool consisting of several compensable factors. This serves as a factor comparison tool enabling a non-benchmark job to be compared to a benchmark. Depending on how a non-benchmark job relates to a benchmark job will determine where it is graded within the structure. While the majority of non-benchmarks can be comfortably slotted based on their relationship to one or more benchmark jobs, this slotting tool will enable unique non-benchmark jobs to be objectively evaluated for grade assignment following a more structured process.

Mercer and University HR worked collaboratively in reviewing all of the job descriptions to determine where the jobs would be graded. In some cases, jobs were reviewed a second and third time to ensure that they were appropriately recognized for their level of responsibility. It is important to note that this evaluation process focused on the jobs and not the employees in the jobs.

The proposed evaluation methodology will result in better alignment with the market while continuing to recognize the importance of internal equity.

6

Program Implementation

With the jobs having been placed in grades, it was important to review the current salaries of employees in relation to the new proposed salary ranges. To ensure objectivity and consistency in determining whether any pay adjustments may be required, Mercer developed an implementation plan. The first priority under the plan is to ensure that no one is paid below the range minimum for the grade to which the job has been assigned. Secondly, recognizing that salary compression is a concern, it was determined that some recognition should be given to employees for their years of experience in their current jobs with SSU.

Salary compression is an issue that many organizations face especially if their compensation programs have not been retooled for a number of years. Salary compression can occur from new employees being hired in at rates that may be near or even exceed that of current employees in the same job or comparable jobs. It can also occur as a result of existing employees not moving through the range at an adequate pace. This plan serves to ensure that the results are implemented in a consistent manner while also lessening existing salary compression among employees.

The implementation model proposed by Mercer may be described as follows:

- Raise any employee to the newly established minimum whose current salary (inclusive of any pay increase awarded on July 1, 2007) is below the minimum of the new range;
- Extend in-range credit to those employees for a defined number of years of experience in their current jobs with SSU;

- Do not decrease the current salary of any employee regardless of where it falls in relation to the new salary range.

Under the proposed model, Mercer recommends that 1/20th of range penetration be credited for each full year of experience up to 10 years. This means that for any employee with 10 or more years in the current job, a salary at the midpoint of the range will be projected. For those employees with fewer years of experience, their salaries will be projected at a point between the minimum and midpoint based on the formula (e.g. the model would project a salary at the first quartile of the range for an individual with five full years of experience). If the model predicts a salary that is less than what the individual is currently making, the person would retain his or her current salary—i.e. the employee would not receive any pay increase nor would his or her salary be decreased.

It is important to be aware that pay adjustments have not been recommended for those employees whose current salaries are above the proposed range midpoints. While it could be argued that adjustments should be extended to significantly experienced employees whose salaries are above the midpoints, Mercer advises that this not be done for a couple of reasons. First, the new salary ranges have been set so that the midpoints are aligned with market median. By definition, salaries at or above the midpoints are already competitive with the market. Secondly, it is recognized the University has a finite amount of funds that may be used for this implementation. It is therefore suggested that funds be targeted to those individuals whose salaries are not competitive with the market.

Assuming this model is adopted, the impact may be summarized as follows:

- 20% of employees (26/133) will receive pay adjustments
- The average increase for those receiving an increase is 8%
- The total cost for this implementation is projected at \$103,520, which when expressed as a percent of current payroll, is 1.6%

NOTE: This cost assumes the results would be implemented retroactive to July 1, 2007. Should the University decide to implement this later in the year, the cost, when assessed from a cash flow standpoint, would be less since the new salaries would cover only a portion of the 2007/08 fiscal year.

Appeals Process

As part of the implementation, SSU should establish an appeals process to give employees the opportunity to have their jobs reexamined in instances where they feel their grade assignment may not have fully captured their level of responsibility. Mercer recommends, however, that procedures be established to constitute what may be appealed so that appropriate time and attention can be given to addressing those situations where legitimate and justifiable concerns exist.

Mercer advises that the following process be established to govern the appeals process:

Responsibility for reviewing the appeals

It is advised that an appeals committee be formed. The University may wish to consider using the Compensation Advisory Committee or a subset of the committee to handle the appeals.

What may and may not be appealed

- The grade assignment may be appealed if the employee feels:
 - The current description did not adequately convey the level of responsibility, scope of work, degree of complexity, or level of knowledge, skill and experience needed.
 - The position is very comparable to one or more positions that were assigned to a higher grade.
 - The duties and responsibilities have substantially changed from the time that the description was reviewed for grade placement.

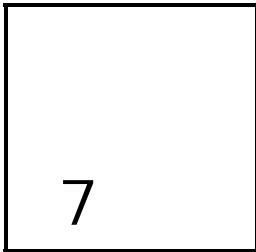
- The grade assignment may not be appealed if the employee:
 - Is dissatisfied with the outcome and wishes to appeal on that basis without presenting justifiable reasons.
 - Disagrees with how the job was benchmarked against the market (assuming it was benchmarked).
 - Is displeased with the salary range to which the position has been assigned.
 - Is unhappy with the how the results are being implemented and how salary adjustments are determined.

Submitting an appeal

- Written appeals should be required. An appeals form should be developed which can be completed by the employee. An updated questionnaire should be completed, if needed, and submitted with the form to support the employee's reason for appeal.
- The appeals form should be routed to the supervisor and the next level of management for review and comment and then forwarded to Human Resources.
- A timeframe should be established for submitting appeals. Mercer recommends that employees be given up to three weeks to file an appeal once the results are announced.

Reviewing the appeals

- The Appeals Committee should review written appeals and any supporting documentation that is provided. At the Committee's discretion, follow up with the employee and/or supervisor may take place if clarification is needed. However, Mercer does not recommend that employees meet with the Appeals Committee to present their arguments.
- The Committee should prepare a written response to each appellant and his/her supervisor indicating the findings. Appeals should be reviewed and resolved in a timely manner.
- Mercer recommends that the Committee's decision be final. However, if the University wishes to establish a second level of appeal, it is suggested that the President or the President's designee serve in this capacity.



Pay Guidelines and Program Maintenance

As part of the study, Mercer was asked to provide recommendations on the following:

- Promotions and Reclassifications
- Starting Salaries
- Program Maintenance Procedures

Promotions and Reclassifications

The current policy states that if an employee's current salary is above the midpoint, he or she will receive a 3% increase per grade. However, if the current salary is below the midpoint, then the salary will be adjusted to the same level of range penetration in the new grade that was held in the lower grade. While granting larger pay increases to those employees below the midpoint versus those above the midpoint is not unreasonable, there may exist too much of an increase differential between the two as the policy is currently written. The policy of granting 3% per grade when the salary is already above the midpoint is too conservative unless the person's salary is so high that a pay adjustment would place the salary above the new range maximum. Furthermore, 3% for each grade will further compound the problem for actions involving two or more grades given that the differential between the midpoints in the new structures exceeds 10%. Another concern to consider is that when the salaries of two employees are fairly close to the midpoint but

one happens to be slightly below the midpoint while the other is slightly above, the resulting percentage adjustments could be noticeably different thereby creating potential pay equity issues.

Best practices would suggest that when an employee moves to a higher grade, the salary should be set at a somewhat lower level of range penetration. This is because the person would not be expected to have the same level of knowledge and understanding in the new or redefined job as he or she had in the previous job. The fact that the individual currently retains the same level of range penetration in the new grade if the salary is below the midpoint may be a little too aggressive for moves of two or more grades. For one grade moves, this may be acceptable since setting the salary too low in the range may create future problems in getting the salary to a competitive level within a reasonable period of time.

In view of these observations, consideration should be given to the following policy. This policy will continue to incorporate the principles you now have but will be fairer to all employees while also giving management some flexibility to determine the specific pay increase based on the circumstance of each situation. This policy will also support the new pay structures given their design.

Proposed Promotion/Reclassification Policy

When an employee is promoted or reclassified to a higher grade, the pay treatment shall be as follows:

	<i>Salary Below Midpoint</i>	<i>Salary Above Midpoint</i>
<i>For a One Grade Change</i>	8-10%	6-8%
<i>For a Two Grade Change</i>	14-16%	12-14%
<i>For a Change of Three or More Grades</i>	20-24%	18-22%

The additional 2% may be awarded above the fixed amount subject to the review and approval of the respective Vice President. This will permit some degree of discretion in the promotional policy to address special circumstances that invariably arise from time to time (e.g. pay equity, supervisory compression, etc.).

The application of this policy would be subject to the minimum and maximum established for the range. As a result, if the increase is not sufficient to bring the salary to the minimum, then the salary would be adjusted to the minimum. Conversely, if the increase results in a salary that is in excess of the maximum, then the salary would be adjusted to the maximum.

Starting Salaries

Determining the starting salaries of new employees can be challenging given supply and demand factors, the skills being sought, the qualifications of the applicants, the timing of the recruiting, and the relationship to other employees in the same job and/or grade. As a general rule, most organizations will establish some degree of latitude when setting starting salaries to take into account market conditions and the credentials of the new employee. In no case, should the minimum of the range be considered a starting rate unless the candidate's qualifications only satisfy the minimum requirements and the salary offer is sufficient to attract the individual.

In most cases, starting salaries should be set, if possible, between the minimum and first quartile of the range. However, when the candidate possesses strong qualifications, it would not be uncommon to set the starting salary up to the midpoint of the range. It is important to keep in mind that the midpoint of the range equates to median pay in the market. Therefore, when recruiting a highly qualified applicant for the job, a salary offer above market median would likely be required.

It is suggested that an approval process be established for salary offers above the first quartile of the range to ensure that they can be supported and justified. The following represents one possibility for establishing an approval process:

- Salary offer between first quartile and midpoint—requires approval of the respective Vice President;
- Salary offer above midpoint—requires approval of the Vice President, with concurrent formal review by HR in order to assess consistency in the application across the institution;
- Salary offer above third quartile—requires approval of the President.

Documentation should be provided to support salary offers above the midpoint along with the review of existing employees within the same grade with similar levels of education, skills, and experience.

Program Maintenance Procedures

In order to maintain the compensation program going forward, the following is recommended:

- With a market based form of job evaluation, the benchmark jobs should be priced at three year intervals to ensure they are properly aligned with market and assigned to appropriate grades within the structures. Market pricing may be required at more frequent intervals in situations when the University is experiencing recruiting and retention problems or when a new position is being created and there is a need to benchmark it.
- When a new position is established or in cases when an existing position significantly changes, it is recommended that an attempt be made to secure market data, if possible. Having market data will be very useful in determining where the job might be placed within the grading hierarchy. However, if the job cannot be benchmarked, it should be compared to other jobs within the same job family or level within the University and be slotted to an appropriate grade that will achieve internal equity. The job evaluation slotting tool can be used, when needed, to aid in the process of slotting the job.
- The salary structures for each group should be adjusted on an annual basis in conjunction with the established University policy for across-the-board pay adjustments. Range minimums, midpoints, and maximums should be increased by the same amount. Typically, the amount that salary structures are adjusted tracks closely with inflation. However, Mercer recommends that SSU stay abreast of external salary planning information that is published annually by several sources in which organizations across the country report percentage adjustments to their salary structures. Mercer conducts a comprehensive compensation planning survey every year and will be pleased to provide information regarding salary structure movement to SSU upon request. As a point of note, structure adjustments have been averaging 2.5 to 3.0% for the past several years although this is no guarantee that future increases will continue to follow this pattern.

8

Executive Plan Administration

It has been Mercer's experience that for executive level positions, the salary program is frequently different from that of administrative and professional positions. This is not to suggest that one group would be at an advantage or disadvantage to that of the other group. Rather, it is to recognize that not all jobs are the same and that compensation programs sometimes need to be tailored to better meet the needs of each group. For example, the pay structure for executives is often established without grades so that each executive position has its own salary range. In this study, Mercer created four executive levels and placed the executives in a range that best capture their relative value in the external market. For those executives whose market values were very similar, they were placed in the same salary range.

Another distinction between executives and other administrative positions is that executive salary increases are frequently driven by performance. Consequently, it is not uncommon for an appraisal process to be established based on goals and competencies. The employment relationship is another area where a distinction may exist for executives.

To address these distinctions, the SSU Board of Trustees instructed the President to direct Mercer to recommend appropriate compensation and employment policies for executive positions. This work is underway and is targeted for completion by December 2007.

Respectfully Submitted by:



Scott A. Cook

8/21/2007

Date

MERCER

Human Resource Consulting

Mercer Human Resource Consulting, Inc.
462 South Fourth Street, Suite 1500
Louisville, KY 40202-3415
502 561 4500