**Scenario-Based Questions on Base Pay Structure (EcoSip Case Study)**

**1. Pay Compression Issue**

**Scenario**:  
EcoSip hires a new Sales Manager at 85K/year, while tenured managers with 5+years of experience earn 85*K*/*year*, *while tenured managers with* 5 *of experience earn* 80K. Morale drops as veteran employees feel undervalued.

**Question**:  
How would you address pay compression while maintaining budget constraints?

**Solution**:

* **Equity Adjustment**:
  + Conduct a **market salary benchmark** for sales managers (e.g., Pay scale data).
  + Increase tenured managers’ pay to **$87K** (aligning with new hires + tenure premium).
  + Offset costs by **delaying non-essential hires** for 6 months.
* **Non-Monetary Recognition**:
  + Offer **additional PTO** or **flexible work options** to acknowledge loyalty.

**2. Geographic Pay Disparity**

**Scenario**:  
Remote customer service reps in low-cost areas earn 20/hour, , *while those in high*−*cost cities* (*e*.*g*.,*San Francisco*) *demand* 30/hour for the same role.

**Question**:  
How would you structure pay to ensure fairness across locations?

**Solution**:

* **Tiered Pay Bands**:
  + **Base Pay**: $20/hour (national median).
  + **Location Premium**: +$5/hour for high-cost cities (adjusted annually using CPI data).
  + **Performance Bonus**: Up to $3/hour for top performers, regardless of location.
* **Transparency**: Publish pay ranges in job postings to manage expectations.

**3. Skill-Based Pay vs. Tenure**

**Scenario**:  
A junior designer with cutting-edge sustainability skills (high demand) earns 60K, *while a senior designer without dated skills earns* 75K.

**Question**:  
How would you align pay with skill value without alienating long-term employees?

**Solution**:

* **Hybrid Pay Model**:
  + **Base Pay**: Tied to tenure (e.g., +3% annual raises).
  + **Skill Premium**: +$5K/year for certified skills (e.g., CAD, circular design).
  + **Upskilling Path**: Fund senior designer’s training to close skill gaps.
* **Communication**: Frame it as “investing in growth,” not penalizing tenure.

**4. Hourly vs. Salaried Inequity**

**Scenario**:  
Warehouse staff (hourly, $18/hour) work overtime to meet Luxe demand but see no path to salaried roles with benefits.

**Question**:  
How would you create equity between hourly and salaried employees?

**Solution**:

* **Career Ladder**:
  + Define a **“Lead Warehouse Associate”** salaried role ($45K/year + benefits) for top performers.
  + Offer **profit-sharing** (e.g., 2% of cost savings from efficiency gains).
* **Overtime Alternatives**:
  + Compress workweeks (e.g., 4x10-hour shifts) to reduce overtime costs.

**5. Executive vs. Employee Pay Gap**

**Scenario**:  
Employees discover the CEO’s 500K salary is 20 x the median worker’s pay (500*K salary is* 20*x the median worker*’*s pay* (25K), sparking backlash.

**Question**:  
How would you justify or adjust executive compensation to restore trust?

**Solution**:

* **Equity Measures**:
  + **Cap CEO Ratio**: Reduce to 10:1 ($250K CEO salary) and shift the rest to **performance-based stock options**.
  + **Profit Sharing**: Allocate 5% of annual profits to employee bonuses.
* **Transparency**: Publish pay ratios in annual reports with context (e.g., “Industry average: 15:1”).

**Key Takeaways for Base Pay Structure**

1. **Data-Driven Adjustments**: Use market benchmarks (e.g., Pay scale, Glassdoor) to justify changes.
2. **Balance Equity & Budget**: Tiered pay, skill premiums, and non-cash rewards can bridge gaps.
3. **Communication**: Explain changes in terms of fairness and growth opportunities.