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How to Decide What People Get Paid: Secrets from the CompDoctor™

A Compilation By
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ARTHUR J. GALLAGHER & CO | In cooperation with IPMA-HR

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INTRODUCTION

This book is a compendium of the CompDoctor™ articles authored by Jim Fox and Bruce Lawson, Managing Directors of Arthur J. Gallagher & Company's Public Sector and Higher Education Compensation Consulting Practice, over a period of more than 10 years. We have also included other selected articles that Jim and Bruce have written that, while not responses to specific questions, provide insight into significant human resource issues such as determining whether your compensation program really is "Out of Whack" and, if so, to what degree.

All of the articles found in this publication are written in a "tongue in cheek" style, but eventually the articles unfold some real pearls of wisdom that you can use. So, as a word of caution, if you are easily offended, you cannot say you weren't warned.

PAY STRATEGY

Ronnie E. Charles, IPMA-SCP, Principal Consultant, Arthur J Gallagher, HR & Compensation Consulting

Pay strategies are essential in attracting and retaining a well-qualified workforce and serve to align competiveness in the market, affordability and are used to control labor costs. It is important to know that these strategies are initially derived by the establishment of a formal "Compensation Philosophy". Does your agency have one? Hopefully you do but if not, now is the time to make it happen because it is extremely important. Generally speaking, compensation philosophy defines the upper echelon of strategy. For example, does your agency desire to lead, lag, or match the competitive market? In this question I am not just talking about direct cash but also benefits. Another question of value is how and if performance management will be integrated in the pay system. Pay strategies define and execute how the agency / organization defines the total reward system.

We know, based on our experience, that because of the new economy of work and other constraints, pay strategies do not remain stagnant. Rather, they must become fluid and be periodically checked for effectiveness. In this section, the authors provide articles full of tips for HR professionals to stay on top of this issue and continue to add value in the complicated world of compensation management. Knowledge candy….why not treat yourself?

WHY DO WE HAVE A PAY STRATEGY?

Question: I keep hearing that we should have a pay strategy. We just want to attract, motivate and retain good employees. Why do we need a pay strategy?

CompDoctor™: Well, in one sense, you already have a pay strategy but you just didn't know it. You want to attract, motivate and retain good employees. The problem with what you have is that it is not very complete. In other words, how will you accomplish this goal?

One way might be placing very sticky paper on the entrance to the building, so that everyone who walks by will be stuck. Maybe while they are trying to get unstuck, you could put them to work, or at least try to convince them that working for you would be a wonderful thing.

Farfetched? Think about it. Using this method, you will have "attracted" them, "motivated" them to do the work so they can be let free, and certainly you have "retained" them. While we don't advocate this method of human resource management, we think you get the drift. In other words, you need to put some meat on the bones if you want to make the statement come alive, and if you plan on using it effectively as a communication tool.

Here is what we are talking about. A pay strategy is both a guideline and a communication tool. It should also be something that you can refer back to whenever you make decisions regarding your compensation program to ask whether or not the action will help you achieve your goal. Take the following sample statement that we have borrowed from a medium-sized suburban community:

> *We need highly talented staff to be able to excel at our mission and achieve our strategic goals. Our compensation system is designed to attract, retain and reward individuals that can build a successful service-based organization.*

This statement is a guideline because it says that this organization is looking for a certain kind of employee to help the city meet a specific need. This is helpful when department managers, or even elected officials pressure you to hire their cousin. In addition, it can be used as a communication tool to let potential and current employees know that you will use pay to reward employees who help the city fulfill its service objectives. Or, on the flip side, it can communicate that you are not interested in employees who want employment so that they can collect a paycheck, get vested in the retirement plan and "put steam on the mirror" for the next 20 years.

This is a nice starting point, but it still might not go far enough. How are you going to pay these employees? How will you determine what they are worth? And who is going to manage the system? How will you keep it up-to-date? You might want to incorporate these items into your strategy as well.

Here are some more examples from the same city. These next statements become the guiding principles for implementing the overall strategy stated above.

> ***Job Design:*** *We believe that both the city and its employees benefit when broad job classifications are established. Broader classifications enhance skill development and allow for greater mobility and flexibility within the organization. It will be our goal to establish broad job classes and job families whenever sufficient overlap in responsibilities and required skills exists*.

See? Now we are getting somewhere. This statement tells employees that you are going to design the job structure so that there are broad definitions of work. (Note, however, that the degree of broadness is not stated, so the city has some flexibility in the design). Thus, they have made a statement that says that every nuance of your job does not warrant a new classification and grade change.

They have also clarified that they believe such a design will allow for greater flexibility in job assignment and potential pay opportunities. Finally, if employees are caught up in having their own special classification description that details all of their duties and responsibilities, this may not be the organization for them.
But, so far, we have said nothing about how they are going to pay employees. So, a statement needs to be made about internal equity and external market competitiveness. They filled in the gaps nicely, with the following statements:

> ***Internal Comparisons:*** *We believe that positions within our organization with comparable responsibilities and decision-making authority should be paid similarly. We also believe that higher pay should be associated with greater responsibility and decision-making authority. Since we have many types of positions that cover a wide range of activities, we will use the Decision Band Method® of job evaluation as a tool to determine which positions are comparable and to establish an internal hierarchy of positions. The results of these internal comparisons form the basis of our compensation structure.*

This is quite clear. It outlines what is important for internal equity purposes and how this will be used to determine pay. But, it still needs more, which is identified in the next guiding principle:

> ***External Market Competitiveness:*** *It is important that our compensation plan is well positioned against the external market. We need to be able to compete with other organizations to attract individuals with established track records. We also need to be able to retain high performance employees and remove pay as a leading reason to leave our organization. For the purpose of evaluating external competitiveness, we will rely primarily on cities in our state and the neighboring states that are of a similar size, character of organization, services provided, per capita income and other similar community characteristics. The local labor market will be used primarily to determine the market competitiveness of labor/trades/clerical and other non-exempt jobs. A local and regional market will be used primarily for professional and technical jobs. A local, regional and broader market will be used primarily for managerial jobs. Adjustments for the cost of living will be made to normalize the market data to the city's economy.*

Now, this is all coming together. The statement says how they will define attraction, (those with established track records) and how they plan to retain employees (by paying them at a certain level of competitiveness). What they don't say may be just as important. That is, that they will not chase the highest paying employer in the market but, rather, that it will pay an average of the market. Further, they are not interested in state data, or private sector data, or cities that are unlike them. Finally, if they are in a low-cost economy, they will not survey the highest paid employers and adopt their pay levels. Clearly, they have provided some very good direction and guidance to current and potential employees.

They went even further with this and we think the next few guidelines really help to put some boundaries on the entire system. Read on:

> ***Salary Ranges:*** *Based on the guiding principles outlined above, positions will be placed into a system of pay ranges. The size and shape of the ranges will be determined by the market data collected. The target will be to place the midpoint of our ranges at the 50th percentile of the market for similar work performed in the benchmark communities.*
>
> ***Progression Within Salary Ranges:*** *An employee's salary movement through their respective salary ranges will be based on an evaluation of their performance conducted on an annual basis.*

So, here in these two guidelines, they have stated that they are not going to be the highest payer in the market but they will be competitive. Further, if you perform well, you will move up in the salary range. Time in grade is not how you will receive pay increases.

Most organizations might stop at this point, and we think that you can see how a pay strategy like this one is far more useful to employees, elected officials, department heads and the general public than the one that you started with. There is one more item that we think should be part of the strategy. And that is, who is responsible for keeping this system in shape in the future? This city answered as follows:

> ***Human Resources:*** *Human resources is responsible for maintaining the compensation plan. This includes adding new positions, reassigning current positions, and facilitating progression through the ranges. Human resources will also collect market data on an annual basis and make recommendations to city leadership regarding adjustments to plan.*
>
> ***City Manager/Department Heads:*** *The city's leadership is responsible for ensuring that the compensation strategy and plan continue to advance the city's operational needs and strategic goals. The leadership will also play a vital role in maintaining the integrity of the plan by adhering to its objectives in their actions and by setting a strong example for their department's management team. The city manager has final authority for any decision related to the compensation strategy and plan.*

We suppose there might be other additions you might want to make, such as the impact of benefits, longevity, the use of variable pay, incentives, skill-based pay and career development plans and so forth, but this is a basic plan that spells out a pay strategy that is clearly stated, understandable, and simple. It has established some basic ground rules, and future guidance.

Wouldn't your organization be better off if you had a consensus on a pay strategy like this one? We certainly think so.

This article was published in April 2005. It was updated in December 2016.

HOW DO WE DEFINE OUR LABOR MARKET?

Question: We are working with our employee association (union) to develop a new compensation system covering all positions within the organization. How should we define our labor market? What are the key characteristics that we should look at in determining who our competitors really are?

CompDoctor™: That all depends on whether you think they are overpaid or underpaid! The association members may think that they are underpaid, so they may want to use those organizations that pay more than you currently do. The elected officials, on the other hand, may think that employees are often overpaid, and may want to use only organizations that pay less than you do. In actuality, the answer is neither and both. (You already knew that, didn't you?)

This reminds us of a client whose employee association wanted to survey only other departments whose members were unionized, since they were unionized. Seemed logical to them, since they were under the assumption that unionized departments paid more. We advised them that in their given profession, it might be wise to use unionized and non-unionized organizations since there were few unionized comparisons within a reasonable geographical area (about 300 miles). They insisted on only unionized organizations. As circumstances would have it, we collected comparative salary data on both unionized and non-unionized organizations.

When we summarized the data, we found that the non-unionized departments actually paid more, and it would have been to the employees' advantage to use both unionized and non–unionized organizations. (See Table below). Unfortunately for them, the City Council held them to their wishes and compared their salaries only to the unionized departments. Consequently, they did not receive an increase that year.

Average Non-Union Salary	Average Union Salary
$37,202	$36,667

Which leads us to repeat the time-worn phrase: Be careful what you ask for!
The fact of the matter is that there is no simple answer, but there are guidelines that you should consider.

As pointed out in the above example, you need to accept the fact that your association may have a totally different perception as to what the labor market should be than the view held by management, and even possibly the elected board. In order to bridge that gap, you will need to work with the association to develop a mutual understanding of the issues that affect salaries.

Traditionally, organizations use such phrases as "employers from whom we recruit and to whom we lose personnel." In many cases, those would be adjacent agencies in urban areas or other agencies of similar size and character within a state or regional area. Unfortunately, it is not as simple as it may seem. For example, your active recruiting market for administrative support and maintenance/trades jobs, as well as most other jobs that are considered non-exempt under the Fair Labor Standards Act, is probably more local. That market could include other public, and even private sector employers within your county or within a reasonable geographic radius of your community. (Perhaps 50 miles, since we have yet to find a trades person leave a job to move across the state for another 10 cents an hour!) Conversely, you may need to recruit much more widely for professional and/or management personnel. The market for those positions could be narrower in terms of the type of organization (such as only other government organizations) but cover a substantially greater geographic area including your entire state or even a major region of the country. (See Table below that defines Labor Markets by Job Type and Level). In certain states, the State's labor board may have already defined a statewide market where collective bargaining is the required process for determining wages and where binding arbitration is required to settle pay disputes.

Job Type/Market	Executive/ Management	Professional/ Supervisory/ Technical	Clerical/Trades (Non-exempt)
Industry	Government	Private/ Public Sector	Private/ Public Sector
Organization Type	Similar Programs	Similar Size	Similar Size
Geography	National/ Regional/ Local	Local Regional	Local

This reminds us of another client that wanted to only look at other counties, since they claimed that they had never, ever (!) lost anyone to a city. Furthermore, their jobs were not similar to city jobs. To add to their argument, they said all the cities around them that might be comparable were in dire economic straits (some had been in receivership) so their wages could not be comparable. (We were beginning to question the validity of the argument, but…) After a good bit of discussion, we decided to eliminate the cities from the survey.

When the study was completed and the report was presented to the employees, one department head asked why we did not include any cities. We responded that the County Board felt that the cities were not comparable and that they had never lost any employees to the cities mentioned. To which, the department head responded and said that her last 4 departing employees left to go directly to the cities that were not surveyed, and they left for higher wages. When you hear comments like these, it helps to have good data!

Again, be careful what you ask for!

Things get more complicated when you factor in such things as jobs that are unique to your organization (electric utilities, convention centers, sports arenas, and airports) or public safety jobs where the only competition is for the entry level and the department head since most police and fire departments tend to promote from within rather conduct open and competitive recruitments for the middle-level job classifications in these job families.

For public safety jobs, the only issue for comparing salaries is competitiveness at the entry level. Once starting salaries are determined, the only other issue is determining how far apart each level or rank above the first level should be.

Clearly, public safety employees do not necessarily agree with that philosophy but the reality is that the second, third, fourth, and fifth levels in most public safety organizations are not open to them as outside applicants even though the other agencies may encourage lateral entry at the first level. Consequently, what others pay for those levels has little, if any, direct bearing on what you will pay those positions.

For example, one of our large agency clients was forced to eliminate the Police Lieutenant rank because of pay compression between the Sergeant rank and the Captain rank since the Chief of Police's salary was fixed. That agency did not want to pay command officers more than the Chief. Since Police Officer pay was increasing exponentially due to market conditions, and those employees receive overtime pay pursuant to the FLSA, Sergeant pay had to be increased to a level that made it unattractive for anyone to apply for the Lieutenant jobs. The result was a redistribution of the Lieutenant duties between the Sergeant and the Captain.

When defining a labor market, there are certain criteria that can serve as a starting point for your discussion. Those include:

1. A population that is no less than one-half or more than double the population of your community.
2. An organization with a similar number of employees in the occupational groups under study.

3. Have a similar character (residential versus commercial or industrial).
4. Have a similar tax base (sales and/or property tax revenues).
5. Have a similar per capita income of its residents.
6. Have similar demographics.
7. Is located in a state that has a similar tax structure.
   (It is difficult to compare compensation levels for jobs in other state's if they have a different overall tax structure than that in your state. For example, the fact that Nevada and North Dakota do not have a state income tax makes it a bit more difficult to make an accurate comparison with compensation levels in their neighboring states of California or Minnesota. Oregon and Washington have the same issues although the fact that Oregon does not have a sales tax usually offsets the fact that Washington does not have an income tax. This comparison is difficult for organizations that are on the state border, since they may have employees that live in the no income tax state, but work in the state with income taxes).
8. Provides a similar range of services (contract cities versus full service cities or water/wastewater utilities versus electric utilities.)
9. Is an organization that is looking for the same group of applicants (similar knowledge, skills and experience) as your organization in selected or all job categories.
10. Is within the geographic parameters (by job level) of your recruiting market.

While other criteria may apply, these tend to provide the most defensible basis for comparing compensation levels. Remember these criteria will vary by the jobs being compared since different jobs have different labor markets. Clearly, if one organization has a considerably greater ability to generate revenue than another, it is difficult to justify comparing the two organizations. That is not to imply that organizations with limited resources need to treat their employees as second-class citizens. It simply means that the two organizations may not necessarily be looking for the same type of individual to fill their positions. The organization's need is the single most important criteria. Large agencies often look for individuals who are specialists while smaller organizations often look for generalists. Consequently, your applicant pool would be, and probably should be, different.

When all the data are collected and reported, you need to be ready to defend the job matches and the organizations used as comparables. We have rarely been in an organization that once the salary data was summarized did they accept it at face value. We have had employees flat out deny that the data we collected was correct, because they know for a fact that people in those organizations that are paid much more than the data we reported. This is usually anecdotal information gathered from a friend of a friend and is usually wrong. In fact, in one situation the department head claimed that we benchmarked the wrong job. Had we benchmarked the correct job, we would have found that the salaries were much higher. When we did further very detailed investigations, we found that the job that he wanted to match was a much lower level position that did not have the same level of legal authority as his jobs, or the one that we matched. Further, the average salary was about $5,000 less than what they were currently paying. Wrong anecdotal information.

Be careful what you ask for!

Finally, when all is said and done, you need to figure out what you are going to do with the data when you receive it. If you are going to use it to adjust each surveyed job in lock step with the market data, the need for care and precision in matching the right jobs and the right organizations is absolutely critical. There is very little room for error. (But look out if one year the market rate for a job goes down!) If, on the other hand, you just want to get a sense of the market and you will be adjusting the entire structure based on how your structure lines up with the market overall, the need for brain surgery precision is less critical. (Not that we encourage sloppiness, but the concept of benchmarking is just that…to get a sense of where you stand in relation to the market. It is not an exact science.) Once you superimpose internal equity considerations, organizational structure differences, and cultural differences into the mix, the market data is used to determine if you are generally leading, following or matching the market. In the latter case, we have found that a variance of plus or minus 5% of the market overall average basically means that you are matching the market. Anything beyond that and are you are either under the market or over the market.

Once you know that, then we often find that the discussion leads to how much it will cost, how much money is available, which job or job families are the worst off, or where is recruiting the most difficult because of salary levels. In short, the process of finding the right market comparables leaves the realm of compensation and enters the world of politics.

So, before you embark on a market survey, it might be a good idea to take stock of your own organization's characteristics, the nature of the work force and how your organization is different or similar to others. Answers to those questions will help you to determine which organizations to survey.

This article was published in July 2004. It was updated in December 2016.

DEFINING TOTAL COMPENSATION

Question: Over the past couple of months, we have been reading about all of the efforts by state legislatures in certain states to impose major changes in the way public sector benefits, including pensions and health insurance, are funded (in terms of the employer/employee contributions). While this is a critical issue, it raises some problems within our organization since we continually struggle with defining "total compensation." Our agency attempts to compare total compensation paid to our employees with the labor market (both public and private sectors), but no matter what we do, it is never right and we are criticized for trying to hide the truth. How can we compare total compensation so that we can defend our numbers?

CompDoctor™: The term "total compensation" reminds us of something a former president once said: "It depends on the definition of 'is.'" Over the years, the term "total compensation" has taken on several different meanings. Most commonly, it means base compensation, any variable compensation, and the economic value of benefits offered by the employer to the employee.

Unfortunately, that is where things start to go south since we have yet to hear two parties really agree on what constitutes an employee benefit since one person's comp element "treasure" is another person's comp element "trash." In fact, there have been fact-finding and arbitration cases that have dealt with this specific issue. For example, is something as basic as "workers' compensation" or "unemployment insurance" an employee benefit or are they simply state mandated employer costs. An employee could argue that since they will likely never need to avail themselves of the coverage, the cost should not be included. On the other hand, if they were not on your payroll, you would not be incurring the cost.

For purposes of our discussion here, we are going to address tangible and direct costs to employers that they would not have to pay if the employee were not on the payroll. These costs would include stability (Social Security, pension, life insurance, disability insurance, worker's compensation insurance, and unemployment insurance) paid time off (vacation, sick leave, holidays, and other time for which an employee is paid but for which they are not actually working), health (medical, dental and vision insurance), variable pay and, last but certainly not least, base pay. Recently, we have seen organizations that want to include job security in the mix given a perception that public sector employees have a greater degree of job security than private sector workers.

However, differentiating between job security related to risk of termination for cause and loss of job due to lay off can be more than problematic. Historic job security data/assumptions will not reflect the current privatization initiatives involving entire functions/departments.

Guess they haven't been paying attention to the number of public sector jobs that have been eliminated around the county and the projections for several hundred thousand more over the next couple of years. Theoretically, job security could be measured by calculating the probability of termination from government vs. private sector employment. We also recognize that, historically, public sector employment was perceived to be more secure than private sector employment. As a result, public employees were often paid below private sector rates as a tradeoff. While we acknowledge the perceived value job security may have on the employment relationship, the subjective nature of this and related employment criteria do not support the development of defensible quantitative measures.

Besides, we (comp professionals as a whole) can barely agree on how to provide consistent total comp values when dealing with benefits that have clear monetary values (i.e. health, PTO, etc.), so how well is it going to work when we are dealing with third and fourth level causal connections of theoretical research? As you can see from our comments, comparing total compensation values is a great goal but easier discussed than achieved in the real world. Consequently, it is beneficial to identify what elements are going to be included up front so that you can at least compare apples to apples.

Fundamentally, we agree that total compensation is the best way to compare compensation levels but only when there is a consensus about what is included in the definition. Without getting too detailed, insured benefits are relatively easy to calculate since you can take the total premium cost and determine what percentage of payroll the amount represents. Social Security is simple since the federal rate is known and can simply be reported as such. Retirement plan contributions (be they for defined contribution type plans or defined benefit type plans) can also be easily calculated since we generally know what the required contributions are for the employer and the employee shares.

Organizations have debated whether the unfunded liability contributions should be added to the employer contribution amount since that portion is not a reflection of the current compensation level but is usually based on benefits that were promised but have not yet been funded and not included in the current mandatory contribution rates. This debate begs the question of who bears credit for the funding of unfunded future liability. From the employee's perspective, the benefit was identified and accepted for eternity at point of hire.

To "re-benefit" the additional employer liability cost may be regarded, to use a highly-charged public sector term, as "double-dipping" on the part of the employer in the statement of benefit value. This is not the same thing as employees who have been allowed to "double dip," or take retirement from one pension plan while accepting the same or comparable employment under another system. This subject has raised questions about whether the public agency is paying twice for the same body of work. Unfortunately, in our judgment, this is a much more complicated question. Clearly, public safety employees often retire and then take on a second career in a non-law enforcement capacity. Since the public safety pension was for services provided under one system, we do not believe that accepting a civilian job that is different is costing the employer any more than if they hired anyone else to do the civilian job. This gets sticky when the employee retires and then comes back to the same job but in a civilian capacity. The same issue arises when an educator retires and then comes back in a contract capacity to perform the same work but outside of the retirement system. Clearly, there are cases where the public interest may not be best served but there are other instances where the cost should be no different than if another person were employed.

Paid time off can be calculated by taking the total cost to the employer for days off related to various categories of leave and then calculating the value in terms of a percentage of payroll. Some agencies have attempted to get this level of detail by job classification or employment category. While that information may be useful to the specific employer, getting the comparable information from other employers (even if they are public sector employers and subject to public records requests) can be costly, time-consuming and problematic. The cost for retiree medical insurance is also relatively easy to calculate or estimate. First it is an actuarial estimate of life span, then an actuarial estimate of cost of health insurance over that period-of-time. What you get is a best case/worst case estimate. You could take the middle for a reasonably accurate estimate. However, unless an organization has had an actuarial assessment completed for this particular benefit, there is no simple way to calculate the value. Variable pay and base compensation are also fairly easy to quantify.

Calculating the elements of total comp of interest assumes that the employers that you wish to compare to will provide you with the information you are seeking (yes—they are often public agencies who are required to share but that doesn't mean that they will do it willingly or graciously). Even if they do provide you with data, verifying its accuracy is often problematic unless you are willing to incur substantial expense in doing so. Getting this information from private sector employers is more complex since they are under no obligation to share that information. As a result, most organizations draw from published survey data that will contain some of the desired data elements but not all. Making accurate comparisons between the public and private sectors should be done only when recognizing that the comparisons are not based on the same factors.

Hopefully, our comments provide you information that will be useful to you as you compare your compensation levels to the labor markets in which you complete.

This article was published in June 2006. It was updated in December 2016.

SELECTING THE APPROPRIATE MARKET POSITION

Question: **Our organization is just about ready to implement its new compensation plan. One of the final decisions that we have to make is the position that we want to be at relative to our defined labor market. The choices at this point are to pay at either the 50th percentile of the defined market (public sector only) versus the 60th percentile of the public sector only market. The new plan will become effective July 1, 2016. One other piece of information that may be useful to know is that the survey data used to develop the new compensation structure and plan was effective late 2014. Can you please talk about the pros and cons of each market position?**

CompDoctor™: That is a really great question and one that we get asked by virtually every governing body we work with. But let's start by understanding the politics and optics of the two options.

As elected officials, policy bodies are under considerable pressure to hold down the cost of government. One of the major costs to most governmental agencies is the cost of personnel. For example, in most city governments, labor costs can represent as much as 80% or more of the operating budget. Another major issue facing policy bodies is the socio-economic make-up of the population served by the agency. One of the messages that we hear repeatedly is that the employees in the individual agency earn substantially more than the population that they serve. While that is largely a separate issue since most governments hire knowledge workers who tend to earn higher salaries than other types of workers, it still affects the politics and the optics of the ultimate decision.

Let's talk a little about what the 60th percentile means versus the 50th percentile.

First off, many people think that the differential between these two numbers equates to a 10% difference in actual pay. NOT TRUE. The difference between market percentiles does not reflect a straight percentage difference (i.e., the difference in market averages between the 50th percentile and the 60th percentile is not equivalent to 10%). For example, in a set of 11 numbers, once the numbers have been placed in ascending order, the 50th percentile would be the 6th number in that set of numbers; the 60th percentile would be the 7th number in that set of numbers. The difference in the 6th number (the 50th percentile rate) and the 7th number (the 60th percentile rate) is not 10% or any other fixed percentage but will vary based on the set of numbers. Following are a couple of examples:

Benchmark Job	50th % (Median) Market Rate	60th % Market Rate	% Diff
Accounting Technician	$54,082	$55,119	1.9%
Budget Analyst	$85,036	$88,880	4.5%

As you can see from the above example, the difference between the 50th percentile and the 60th percentile could be less than 2% or 4.5%. In most cases, if there is a sufficient amount of data for each of the benchmark jobs, the percentage differences between the percentiles will be relatively small. In a recent study of a large organization, the net difference for all jobs averaged about three percent (3%).

Now we can talk about why you might want to use one number (50th percentile) over the other (the 60th percentile.) The safe and least controversial number is going to be the 50th percentile. How can anyone really argue about paying employees the median of the market? However, the problem with the 50th percentile is that, depending on when the data was effective, and when the effective date of the implementation is, you could be using data that may be up to a year old as the basis for the new structure. Since we know that markets change regularly, and the trend over the past 4-5 years has been that the market has moved between 1.5% and 3.0% overall, using the 50th percentile will result in you already being slightly behind the market trend. In compensation geek-speak, you are already lagging the market when you come out of the gate. By the time you get around to updating the structure a year from now, you will then be even further behind the market. The result is what is called a lag-lag strategy.

On the other hand, using the 60th percentile will result in your structure being much closer to market at the front end (you may actually be just slightly ahead of the market for about a nano-second). Over the course of the year, as the market changes, you will probably drop a little in relation to the overall market resulting in what is called a lead-lag approach. The bottom line is that you will likely end-up at about the 50th percentile over the course of the year by starting out just slightly ahead.

Ultimately, the decision will probably come down to the implementation cost for each model. Unfortunately, we recently had a client that, because of the economics, was actually looking at the 25th percentile but after careful consideration of the impact on their ability to recruit and motivate the caliber of employees that they wanted, they concluded that they needed to be at least at the 40th percentile.

As we said earlier, the ultimate decision will come down to politics and optics. Hopefully you will be able to make the right decision!

This article was published in February 2016.

CONTROLLING PAYROLL AND BENEFIT COSTS

Question: Public employers are getting hammered in the media regarding the cost of public employee salaries and benefits. While we can debate whether public employees earn more or less than private sector employees, do you have any suggestions as to how we might go about controlling or limiting our payroll and benefits costs?

CompDoctor™: Do we have ideas? Well of course we do! Not that you will like some of them, but we think they are effective and at least worth considering.

Let's start with your overall compensation philosophy and related strategies. Historically, it was fairly common for employers to simply state that the purpose of their compensation program was to facilitate recruitment, retention and motivation of qualified (or well qualified or some other descriptor) employees. With this type of generic statement, the message was "we want and need to get people in the door, we want to keep them and, if at all possible, we might be able to motivate them." As a result, we built traditional compensation models that reflected seat time (excuse us—longevity) rather than other factors such as performance, competency or skills. Pay structures simply were designed to give salary increases to people based on length of service in a job classification on the basis that they needed to keep them, so they had to give raises.

Our classification systems are built to support this idea. We created job series of (for example) Accountant I, Accountant II, Accountant III, etc. The major difference between these classifications was the length of time the incumbent was in the lower level classification. It wasn't necessarily based on competency or capability (or in some cases, even the level of difficulty of the work), but rather on the experience in the job. Thus, our classification systems and compensation systems complemented each other.

Based on the above, the first step involves rethinking what it is you want your compensation program to do for you. We have several clients that have changed their philosophy and, while recruitment is still the primary goal, the second goal is motivation. The thought process is that retention of motivated employees is more important than just keeping everyone on the payroll. Other issues that will need to be addressed relate to how the pay plan is to be administered and what will be the basis for pay increases, if not longevity.

A second way that you can consider controlling costs is by capping salary, benefits, discretionary benefits and other items of total compensation as a percentage of revenues, operating income or revenue.

In order to provide fiscal accountability, total compensation expenses can be managed, so as not to exceed X percent of total operating revenues for the organization. Operating revenues can be established as part of the annual budgeting process and the percentage could be based on an average of the percentage spent by the organization for the previous five-year period (or some other defined period). This will provide assurance to your stakeholders that labor costs will never exceed a fixed percentage of your costs.

A third technique that we have used for many years also relates to the budget, and involves how you budget for each position. We know that many organizations budget each position on a line item basis, and the amount for each position is based on the current actual salary for each position plus any anticipated step increases that may be applicable during the year ahead. This is a labor-intensive effort to say the least. An alternative approach would be to budget each position at the defined market rate for the job period. If your pay philosophy is to pay, on average, the prevailing market rate (e.g. the 50th percentile of the market) for the job, budgeting at that number will provide the resources necessary to fund the pay plan at market rates. Any department that exceeded the budgeted allocation for salaries would then be subject to repercussions. Of course, that means that someone (be it the city manager, the county manager, the board or council) would actually have to hold department managers accountable, but that is the topic of a whole other discussion.

Obviously, with increased scrutiny of public sector personnel costs in relation to comparable private sector personnel costs, we will likely need to think differently about what personnel costs we are comparing. It is easy enough to compare direct salaries of comparable jobs between the private and public sectors, and it is not too difficult to compare the employee and employer current costs of health and welfare benefits. But the recent debate has shifted to the hidden costs of pensions and the cost to cities, counties and states for the unfunded liabilities of defined benefit plans. That cost, which is not normally considered in labor cost comparisons, probably cannot be ignored for long. The cost of unfunded liabilities, post-retirement health care and even banked sick days, raises the question about the proper mix of total labor costs. In other words, the argument goes that public employers should not have to pay salaries at market rates because the future value of the defined benefit plan, or the value of post-retirement health care costs (not normally available to private sector employees) makes up for the lower current costs of salaries and benefits. And this does not even consider the very hidden value of apparent better job stability of public employment.

The argument has clearly shifted from current cost of salaries to total compensation value provided to public employees versus private sector employees. While there may be no clear answer to how all elements of total compensation is measured, and compared, as professionals in human resources, we need to begin getting a handle on these issues, regardless of how slippery they may be. This is especially true as we prepare for the new normal in classification and compensation management in these economic times.

Hopefully, our comments will provide you with information that will be useful to you as you attempt to control your salary and benefit costs.

This article was published in August 2008. It was updated in December 2016.

IMPACT OF A STAGNANT PAY STRUCTURE

Question: In our organization, we have not given raises for more than four years. We have not adjusted our pay structure either. The board has said that the market does not support increases at this time, and further, no one else is giving raises. We think otherwise. Because we have had to hire some replacements to fill vacancies, we have lost out on a number of good candidates because our current salary structure would not allow us to compensate them at the pay level that they were requesting. Can you tell us what is really going on in the market?

CompDoctor™: Great question and one that we have been hearing a lot from clients all over the country. There is a short answer and a long answer. The short answer is that pay has increased. You and lots of others are finding out that while (supposedly) NO ONE WAS GETTING A PAY INCREASE, many were. In fact, a significant number of people were, and we are not talking only about the employees that are covered by a union contract. We are talking two-thirds of employers were giving increases. But, here is the deal; in any given year, one-third of the employers were not giving raises, so that is probably why it appears that no one was giving pay increases. The increases given were not much, but they were higher than zero.

Now for the rest of the story—and the longer answer.

- Only about one-third of organizations reporting (in three different surveys) stated that they had frozen salary increases over the last three years. That means, for the mathematically challenged, that most employers raised pay. They didn't raise pay by much; only about 2.2 percent, but that is far greater than zero. So, for those organizations that did not raise pay for the last three years, you are now at least 2.2 percent below the market, and likely about six to seven percent behind since many organizations were adjusting pay by about 2.2 percent EACH year. Now, they may not have been making structural adjustments, but they were giving step and merit increases. We also know that when pay systems are rigidly controlled, there is a tendency to "reclassify" positions to a higher level in order to justify pay adjustments. We do realize that only a cynic would think that this goes on and we are certain that it has not taken place in your agency.

- The really interesting fact is that a very small percent (less than five percent) of private sector organizations report that they plan on freezing pay this year.

- Recent surveys show that salary budgets for government have been inching up. For example, in one of our surveys, we found that actual (not planned) salaries were increased 1.3 percent in both 2010 and 2011, 1.7 percent in 2012 and were projected to be about 2.1 percent in 2013.

- For the private sector, the comparable numbers for pay increases have been 2.7 percent in 2010, 2.8 percent in 2011, 2.6 percent in 2012, and were projected to be 3.0 percent in 2013.

- In addition to increases in compensation, most of the private employers are restoring their 401(k) (pension) contribution match that had been suspended over the past couple of years.

So, even though these numbers are relatively small for the public sector, the private sector is slowing getting back to its normal long-term trend of between 3- to 3.5-percent salary increases. If you are competing for talent in the areas of IT, HR, finance, maintenance, engineering, nursing, drivers and other similar jobs, you are likely finding the market extremely competitive. If you have been reading our column for any period of time, you will recall that we have pointed out on more than one occasion that this problem is only going to get worse given the demographic shift that is taking place throughout the country. As the boomer generation begins to exit the workforce (about 80 million people according to the Census Bureau) and the next generation moves up to take their place (only about 50 million people—also according to the Census Bureau), there will potentially be about 30 million fewer people available to fill the jobs that are vacated (and that assumes that those in the workforce are even qualified for the jobs to be filled which we believe is going to be questionable). Add all of this up and competition for skilled personnel will be even greater than it has been.

However, here is the difficulty with the public sector: The process of restoration in the public sector is that it is usually two years behind the private sector. It is nice to have a bell-weather indicator; unfortunately, the timing keeps getting pushed back. Two years ago, we estimated that 2013 would be the year the government would be restored to levels that might look like pre-2008 times. We are not so sure about that now.

In a 2010 survey that we conducted for IPMA-HR, members projected that 2011 would be a better year for salary increases. Evidence now shows that 2010 and 2011 were identical at 1.3-percent increases. So, the "better year" did not happen, and it appears to be dragging on longer than anyone anticipated.

In the Chicago area alone the private sector experienced growth of 38,000 jobs. In the same time period, there was a decrease of 6,600 government jobs. Not an inspiring story. Of course, we suppose we could argue that government is right sizing and with fewer employees, we will get employment and revenue more in balance so that the appropriate decisions about pay increases can be made in the future. Yet somehow, we are not convinced that such a situation will happen.

Now, here is some information that you should keep in mind. When you try to fill vacancies, you will be experiencing a significant disconnect between your salaries, what is allowed in your salary system, and what the applicant is looking for. Here is why: Likely, the candidate you are interviewing is already successful in their current job. (After all, would you be interviewing them if they were not?) They may even be vested in their current retirement program if they are coming from another public entity. They may have to move if they are from outside the area. Add these all up, throw in the general uncertainty about the economy going forward, and we have a candidate who is going to ask for as much as they think they can, which is probably 10 percent or more than what they are currently making.

Now, put this all together with your stagnate salary structure, your desire not to put your system totally out of whack by hiring a new employee at substantially higher wages than a current employee who holds the same title, and you have a situation that is a stalemate.

What to do? Many of our clients are taking the approach of collecting the necessary market data to justify any recommended changes to their compensation systems. They are also finding out that they are substantially behind the market, by at least six to seven percent, and in some cases, even more. This is the most rational approach, and even if you don't have the money to make all the changes now, at least you can prioritize the implementation process by addressing compensation levels for hard to recruit, high turnover, or critical positions where the depth of your team is one person.

Alternatively, you accept your position in relation to the market and try to adjust internal equity. One or both of these issues eventually will eat away at employee morale, and eventually some action will be required. Public officials will need to decide how important providing services are. We could go off onto several tangents here but this is probably more than you wanted to hear about what you thought was a simple question.

MARKET CHANGES AND IMPACT ON COMPENSATION

Question: We have recently completed a classification and compensation study covering all of our employees. When the study was completed, some of the jobs were found to be more misaligned with the market than others (it was more than 10 years since the last study was conducted). Employees (and some of the managers) in those classes were very upset as they believed that they were more out of alignment than the study showed, and they are also upset that other employees may end up getting bigger adjustments than they will get. Please forgive my naïveté, but is this a common occurrence? If so, what do I tell these employees—and the managers?

CompDoctor™: You say that one group of employees is upset because they are currently being paid closer to market than other groups? While we know that this makes no sense whatsoever, it is really important that we understand the question (though for some strange reason, we actually think we do).

The irony of this is that when there are limited dollars available to implement changes to a classification and compensation program, people tend to get very territorial. We remember a number of years ago when we conducted a classification and compensation study for a large university system, the faculty group was very supportive of the efforts since there was general recognition that classified staff were woefully undercompensated. When the project was completed and it was confirmed that the classified staff were being paid at about the 20th percentile of the market, the faculty suddenly realized that in order to fix that problem, the amount of discretionary money available for faculty increases (faculty was at about the 50th percentile but they wanted to be paid at or above the 75th percentile) would be severely limited. At that point, faculty support for classified staff disappeared. Unfortunately, we have seen this similar situation time and again in both large and small organizations regardless of type (cities, counties, special districts, and colleges and universities).

We only share this story because this was not a unique situation—it was just a bit more graphic than some of the others that we could tell you about. In addition, we cannot remember a time when we have conducted a market study where every job was either overpaid or underpaid relative to the market since the market value for jobs will vary over time. So, depending on the time of the survey, or the organizations surveyed, some jobs will be overpaid or underpaid at different rates.

As we have discussed in prior discussions, the fact that many public sector organizations have not been granting regular pay raises over the past three to four years to the degree that many employees had grown accustomed over the prior years, many employees have seen the purchasing power of their salaries deteriorate. Coupled with employer efforts to reduce pension and health care plan costs (on the employer side at least), employees have had to deal with further stress on their income and budgets. This has been a fairly radical departure from past practice where the employer would often simply eat the cost increases imposed by insurance carriers, along with picking up an increasing share of the pension obligation over a period of years. In our view, this practice has created a rather interesting phenomenon whereby employees who became "entitled" are now being asked—or should we say are now being expected—to share in the burden.

As any student of human behavior will tell you, loss of entitlements does not go down well with most people. While your question is focused on employees, the above point also applies to the public at large, relative to expectations for services. We see daily the varied reactions from interest groups when the service they want is up for reduction or change when dollars are scarce. We point this out simply to emphasize that the problem you have identified is not unique to your employees but needs to be managed nonetheless.

We should try to actually answer your question though, rather than just talk about the problem on a more general basis. So, the first thing you need to do is make sure you have clearly articulated your compensation philosophy and strategy to *all* of your employees. Unless your employees understand what you are trying to do with your compensation program, you will not be able to adequately respond to their individual concerns. One thing you may also need to do is educate your employees on the business need for the strategies that are outlined, since the realities of the world often float by people and they do not understand why you are doing what you are doing. (Of course the entitlement mentality may also be getting in the way but we will talk about that separately.)

In many jurisdictions, there has been considerable pressure applied by taxpayers to reduce the cost of government while maintaining and even expanding the scope of services. Labor costs clearly have an impact (especially since 60 to 80 percent of most governmental agency budgets are for personnel costs).

The second thing you will want to do is share the results of the compensation study with your employees. They need to understand where the data came from and what it means. From a practical view, the employees you reference should be ecstatic since they have been getting paid more closely to the market than their coworkers in other occupational groups. While those employees may potentially be in line for larger adjustments in salary ranges than others, the simple fact is that those employees have been undercompensated at a greater rate and, therefore, deserve a large adjustment just to bring them up to the same level that other employees are at relative to the market. The silver lining for those who have been paid closer to the market is that their lifetime earnings and/or pension benefit will likely be higher than those who are getting a larger increase now.

Now, for the issue of entitlement; some employees will get the message but some may not. For those who do not, the message outlined in the compensation philosophy and supporting strategies should help these individuals understand that the world that they have known has changed, for better or worse, depending on their individual perspective. For those employees who are not willing or able to accept or adapt to what we and many others have come to call the "new normal," career counseling may be necessary. Such counseling may include encouragement to seek greener pastures elsewhere if they truly believe that you are an unfair employer. Culture change takes time. While we have often said that three to five years is not unrealistic, one of our clients has reported that acceptance of meaningful change in the way compensation is managed and delivered took approximately 11 years including substantial change in the management team makeup.

While not a cure-all, we hope that this gives you some insight into the issue and how you might need to address it with your employees. We wish you success with the implementation effort!

This article was published in December 2012. It was updated in December 2016.

IMPACT OF DIFFERING PHILOSOPHIES WITHIN AN ORGANIZATION

Question: A few years ago, our Council adopted a new compensation philosophy that states that non-exempt employees would be paid through a step type pay plan while exempt employees would be paid through a performance-based open range plan with the market or job rate being the mid-point in the pay structure. We are now finding that there is severe pay compression between the two structures making it difficult to entice employees to apply for exempt level jobs. Do you have any explanation as to why this is happening and what we can do to resolve the problem?

CompDoctor™: Pay compression. Public sector organization. And you seem surprised that this is happening.

We have addressed a part of your question previously but we think a couple of things merit repeating, so a bit of history. The first issue relates to how public sector pay plans have become compressed. Twenty years ago, most public sector pay plans were structured in such a way that the highest-level employee in the organization made about 10 times as much as the lowest paid employee in the organization.

Over time, public agencies have generally given greater increases to lower level employees than to upper level employees. The result is that the relationship between lowest paid and highest paid employees is now more commonly five to one and, in some cases, as low as three to one. This happens because all employees received flat dollar increases across the board or represented employees received greater percentage increases than non-represented employees. The second issue relates to pay structure differences.

Historically, public sector pay plans were step based for all levels. In addition, salary grades were the same width for all levels. As a result, we had the classic five by five repeating salary grade plan (five steps wide with five percent between each step.) Each salary range was five percent higher than the previous range so that, while there was overlap between each level, all employees were treated alike. Even with the traditional system, problems arose. For example, in the fire service, employees on shifts often have the opportunity to work second jobs or have a second career. In some cases, their income from the second job is such that there is no motivation to seek or accept a management position since their income would actually go down. Unless the individual employee really is motivated by a career in the fire service and has the specific inclination to take on command responsibilities, some agencies have difficulty getting internal candidates to apply for, let alone accept, positions that involve higher levels of responsibility.

For better or worse, the world has changed. Many public agencies began to adopt alternative pay delivery models including use of performance based pay for management and other exempt personnel. Public employee organizations resisted changing structures in order to keep the traditional model. The definition of the labor market began to change from a limited list of local jurisdictions to a broader list that focused on differing markets based on the type and level of work and market rates for jobs began to have different characteristics based on the type and level of work.

Fast forward to today. Many non-exempt jobs are represented while many exempt jobs are not. Labor contracts generally cover multiple years and provide for fixed increases in the salary ranges (often referred to as Cost of Living Adjustments) plus the requisite step increases until the employee reaches the top of the established salary range. Consequently, lower level employees often receive increases of six to nine percent per year. However, non-represented employees now only receive a specific amount that may have been granted by the legislative body for the particular year, usually about the same as the unions cost of living increase. Compound this with the proliferation of job classification levels with minimal differences between levels in order to further justify increasing pay for employees, and you have, (surprise!), compression.

Very simply, policy bodies will fund labor contracts based on their agreements. However, they are under pressure to not give similar increases to upper level positions since comparable increases could easily result in adverse media coverage and public perception.

The problem you have described is much more common than you may think. It has been particularly prevalent with public safety jobs where market conditions have caused lower level (Police Office and Fire Fighter) salaries to increase exponentially while upper level positions have been capped at levels comparable to non-public safety jobs within the organization. The result has been significant difficulty in filling first level management positions like Police Lieutenant and Fire Battalion Chiefs. Obviously, there are really only two viable solutions to the problem – either increase upper level salaries to alleviate the pressure or eliminate the level that is compressed.

Economic conditions today further compound the problem. It is certainly easy to argue that those making over a certain amount, such as $100,000, are well compensated and do not need to receive the same level of increase as lower level employees. While doing that once or twice probably won't strangle an organization, doing it repeatedly creates a level of compression that ultimately becomes critical. One fundamental problem with this logic is that, whether you want to or not, someone needs to manage the organization and, given the changing demographics in our society, there are fewer individuals with the background, training, and skill needed to do these jobs. As a result, the labor market has changed and salaries for upper level positions are increasing, although nowhere near the levels that the folks on Wall Street or the big financial services institutions have taken their industries. Unfortunately, unless policy bodies begin to accept the need for, and the reality of the situation, compression will continue.

There are structural options that you could also consider. One option would be to set the market or job rate for ALL jobs at the middle of the pay structure and then use steps up to that point for all employees who perform at a proficient level, thereby reserving the upper portion of the salary range for only those employees, regardless of level, who perform at an above standard level. That, of course, means that you will actually have to establish and enforce performance standards for all jobs. We know -- that is way too radical but scotch has had a strange influence on our brains.

Another option would be to separate the structures based on the type of work performed. One of the realities of the labor market today is that jobs are valued in the marketplace differently than they used to be. We see numerous instances that certain technical jobs command higher salaries than non-technical general management positions causing an inversion in the traditional pay model. Accepting the fact that you need both technical and non-technical positions and that each have their own value will allow you to use dual-career track pay systems.

A third option is the use of market pay premiums. These premiums are simply additions to base compensation that reflect current market conditions and allow you to pay a position more than the internally established rate while not altering the underlying pay grade structure.

Obviously, there are pros and cons to every approach but you asked why the problem has come up and what are some options to consider in dealing with it. Hopefully, this will give you a couple of ideas as to how you might address the problem. We look forward to hearing how you ultimately resolve the problem.

This article was published in September 2009. It was updated in December 2016.

STAFF REDUCTIONS AND IMPACT ON COMPENSATION

Question: Over the past three years, our organization has experienced staffing reductions. One of the consequences has been that some of our professional positions (specifically systems analysts) have had to take on the duties previously performed by lower level positions (in this case, IT techs.) As a result, these individuals have had to work substantially more hours, including working on weekends to cover shifts historically covered by the technical staff. These employees (the analysts) would like to receive additional compensation for these added duties and responsibilities. Your wise and sage counsel is requested.

CompDoctor™: Wise and sage? Are you sure that this question was intended for us and not Dear Abby? Boy, do we have you fooled! Nevertheless, this one is too good to pass up, so here we go.

Let's first of all make sure we fully understand the situation—that you have professional (i.e., FLSA exempt) employees who are now being asked to do additional work that is of a lower level than their regular job and they want a pay increase? We are fairly certain that we are mistaken in our understanding, but then, nothing surprises us anymore so we will take your question at face value and respond accordingly.

There are several implications for this situation, the least of which relates to whether the position will continue to qualify for exemption from the overtime requirements of the Fair Labor Standards Act. If you start treating the position as a non-exempt job by paying them for the additional hours they work at the "lower level" duties, it may truly rate as a non-exempt job and you will then need to pay overtime at the rate of time-and-a-half for all work performed in excess of 40 hours a week. One way to put yourself in this situation is to start tracking specific hours. We do not think that is the best approach, but we want to approach another related solution later.

A second issue that arises relates to the use of a higher-level position to do lower level work. We know that just about every employee performs work not considered "essential" to their job but needs to be done. For example, most of us make photocopies, empty wastebaskets, and do other work that would generally be performed by non-exempt employees when available. Unfortunately, we may not have available staff so we simply do the work ourselves. This can become a problem when the percentage of time spent doing lower level work outpaces the real reason the job was created in the first place since the cost of performing the lower level work becomes substantially greater when you have higher level positions perform the work. We all do it, and it only becomes a problem when it gets in the way of the "real" work.

From a practical perspective, the real issue is whether you want to simply reward an employee for doing lower level work. If you will humor us for a moment with one of our analogies, this would be the equivalent of a restaurant raising the price of a 14-ounce slab of prime rib because it comes with an all-you-can-eat salad bar. Since most restaurants price their meals based on the type and size of the entrée, and not the side dishes, the price would normally not be increased.

As outlined above, if you were to simply reward the person on an hourly basis for doing lower level work, the action could jeopardize the exemption status of the job. However, if you were to offer the employee something in lieu of compensation, such as a limited amount of administrative leave, you could probably address the extra workload issue. That having been said, you will still not have addressed the issue of paying someone at a higher rate to do hourly work.

Additionally (and we are not endorsing this approach), you could keep track of the extra hours and shifts, and then provide a bonus or special duty pay, or special assignment pay that would be based roughly on the extra value provided. We are not suggesting that this be based on a formula or hourly rate, but on some other metric so that you can recognize the additional effort while avoiding the FLSA issue.

Finally, we would be remiss if we did not mention another possibility. That is that if this condition exists for more than three months, perhaps it is time to take another look at the job functions being performed. You may find that you no longer have a systems analyst and IT tech jobs. Rather, you have a technical analyst (we made that title up) who is higher than an IT tech but lower in difficulty than a systems analyst. If that were the case, pay would need to be adjusted accordingly. We are quite certain the employees will not be in favor of that option.

While there are no easy solutions, the problem is really a budget and staffing issue and not a compensation problem. As a result, the solution should be tied to budget and staffing rather than compensation.

This article was published in October 2011. It was updated in December 2016.

BROADBANDING VS. TRADITIONAL PAY GRADES

Question: For years, our agency has had established salary ranges within a pay structure with each job classification falling into a specific salary range. Our operational managers have been applying pressure on HR and the CEO to abolish the structured ranges and go to a modified version of broadbanding in order to provide them with greater flexibility in terms of pay adjustments for the employees in their business units. At first blush, this seems relatively easy to do but we are concerned about "unintended consequences." Have you dealt with this issue in other agencies and, if so, can you shed some light on the pro's and con's of going in this direction?

CompDoctor™: Unintended consequences? Ya think? This is one of those questions that remind me of something my father used to say to me when I was a kid: Everything I like to do is either illegal, immoral or fattening. In this case, while it isn't illegal or immoral, it has the major potential to be highly fattening.

In simple terms, when we have seen public agencies contemplate doing something like this, it is a work-around to pay topped-out people more money cloaked in an attempt to move to a more progressive pay system. The most common argument is that these employees have been with the organization for a long period of time and they deserve more money and the old system does not allow managers to adequately reward those loyal and long suffering employees. Pay progression/performance pay may be the answer to compensating highly valued performers. At the end of the day however, if people are topped out at what the market says the job they are doing is worth, they are being paid appropriately.

Now, to the pro's and con's, or pluses and minuses, of making a change such as the one being requested. We have written numerous articles over the years about broadbanding and what it takes to make such a system work. One of the first ground rules, though, is that just because you have a broad pay band, it is made clear to everyone involved that not everyone can or should get to the top of the band (regardless of how wide it is.) For example, many organizations will have a management pay band that can range anywhere from 100% to 300% wide (the maximum is 100% to 300% greater than the minimum of the salary band.) However, to make such a system work, the organization will need to have some mechanism in place to determine what segment of the broader pay band is appropriate for any specific job or level of job that falls within that pay band. A Management Pay Band could include both mid-level and top-level managers or just one level. Within the one level, one would often finds jobs that have substantially different market values. For example, in some markets, IT, Engineering, Medical, and Legal jobs may have vastly different value than HR or Finance jobs. Consequently, the most common approach is to define either zones or segments of the broad band that can be used for specific jobs. The zones can be structured to look like pay ranges or they can be specific dollar amounts that serve as target rates for the specific job but with a range of consideration that might be plus or minus 20-25% of the target rate. Either way, there are still parameters that limit the range of pay for a specific job.

The other primary control mechanism tends to be the basis for which pay increases can be given within the designated range of consideration. The two most common control mechanisms are performance and/or skill/competency acquisition and development. To ensure that departments or business units don't simply raise everyone's compensation to the upper limits of the range of consideration or the band (or even a fixed salary range for that matter,) budgetary controls are usually put in place. We have found that the best way to control the system is to simply budget all positions at the designated job rate (that could be the market rate or mid-point of the range of consideration). That way, if a manager wants to pay some people above the market rate for their job, then other positions need to be paid at less than the market rate. Otherwise, there is no incentive to control costs and average salaries within the organization quickly climb to above market rates. That results in increases to your overall salary budget and, using our earlier analogy, this can become very fattening. Policy makers in public agencies today tend to frown on this happening so diets are mandated. Unfortunately, as most of us who have had to lose a pound or ten know, they can be less than pleasant exercises.

So, the pro side of the equation is that managers gain some degree of increased flexibility but there are usually controls that still exist. The con side of the equation is that if the flexibility is not managed, there is a tendency for costs to increase at a much more rapid rate than was originally planned. In addition, if one manager or department sees other managers granting increases, the pressure mounts for other managers to do the same.

As we said at the front end, and also in our previous discussions and articles about broadbanding, it can be an incredibly useful tool when integrated with appropriate performance management or skill/competency based systems and the appropriate fiscal controls are in place. In the absence of those tools and systems, broadbanding can be an open invitation to substantial weight gain.

Good luck!

This article was published in December 2015.

LABOR MARKET DEFINITION

Question: We are getting ready to conduct a total compensation study. One of the major issues we need to resolve is the labor market that is used as the basis for comparing our jobs to the broader labor market. Our community has high service expectations and we believe that more is expected of our employees than other communities in our geographic area given that several of our employees have recently left for jobs with neighboring cities and have told us the reason for their leaving is they can make generally the same amount of money elsewhere and not have to work as hard. Can you help us define the criteria that we might use to assess whether we are comparing to the appropriate organizations?

CompDoctor™: Just to make sure that we understand the issue, we conclude that you believe that your organization is more special than other organizations and that your employees are also more special because they work for a really special organization.

While your community is no doubt a wonderful place to live and work, and you no doubt have a wonderful team of employees serving your community, the real question that we think needs to be addressed is whether being special means that your community expects its employees to perform work that is of a different type or that your employees have different levels of overall responsibility than in other organizations. While numerous factors impact rates of pay for the various jobs within an organization, compensation levels ultimately tie back to the type and level of work performed relative to other employers with whom you compete for qualified personnel.

Over the years, we have heard numerous references to private sector organizations that exemplify customer service such as Ritz Carlton and Four Season's hotels versus Motel 6 or Super 8. Retailers such as Nordstrom and Neiman Marcus are often cited as providing a higher level of service than Kohl's or Sear's. Whether that is true or not, it really comes down to the expectations of the customer. One can also look at the merchandise that is sold in the various stores, the quality of the beds in the various hotels, and the amenities provided to the guest. However, if we are looking at certain jobs such as housekeepers or facilities and grounds maintenance, it becomes a bit more problematic since we doubt that any employer intentionally hires people who are not qualified to do the required work or don't want the work performed correctly. The difference may be selection criteria in that customer service may be a higher priority or may be defined differently by various employers.

When looking at market rates of pay, as well as the various components of total compensation, most surveys focus on trying to define the jobs so that survey participants can determine if they have a job that looks like the job being surveyed. As a result of a series of consent decrees between private sector employers and the US Department of Justice and the Federal Trade Commission related to potential violations of the Sherman Anti-Trust Act, the general guideline for survey matches approximates 70% or better. The guidelines also require that there be a minimum of five matches in order to have a valid basis for comparison.

While there has been some debate about whether the Sherman Act Guidelines apply to public agencies, most of the professional service organizations that we know have concluded that public agencies should be following the same guidelines, if for no other reason than to eliminate any question of the validity of the survey process. Consequently, surveys will generally focus on the job match based on the type and level of the work performed, minimum qualifications and other distinguishing characteristics. Unfortunately, trying to measure such things as workload, quality of service provided, or other characteristics that are unique to each organization become much more subjective. We remember working with a city in a major urban area that professed to provide the highest level of service of any community in the area and prided itself on only hiring the best and brightest candidates when they needed to fill positions. Shortly thereafter, we were retained by a neighboring city and, surprisingly, we heard exactly the same thing. In addition, they specifically stated that they felt that they provided a higher level of service than their neighbor. Needless to say, we did not opine on the validity of the claim from either organization but the point is that quality of service is in the eye of the beholder.

Let's talk a minute about workload, or more significantly based on your question, the nature of the workload. If you look at the value of job as relating to the highest level of work performed, or the work that consumes the greatest portion of an incumbent's work day, then you, and the other organizations to which you are trying to compare, must maintain and be able to provide a finite level of detail about the work of incumbents in the various job classes. While there is no doubt some organizations can provide that level of detail when responding to a survey, our experience tells a different story. In order to obtain that type of information, you will need to analyze operating budgets or other documents for each agency to see if they even report this level of information, let alone maintain such information. If you are prepared to go to those measures, then you may be able to draw some form of conclusion as to how your organization compares to the others from an operational standpoint. However, more commonly, organizations will look at broader-based benchmark data to assess staffing levels relative to population, budget or other metrics that may be of interest. But that takes us back to the fundamental question of whom you want to compare to in the first place. For example, in California, where there are a large number of what are referred to as Contract Cities, it is uncommon for those cities to compare directly to full-service cities since they are looking for individuals with different skill sets and there is a general perception that because they do not provide the same types and levels of services as a full-service city. Full-service cities tend to look at other full service cities, as well as those that have a similar economic basis, similar population, and are competing in the same labor market.

Once the labor market(s) is/are defined, then the agency can begin to ask itself how competitive they want to be in those markets. While the majority of public agencies will state that they want to compensate their employees somewhere around the median of the market, others will decide they want to pay in the third quartile or even somewhere in the upper (fourth) quartile. If they believe that their employees and organization can justify a belief that they hire only the best, brightest, fastest, and most agile employees, then a market position above the median would be appropriate. If they believe that there are reasons that make their organization desirable to employees other than compensation, then they may decide that they do not have to pay above median rates to attract and motivate the caliber of employee that they are seeking.

We know we have been wandering around the gist of your question but we hope that our response provides you with an understanding of the complexities surrounding the issue. In our judgment, quality or quantity of services provided by individual employees are difficult criteria to measure and are different for every job. On the other hand, selecting comparable organizations that you perceive to provide the same type, level, quantity and quality of service may be more defensible. Finally, once you have the market data in hand, you need to determine where in relation to that data you want to pay; e.g. higher, lower or about equal. And that decision is entirely subjective.

This article was published in August 2016.

SHOULD YOU USE A BROADER LABOR MARKET DEFINITION

Question: When my organization conducts salary surveys, they tend to look at cities and counties in our immediate area some of which I know pay less than we do. However, my cousin works for an organization up North and he says their salary surveys include not only local organizations but some of the better paid larger cities throughout the country. Would not my pay benefit if my organization took a broader view of organizations to survey?

CompDoctor™: You have a very good question and one that has several answers, depending on what you are trying to accomplish when conducting a salary survey. Because you have asked this question from a personal standpoint, we will try and answer it for you in that same context but, frankly, the answer would apply just as well to the organization itself. Let's talk about the various factors that go into deciding who to survey.

First, most organizations want to look at the labor market(s) in which they must compete for personnel. It really doesn't do anyone any good to look at markets where you are not competing. Whether the market is for labor, cars, groceries, furniture or housing, it only makes sense for an organization to understand what it will cost them to hire people. While knowing that a job pays a certain amount in New York City is interesting, it is irrelevant if you are trying to hire someone to do the same job in Anchorage Alaska unless the ONLY place that you can find the person or persons you are seeking happens to be in the Big Apple. As with any commodity, and whether we like it or not, labor is a commodity and employers need to understand that they need to be competitive in the market(s) in which they must compete. Do you look at house prices in Seattle if you want to live in the Arizona desert? Probably not. Organizations also may consider internal equity or alignment, along with external labor market conditions. Your employer may be attempting to balance these two, and occasionally competing, factors. When internal equity is considered, some jobs may end up being paid slightly above market while others may be paid slightly less than market.

Second, each organization is probably competing in multiple labor markets. There is a local market for jobs that are traditionally considered to be hourly or FLSA (for those who have been living under a rock, that is the Fair Labor Standards Act) Non-Exempt since most jobs at that level tend to be filled locally. There may be specific occupations or jobs that are exceptions, but for most jobs, we find this to be a consistent practice throughout the country. While an organization may receive applications for positions for jobs at this level from individuals outside the local market, those individuals tend be looking for a job in the specific location and are already looking to relocate there. While there are always exceptions, the labor market for jobs at this level tends to be more local. For professional and mid-management jobs, the market may be a bit wider. The market for jobs at this level could be regional or statewide and it may even include an industry component. The market for jobs that are unique to a specific industry and require specialized expertise will vary depending on the number of potential candidates within a region or state.

For executive level jobs, the geographic market tends to get wider yet and may be regional or even national. However, at that level, the size and scope of the comparator market will tend to be more narrowly defined. As a general rule, we tend to focus on organizations that are no smaller than half the size of the client organization or more than twice the size of the client organization using variables such as local population, number of employees, services provided, and economic comparability/tax base. The rationale for limiting organizations by size at this level is simply that you want the market to be looking for the same pool of candidates that you are looking for. To be overly dramatic, the City of New York is not looking for the same person to be its Police Commissioner that a mid-sized city in middle America is seeking given the differences in experience and skill sets that each would typically be looking for in their candidates.

Once the organization has defined the labor market(s) that it feels appropriate for its use, the other part of the equation is whether or not they want to geographically adjust the data to reflect the economic differences or costs of labor throughout the country. For the same reasons one would need to evaluate sales tax rates in different locations when looking to purchase a commodity to determine if it was less expensive to buy it from one vendor in another city or state, most organizations need to assess how they compare to the market when the market is adjusted to reflect the differences in the cost of labor. Geographic differentials also reflect that most people, when looking for or considering accepting a new position, are also taking into consideration the geographic location of the position, relative to their current location or employment. Various questions are asked such as will I need to relocate, how expensive will housing be in that location, what are the options for other family members in terms of employment, and so forth. However, it is important to note that when the Department of Labor initially proposed its rule to change the salary test for FLSA exemption, they used a fixed rate that did not consider geographic differences throughout the country. When the final rule was issued, the threshold amount was based on the lowest cost area in the country and applies equally to rural America and the largest cities in the nation.

While there are organizations that do not geographically adjust market data, we have found that those organizations approach the definition of market a little differently. They may use a market definition focused on ten larger and ten smaller organizations or some other criteria that, when all of the data is aggregated, will give them a reasonable representation of the overall market. The bottom line is that determining market compensation is tied to compensation philosophy and different organizations will define market in different ways. This, we believe, should explain why your cousin's employer approaches the subject differently than your employer. Simply stated, different employers with different situations and different economic issues to deal with will come to different decisions even with the same market data. Whether you would be paid more or less is not a simple yes or no situation. And when it is all said and done, if you believe that your cousin's employer is more to your liking, you are certainly free to apply for a position with that organization.

This article was published in April 2017.

DEVELOPING A NEW OR UPDATED COMPENSATION PHILOSPHY

Question: Our City is in the process of developing a new compensation philosophy. The City Council has made it abundantly clear that a traditional system that rewards employees for seat time is dead on arrival. Can you offer some alternatives that they might find more acceptable given current conditions?

CompDoctor™: Seat time – How long have you been running an airline or a commuter rail system? Frequent flyers (like us) love to be rewarded for seat time versus other alternative means such as the cost of the ticket or how many connections are needed to get from point A to point B. We believe that since we suffered through the indignity of air travel, we deserve more than the less frequent travelers, but that is probably not what you were asking about.

For those who are not privy to the highly-sophisticated terms we use in the compensation strategy world, "seat time" is a euphemism for longevity or tenure in a job classification. Those who might be more cynical would use terms such as "steam on the mirror" as the determining factor in granting a pay increase. For some strange reason, elected officials have begun to take a dim view of this practice and now believe that the awarding of pay increases should be tied to something more meaningful, if not more tangible. We will attempt to identify a couple of options that you may wish to have them consider including skill-based pay, competency/knowledge based pay, and performance-based pay.

It is important to understand that all of these alternatives are appropriate when organizations strive to achieve any or all of the following:

- Strategic alignment;
- More emphasis on employee contribution;
- Closer ties to identified success characteristics and organizational culture;
- Retention of key employees;
- Improved quality and productivity;
- Sending of a clear message to employees on what it takes to be successful; and
- Facilitation of the "reinvention" of the organization.

Skill-Based Pay
Skill-Based Pay is used most commonly in the trades, health-care, information technology and public safety. The underlying premise is that employees should be paid for skills they possess that are of value to the employer. It is an approach that supports organizations who are seeking to reduce staffing by having employees who possess a wider range of skills, thereby enabling them to be more versatile and cost effective, often resulting in reduced staffing requirements. The key is to identify legitimate skills and competencies for each occupation and/or job title that can be measured and readily

verified. The value of each skill block is then determined and employees are compensated based on the skills that they possess and use on behalf of their employer. These pricing considerations will take into account the value of the skill, the complexity of it and the time required to learn and demonstrate competency.

Since the early 1990s, dramatic labor force changes have occurred. Much of the first half of the 20th century was spent in the development, application and fine-tuning of job specialization as a mechanism to enhance productivity. Skill-based pay has its roots in the assembly line process beginning as early as the 1940s. In the 21st century, trends such as globalization, technological advancements, customer focus and the general business climate have highlighted the need for new compensation systems and structures that provide for increased workforce flexibility in an era of increased competitiveness.

Skill-based and competency-based pay are methodologies that provide for recognition and reward of individually-based skills, knowledge and capabilities. Simply put, skill-based pay allows for employees to cross train, fill in for absent workers, and to shorten the "cycle time" or "down time" otherwise associated with highly specialized workers.

Competency-based pay takes that concept one step further through identification and compensation for not only the acquisition and demonstration of technical skills, but also behavioral attributes that contribute to organizational goals. Both these approaches to pay reward employees on the basis of individual contribution, or "person-based" pay, rather than the traditional job-based pay practices that have been prevalent in the public sector.

Skill-based pay is extremely compatible with broad job classifications and a broadband pay structure since the focus is not on the type of work performed but the skills and competencies of the individuals performing the work. Some of the most common job classifications that we see using this type of pay delivery mechanism include Inspectors (Building, Electrical, Plumbing, Fire), Equipment Operators (ranging from simple hand tools to large and complex heavy equipment including cranes, road graders, and everything in between,) Fire Fighters (including driver operators and paramedics), and Nurses. In all of these examples, the organization will typically have a single job classification but pay bands that can accommodate the full range of skills that are recognized and for which they will pay.

To make a skill-based pay system work, you will need to do:

- Conduct a work-process analysis to identify the skills needed;
- Value skill units based on the dollar value to the organization;
- Develop individual certification programs to verify that the skill is learned; and
- Deliver pay *after* the skill is demonstrated (which means that you as the employer actually need it).

Competency/Knowledge Based Pay

As described above, Competency/Knowledge Based Pay is very similar to skill-based pay. It differs in that it tends to be focused more on professional/managerial jobs as opposed to the trades, but there is nothing inherent in the system that limits it to professional jobs. The big difference is not in what you can do but in how you go about doing the work. It simply takes it a step or two further and measures the effectiveness of performing your job.

In a competency pay system, pay increases are based on demonstrated individual performance behaviors or other personal attributes that are observable, measurable and critical to the organization's success. These criteria can be such things as teamwork, leadership, critical thinking and others.

Broadband or broad pay ranges are generally the most appropriate pay structure for competency-based pay.

- This is a person-based, not a job-based pay application.
- Pay increases delivered under a competency-based pay system are tied to demonstrated behaviors.
- Competency-based pay is generally not a stand-alone solution. It's most frequently found as a part of an integrated HR solution that includes performance management systems and recruitment/selection.

Performance Based Pay

Performance Based Pay is, theoretically at least, tied to achieving some pre-determined goals or objectives. We have written several columns on this topic so we will just cover the highlights here.

Essentially, performance based pay is a process whereby a supervisor evaluates the performance of the employee against a set of objectives to measure what you do, and behaviors to measure how you do it. A typical performance based pay system will measure each of these criteria against a 3 to 5 point scale representing categories such as "needs improvement," "below expectations," "meets expectations," "exceeds expectations," and "exceptional." Labels are important but, ultimately, the number of levels will be determined by how finite the organization wishes to measure performance. For organizations that are new to the process, a three-level system is generally easier to implement but a five-level system is not uncommon. The scores of each of the criteria are averaged in some fashion to create an overall score, which then is compared to a merit matrix that identifies the amount of an increase the person has earned. A merit matrix outlines the potential pay increase opportunity for employees based on a combination of a performance rating and where they are within their existing salary grade or pay range. Typically, employees below the market or job rate are eligible to receive larger percentage increases than employees who are at or above the job rate for meeting performance expectations.

These systems work with narrow or broad salary ranges, but are difficult to sustain when there is little money available and managers are unable or unwilling to distinguish between "average performance" and either "below" or "exceeds" expectations. The fact that this process can be subjective if not effectively structured and managed can also be a strike against it, although there are ways to reduce the subjectivity and hold managers accountable for their decisions.

We trust that we have given you some alternatives to rewarding employees based on "seat time." With luck and persistence, you can offer these solutions to a Council that is reluctant to keep doing what you have always done in the past.

This article was published in March 2013. It was updated in December 2016.

ALTERNATIVE REWARD PROGRAMS

Question: A member of our city council has been advocating increased use of an employee suggestion program in order to generate ideas that will save the city money. He is also supporting a payment to any employee whose suggestion is accepted and implemented of 10 percent of the cost savings that are generated. This idea has taken on a life of its own. Now the local newspaper editorial writers have weighed in and are suggesting that the amount is too much. Even so, they suggest the program should be expanded to include any citizen that submits an idea that is ultimately accepted. I know that suggestion programs have been around for a long time but do you have any insights regarding this issue?

CompDoctor™: Insights? Of course, we have insights. Whether our insights will be taken seriously by elected officials and/or editorial writers is a different matter altogether. Nevertheless, we will share our thoughts on this issue and see what comes of it.

As you have correctly noted, suggestion programs unto themselves are not new. In fact, surveys we have conducted in the past tell us that they are used by a large percentage of employers in both the public and the private sectors. Whether there is a financial reward for the suggestion will vary based on the overall objective that the organization had in setting up the program in the first place. Most of the programs we see are individually based in that that an employee is encouraged to submit their idea(s) for change(s) or improvement(s) in some defined area. The organization then goes through some magical process to determine which suggestion is, or which suggestions are, the most noteworthy, and then the employee is, or the employees are, recognized in some fashion for their loyalty and dedication to the organization. The main problem with these types of programs is that they often do not work. One of the major failings is that while one employee may submit an idea and ultimately get the credit, others will argue that it was their idea first or that more than just one employee was involved in developing the idea. Or worse, if the employee had been doing the job right in the first place, the suggestion would not have been necessary.

Back in the early 1990s, a related concept called gainsharing became more well known in the public sector after being used in the private sector for many years. In a gainsharing program, a group of employees work collaboratively to figure out a way to accomplish some defined goal that will result in lower cost without adversely impacting productivity, customer/client satisfaction, or quality. Under a structured and formal gainsharing program, the employees and the employer will share in the cost savings for the first one to two years and then all of the savings will accrue to the employer. Typical sharing arrangements range from a 25-50 percent share for the employees with the balance going to the employer to help offset any costs associated with making the changes needed to generate the cost savings. The employees benefit because they can potentially earn a substantial award, as well as learn how to more effectively work together to generate cost savings. The employer benefits because their costs will go down over time and the incentive awards are paid for with cost savings, so no new money is required (unless an investment is needed to implement the cost savings.) Successful programs have a pre-established process that must be followed in terms of developing an idea for cost reduction and will also include an audit component to ensure that the cost savings are real. There is a similar approach called "goal sharing," but these programs focus on achievement of an organizational goal and do not necessarily result in cost reduction. For example, an organization may be seeking to improve citizen satisfaction with a particular service. Under these programs, money is normally allocated for achievement of the stated objective.

What is interesting is that 15 years ago, in an article on gainsharing published in *Governing*, one of the reasons cited as a reason that, at that time, gainsharing hadn't been tried much was that states and localities had, for several years prior to 1995, been focusing most of their attention on direct savings in personnel costs, primarily through holding down annual raises or out and out pay freezes. At the same time, governments had been focusing on holding the line on or cutting health insurance and pension costs. What is particularly interesting to us is that this statement, published 15 years ago, could just as easily have been made yesterday.

The whole idea around suggestion and gainsharing programs is that they are an attempt to make employees partners in boosting government efficiency rather than mere targets for savings.

As straightforward as the idea might sound, however, gainsharing carries some political risks. The concept raises tough questions that government officials need to be ready for if they are serious about trying it.

For example: If public sector employees can suddenly and significantly boost productivity, public officials just start asking whether employees have been holding back (and some public officials might). If savings are achieved, shouldn't they accrue to the taxpayer and not the employees, and shouldn't budgets be cut commensurate with the new, higher performance standard? And finally, won't government or individual departments eventually hit a peak performance level beyond which savings and efficiencies are simply not likely to be found? These are all legitimate questions.

The idea that the general public should be eligible for a reward through a gainsharing or suggestion program carries the same risks. One citizen submits an idea but many others may have had the same idea or were involved in formulating the idea. From our perspective, citizens benefit through either increases in service levels or reductions in the cost of government overall. Paying out an incentive to citizens reduces the value of what, in many cases, is a relatively small pot of money. Another issue is whether this would even be legal in your state. Under the equal protection clause, shouldn't all citizens have an equal reward?

While programs such as gainsharing mostly focus on the rank and file, we are seeing many more organizations focusing on something many have considered extremely radical (pay for performance) as a way to get some extra money for a group of long-forgotten public employees: upper-level managers. The idea is to address what some see as a fairly galling disparity: While rank and file workers have been seeing at least small raises over the past few years, there are some upper-level public sector managers who haven't had raises in that period or longer. That has led to situations where some line workers may earn as much as or more than their supervisors.

If there is a downside to gainsharing within government organizations, it is fear of the unknown on the part of both employees and taxpayers. This is understandable, given that gainsharing has not been used extensively in the public sector. In fact, according to a nationwide survey we conducted several years ago, fewer than six percent of public sector organizations in the United States, from school districts to state level organizations, have implemented gainsharing programs. That makes the gainsharing and suggestion programs a convenient target for criticism by those who would call government efficiency an oxymoron.

Hopefully, these thoughts provide some insight as to how you might respond to your elected officials and the media.

This article was published in 2011. It was updated in December 2016.

JOB ANALYSIS

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Job analysis is a tool that many HR professionals are familiar with. Often, this familiarity is most commonly focused on developing position descriptions / specifications to define jobs. By definition, Job analysis is the process of gathering and obtaining information about jobs to determine their duties, tasks and associated activities. My observation over the years is that too many practitioners, supervisors, and others think that the ultimate outcome of the process is the job description itself without real consideration and understanding of peripheral HR program impact.

Jim Fox and Bruce Lawson have for years written numerous CompDoctor™ articles to support my observation, and I would bet your observations and experiences are similar to mine. For example, the job analysis process does not stop at the door of a job description. It impacts agency classification structures, employee recruitment and selection, promotions, performance appraisal and compliance with Federal, State, and Local laws. I could name more relationships to the HR function itself but I think it would be more beneficial for you, the individual reader, to ascertain and confirm this understanding of Job Analysis by reading the articles in this section of the Book. Go ahead, make yourself competently dangerous, the water is deep but not cold.

BROAD BANDING OF JOB CLASSIFICATIONS

Question: We have an internal pay compression problem because we have not moved our employees through the ranges. Now, new hires are coming into our organization and they are often paid more than the employees who have been in the organization longer. The longer-term employees are paid less than the new employees and they are training our new employees. Employee morale is at its worst and we cannot figure out a way to get out of this. Do you have any ideas?

CompDoctor™: Of course, we have a solution, and it is one that will restore employee confidence in the organization and get you back on track by paying employees according to their job, as well as their experience. But we should warn you—this will cost some money.

First, let's recall how you got into this situation. You got there because you did not have any logical way of moving employees through the ranges. Your Governing Body gave across-the-board increases to all employees and, at the same time, you moved the salary ranges up by the same or nearly the same amount. The result is that employees felt that they were not going anywhere in the range. In addition, you had hiring practices that said that you should hire at the minimum of the salary range for minimally qualified candidates and only (if the earth shook on a Tuesday at 3:02 p.m.) would you hire anyone in at a higher level in the range.

This all seemed to work reasonably well until, all of a sudden, you came to work and none of the qualified applicants would accept your pay offers. So, giving in to the pressures of the departments, or the economic conditions of some jobs, you made some exceptions and hired candidates at higher levels. Maybe you even hired candidates at a rate up to the first quartile of the range. Or, if the only known person with the skills we absolutely had to have walked in the door, you might have been forced to pay up to the midpoint of the salary range. Of course, this required an "act of congress" and the blessing of the pope, but you got it done and you had your person. Then you found out that the new person did not walk on water, nor were they the "omnipotent one" that you were promised.

Sound familiar? You are among friends, or at least you are among many, many others who are in the same boat. Unfortunately, your boat has a small leak and you are in the middle of ocean with no land in sight. The leak in your boat is only going to get bigger and let more water in unless you get a Gallagher glue stick. This potent goo will not only fix the problem but will help you to build entirely new boats as well.

Here is what you need to do. First, assume that all your current employees are performing at a satisfactory level. If they are not, the first prudent thing to do is to put them on a performance improvement plan or remove them from your employment. Call this "clearing the decks." You need to do this if you want your solution-to-pay compression to resolve the issues and put you on the correct path.

Next, you need to make sure that all employees know the hiring policies and practices. You will never get away from hiring candidates at rates that are above the minimum, although some current employees would like you to do that! You need the flexibility to hire qualified people and sometimes that requires a hire-rate that exceeds what current employees are getting paid. It may not go over with great applause from current employees, but if you reinforce this as the exception and not the rule, most employees will accept it.

This article was updated in 12/16.

UNDERTAKING A COMPREHENSIVE REVIEW OF CLASS/COMP SYSTEMS

Question: Our organization is getting ready to undertake a comprehensive review of our classification and compensation system. Can you give us some guidance as to how we do this so that we end up with a successful study and not a disaster that will cost me my job?

CompDoctor™: You have obviously been witness to other organizations that have conducted such a review and we are guessing that you may have witnessed the fallout from a review that, as they say, went south. Either that, or you have been there yourself and have prior experience with a study that did not go well and now you are in a new agency and don't want to make the same mistakes twice. A very wise move!

Obviously, this is something we see happen all too often. In reviewing in excess of 300 requests for assistance per year from agencies that want to conduct a classification and/or compensation study, we see some fairly typical requirements. Most common is that the request will specify the desired outcome such as a new pay plan or job descriptions. When asked how they came to that objective, the answers are all over the board. What this tells us is that somebody either decided that doing a study was a good idea or they are doing one to placate a certain constituency or stakeholder. Another common reason is that they have a policy of redoing their classification system every five years, even if it is working for them. Do they *really* want to do this? Probably not.

In many cases, the reason for the study is really that people do not like how the current system is managed. Let us assure you that designing a new system to replace an old system that is structurally sound but administratively out of whack (one of those fine terms of art) is not good business. If the old system was not properly managed or administered, do you honestly think that the old problems will not recur with a new system? If the problems are administrative, (like you made up jobs that were not valid simply to justify an increase in pay for someone, or placed a job into a higher pay grade when it should have been placed in a lower grade) save yourself a lot of time and money and deal with the administrative issues. In the long term, it will be far less agonizing than designing and implementing a whole new program. Furthermore, you will tick-off fewer people.

We are also amazed at the naivety regarding the process. Organizations will say they want to start this project no later than January 5 and have a study completed by March so that they have all the information needed for the budget for next year that begins July 1. This is the equivalent of deciding in September that you want to start working on a family addition so that you can have an additional tax deduction by December 31. It is usually not reasonable or doable unless you are going through some form of adoption. Other organizations will specify the exact steps they want but have not really thought through the realities of organizational change and the need to take certain steps to gain employee, supervisor, manager, and elected official buy-in regarding the study results. When vendors propose alternative approaches, they (the vendors) are judged as not compliant with the agency's requirements. This impacts the selection of someone to guide the process.

One of the major pitfalls is that some organizations believe that they can achieve universal peace and love through a classification and compensation study. Until there is acceptance of the fact that it is virtually impossible to make everyone happy and that, at best, you will get 50 percent of your employees neutral to happy (thereby leaving the other half who will not be pleased with the outcome), it makes little sense to move forward with a study such as you describe. We recently had a client that wanted a comprehensive review completed including fairly substantial change to the underlying system like new job titles, new grade structures, etc. Unfortunately, as it turned out, that meant changes to only those parts of the organization that were small or had little overall clout in the organization. Certain departments felt that they should be excluded from the study because the department head reported directly to the city council and not to the city manager, or that a department should be treated differently because it was an enterprise operation. Until those kinds of issues can be addressed, you should not move forward.

While most organizations reserve job classification as a management right (in those agencies with collective bargaining), the compensation system will ultimately become the subject of meet and confer or collective bargaining. It is essential that you at least have some sort of tacit recognition from your employee organizations as to what you want to do and why you want to do it. That does not mean that they will embrace every outcome but at least they should be a party to the process.

You asked what steps should be taken to avoid a disaster. In addition to our previous comments, you absolutely need to be intimately involved in the project. The human resources director or some other very high level manager must be the owner of the process. You cannot simply defer to an outside organization and then just assume that they will do everything. Would you hire a contractor to completely remodel your house and then just move out while the work is being done without being intimately involved? We certainly hope not. However, if you don't want to get involved and put your own stamp of approval on the process and the outcomes, then it is unrealistic to expect that you will have any control over the results.

Finally, you should make sure that this is not viewed as solely a human resources initiative. Involvement of the various stakeholders at the beginning will go a long way to gaining some degree of ownership in the results. If it is solely an HR initiative, it helps if the HR department is viewed as well managed, progressive, a positive force for change in the agency, and well respected by all parties. Since we know that description fits most of the HR departments in the country, feel free to ignore the other comments we have made to this point.

This month's rule: All changes to classification and compensation systems will create anxiety. Small changes are difficult because they typically address specific issues that only affect a vocal few. Big changes are difficult because of organizational inertia and the mindset that change is not necessary. Like harbor pilots who bring large ships through perilous waters, change agents must work with gifted navigators to get them through the process. If you do not, prepare to hit the rocks.

This article was originally published in January 2007. It was updated in December 2016.

CLASSIFICATION AND COMPENSATION PLAN OVERHAUL STUDY TEAM

Question: We will be starting a project to overhaul our classification and compensation system. We would like to get a team together to guide the project and help communicate the process to the employees. Who should be on this team?

CompDoctor™: Every team needs a quarterback, a running back, a center, maybe a kicker if you ever get within 30 yards of the end zone, and a coach or two. Of course, outstanding players who can fill these positions are in high demand and may have other offers…like their normal job. So, you will need to entice them with benefits and special multiyear deals.

In our experience, an excellent team starts with the HR department. To be successful, the team also requires strong backing from the top administrator, as well as the governing board. Given that, we have found that the following members usually make up a well-rounded team:

- ***A lawyer*:** Yes, we know all the lawyer jokes. And so do they. But if your organization has unionized workers—or even if it doesn't—then you will need someone who understands employment law and negotiation rules. You don't want to get to the end zone and have someone like a union lawyer come in and charge you with a penalty (some people call those unfair labor practices.) It is better to get legal advice as you work downfield.

- ***A finance person*:** While HR and finance professionals always seem to look at things a little differently, getting the finance folks' perspective throughout the process can be beneficial. If nothing else, it will spare you the heartbreak of getting to the end of the game only to be told that the organization cannot afford to implement the new compensation plan. As an additional benefit, finance professionals are usually fairly detailed. (Just make sure that they leave the green eye shades in their office when they show up for a meeting. Those visors make them look funny, and people will start talking!)

- ***The head of at least one large department***: Large departments have most of the workers who will be affected by changes to the compensation program. They also have a variety of different occupational groups and levels. Whatever changes you decide to make will impact these departments the most, so they had better be on board. If the plans do not accommodate the needs of large departments, how are you going to sell them to a smaller department? Further, while it is not always the case, the heads of larger departments tend to be the stronger managers of people, things and information. Finally, the costs will impact large departments most heavily. See finance person recommendation above.

- ***The head of the social services/human services function (in counties and states)***: This may be a duplicate of the above, unless the department head mentioned above is the head of a department where a lot of blue collar jobs exist. Social services jobs tend to have different rules than blue collar jobs—think of the differences between soccer and football. Employees providing social services are subject to a variety of state and federal rules, procedures and regulations that may not apply to other public sector employees. In addition, they deal with people rather than things, so there is a different set of criteria for determining the value of social service jobs and a different market for new hires and career advancement. It is best to have someone from this side of the organization on your compensation planning team.

- ***The head of one small department*****:** Small departments often see their needs as vastly different from those of large departments. Because your organization probably has several small departments, it would make sense to include the head of one of these departments to provide this perspective. It is important that the smaller agency voice is included in the planning process since it can be very loud following implementation even though the small departments do not represent a large percentage of the organization's workforce.

- ***An employee***: Well, yes, all of the above are employees, but what we are talking about here is someone who is not a supervisor, manager, department head, lawyer or finance or HR person, but just a regular employee, although preferably one who is well known and respected by other employees within the organization. The employee member of the compensation planning team will have a different perspective on what will work with employees than any of the other members, and you will be well served to take this perspective into account. If your organization has unions, the employee member could be a union representative. From our perspective, the most important characteristic is that the employee be well respected and able to communicate effectively.

- ***A communications person***: At some point in the project, you will need to get your message out. That time is, well, all the time. Someone with communications training will be able to take your technical terms, processes and expected outcomes and translate them into words and presentations that employees will understand. Do not underestimate the impact a well-turned phrase or an effective presentation can have on the acceptance of your efforts. Including people who are trained in communications will benefit your team.

- ***One or two members of the governing board*****:** Lest you think that we have lost all of our marbles (maybe we've lost a few, but clearly we haven't lost them all), we need to stress that there is good reason to include at least one or two policymakers on your team. At some point, you will need to take your results to the governing board. When that time comes, it will be very helpful if you have someone on the board who already understands what you have done and why you did it the way you did. This person can then help champion the cause when it comes time for board approval.

- ***An HR type from outside the organization*:** We have found that having someone with a strong HR background from the community at large is helpful. This individual can often bring to the organization a new perspective on how things are done elsewhere and also provide legitimacy to the process in the eyes of governing board members, the media and other potential critics.

- ***The HR director of your organization*:** The last, but obviously not least, essential member of your team will be the HR director for your organization. As the project owner, leader and sponsor, the HR director absolutely needs to be directly involved in the planning process.

Following our blueprint will give you a core team—a steering committee, of approximately nine individuals. While you could expand it slightly by increasing the number of employees or department heads, we find that when committees get to be much larger than 11 members, the process becomes a bit unwieldy. It is also tough to get larger groups together for meetings when needed.

One other thing to consider is whether to allow members of the committee to delegate alternates. You should resist this if at all possible. What happens with alternates is that they show up not familiar with the background that got you to your present point and a lot of time is spent bringing the alternates up to speed on what has already been accomplished rather than moving forward with new business. In addition, alternates give the members who were picked for specific reasons an easy out when it comes to direct participation. Allowing alternates, then, is contrary to the objective of getting the perspectives and buy-in of key people within your organization.

After selecting the team, you need to clearly define the role of the steering committee at the beginning of the process. Since you are initiating an overhaul of your organization's classification and compensation system, you must ensure that your steering committee members understand that they are advisors rather than decision makers.

The important thing is to make the project as transparent as possible by having key stakeholders involved throughout the project. It also must be stated that the team will not be determining the compensation of each and every person in your organization. Rather, committee members will be talking about structure, process and equity. We have often found that some members, and even those who are not members, think that the steering committee will be deciding pay for each individual. That is not, and should not be the case.

Suggested roles for the steering committee are to:

- Serve as a sounding board on ways the project team can maximize stakeholders' acceptance of the process. Included in this task would be having committee members discuss how participants in such required activities as occupational panels are selected and how the initial employee orientation sessions on changes to the classification and compensation system are conducted (e.g., groupings, locations).

- Collaborate on the overall classification and compensation philosophy. While it is not a decision-making body, the steering committee should come to some degree of consensus on the new system before it is submitted for formal approval to the city council, county board or other policymaking body. Ideally, the steering committee will endorse the document, which will facilitate formal adoption. Often, it makes sense to include council or board members and senior managers, with an eye toward to getting this consensus endorsement, on the steering committee.

- Assist the HR department in reviewing various materials, including communications documents, the position description questionnaire, and the market compensation survey instrument.

- Assist the HR department in communicating project status to stakeholders.

- Review and discuss such things as the draft classification structure document and the compensation study report. Committee input is then used by the consulting or HR team to make changes to the deliverables, as appropriate and necessary.

Finally, when selecting steering committee members, you need to think about how they will interact with each other and how they will accept change. After all, what you are planning will change things—hopefully for the better. In any change effort, some people will become frustrated simply because things will be different and those people may reject changes not because the changes are worse than status quo, but just because they are changes. So, you need steering committee members who are all or most of the following:

- ***Reasonable*:** We know that all your people are reasonable, but you want some of the most reasonable people on your team. What this means is that they do not reject others' ideas out of hand. The members of the steering committee need to be open to new ideas and different ways of looking at classification and compensation issues. They need to be able to compromise for the good of the organization.

- ***Willing to listen to others*:** In other words, you want someone who will not dominate discussions but who will talk and offer his or her opinion.

- ***Knowledgeable***: This means people who know something about how the classification and compensation systems work, and the differences between the two systems. This is not necessarily someone who feels that his or her last classification request was wrong and has a score that can be settled by participating on the committee. It also means someone who has been with the organization for some time and knows its workings, its departments and its employees.

- ***Busy*:** We have found that busy people don't have time for committees that exist solely to hash out old stories. Busy people want to get on with the agenda, come to conclusions or provide advice and move on. They are action-oriented and willing to be slightly wrong so long as the process moves forward, trusting that they can always make minor adjustments later.

- ***Well-respected*:** You want people who other employees respect and whose opinions matter. They will be the ones employees go to when a compensation study is in process and when it is done. Employees will look to them to explain the decisions made and to gain comfort that the decisions are fair, equitable and address all the important issues.

So, you now have the playbook for putting together a winning team and completing a successful project. However, as with all team efforts, you may fumble the ball on the five-yard line, and the other team will carry it into the end zone for the win. Compensation and classification projects can be like that. But with the right team and right amount of time given to the process, the odds of being the one with the most points on the scoreboard are excellent. Good luck!

This article was initially published in August 2008. It was updated in December 2016.

HOW TO MEASURE SUCCESS FOR A CLASS AND COMP STUDY

Question: We will be starting a project to overhaul our classification and compensation system. As we plan for the project, we want to establish criteria by which we can measure success. Do you have any pearls of wisdom for us that would help us define success for our classification and compensation study?

CompDoctor™: You have asked a very insightful question. With capital projects, success can easily be measured through completion of the project on or ahead of schedule and at a cost that is within the established budget. Whether the project was needed is not really an issue since the decision to move forward with the project, be it construction of a new highway, a new park, a new building, a flood control project, or even a major reconstruction effort, was probably based on the need for the project. When you take on projects like a classification and/or compensation studies, things are not quite as tangible since the physical product is often a report. And the implementation of the report will likely affect every employee in the organization.

While you can certainly use the basic criteria of completion on schedule and within budget, we think these criteria may be the wrong way to measure success. Rather, we believe that a key success measure is: did the study accomplish what you wanted it to accomplish? Or, put another way, did it solve the problems that gave rise to the study in the first place? From our perspective, success can and should be measured in a variety of ways, as follows:

- **Why did you undertake the project in the first place?** We have addressed the issue of why an organization should undertake a review of its classification and/or compensation program in prior discussions. We suggest that you review our column on determining whether your system is out of whack that was published in 2006 as a guide to addressing this issue. Determining success starts with a definition of your problems and/or issues. Simply stated, one cannot determine success if you have no idea where you are going.

- **Were stakeholders involved?** One of the biggest problems that we encounter is that many organizations attempt to conduct classification and/or compensation studies as administrative activities that are solely the realm of human resources. The fact that changes in classification and compensation programs seem to be of considerable interest to employees, operating managers, executives, policy makers, and, dare we even breathe the word, the general public, tells us that stakeholders need to be involved if a project is to be completed successfully. The degree of involvement will vary but a former column addressed this issue in terms of the composition of a project steering committee. While stakeholder involvement through the steering committee is critical to overall project success, there clearly needs to be greater involvement of the various stakeholders if the project is to have a successful outcome. This does not mean that you are negotiating a solution to your problems or issues. For those agencies that have unionized workforces, you will ultimately need to negotiate or at least meet and confer with the affected employee organizations over implementation of some of the recommendations coming out of the process. However, the negotiations should be on implementation issues and not the study process or the data that is produced through the study.

- **Do stakeholders understand why the changes that have been proposed are necessary?** Organizational change is always a challenge. Change that affects people directly is even tougher, especially when one is addressing something as personal as the job classification structure and individual position allocation into a new or revised class structure. Add to that the issue of pay and we are dealing with two of the most delicate parts of the human anatomy: egos and wallets. When dealing with organizational change, we have found that it is imperative that the stakeholders understand from the very beginning the problems you are trying to address and why they need to be addressed. In the private sector, there are currently numerous organizations that are undergoing major change. Just look at the travel industry. Consolidation of airlines resulting in integration of workforces is a good example of organizational change that has been very difficult for many stakeholders. The auto industry had different problems to address but major changes were needed for the various companies to survive. Nevertheless, in both instances, one party may feel that it should be kept whole and that may or may not be possible, depending on the situation. When stakeholders create barriers to change, the success of the change initiative is jeopardized, along with the outright success and/or survival of the organization. Without involvement of the stakeholders in the process, though, the likelihood of failure will be much more likely than if stakeholders are involved throughout the process. The important thing to remember is that there needs to be a balance. If you are looking for peace, love and harmony, as well as full acceptance of the changes by all stakeholders, then you should either stop the process before starting or consider instituting a substance abuse testing program for the decision-makers, as that degree of harmany simply will not happen. Understanding what and why changes are needed is one thing. Full acceptance and support of the changes is another.

- **To what degree are you able to implement the changes that are proposed?** Many of the changes that come out of a classification and/or compensation study may be implemented by administrative action. That is often the case with agencies that do not have formal civil service systems that require approval of any changes to a classification system or changes in the classification of individual positions. When independent bodies, such as civil service commissions are involved, they need to be kept in the loop from the beginning regarding the need for the changes that are being addressed. Clearly, if the policymaking body for the agency, such as a city council or county board, has adopted a classification and compensation philosophy and strategy that spells out the type of system that is needed, then there is less of a problem. On the compensation side of the equation, you may need to negotiate or meet and confer on the implementation of changes to the manner in which pay is delivered. Depending on the number of bargaining units involved, and the degree of change that is needed, a multiyear strategy to achieve the desired results may be required.

- **Did the changes that are proposed address the issues that caused you to do the study in the first place?** The first issue that we referenced is making sure you know what issues you are trying to address. At the end of the day, you absolutely need to be able to say that you did address each issue in one way or another. If the problem was big enough to tackle in the first place, you certainly need to be able to show how it was addressed. Simply throwing up your hands and saying that there is no solution is simply not going to be acceptable to those who agreed up front that you had a problem.

So, now you know how to determine if you have led a successful project. The point we are trying to make is simply that completion of the project on schedule and within budget is not a realistic way to measure success. Rather, you may have had a successful project even if the project takes longer than planned and/or goes over budget because you elected to take the steps necessary to involve stakeholders throughout the process. You will note that involvement is not the same as agreement. It also does not mean that you need to negotiate with the participants. It also does not mean acceding to the will of individual employees who may or may not understand all of the issues involved. What you want to achieve is participation and understanding of issues and solutions by the key stakeholder groups. If you do that, we believe that you will be well on your way to success. Getting the study results implemented, so long as you address the issues that you defined at the beginning of the process, will then result in a successful project.

This article was originally published in 2008. It was updated in December 2016.

DEPARTMENT SPECIFIC JOB CLASSIFICATIONS

Question: We are getting lots of pressure from Department Heads and certain employees to have job classifications that are specific to their department. Can you help me explain to them why this is not necessarily a good idea?

CompDoctor™: Well of course we can! Needless to say, it is a whole lot easier if the jobs in question only exist in one department, such as Police Officer or Firefighter. However, we are not sure that even we are smart enough to come up with a rational explanation for department specific classes when the body of work is performed in two or more departments across the organization.

Over the years, we have seen some pretty imaginative classifications created in order to deal with issues having nothing whatsoever to do with classification. In most cases, we see this kind of arrangement in agencies that have a large number of bargaining units that are established by department. For example, one large agency had plumbers in multiple units but because one particular unit did not want to have plumbers from another unit bump into their unit, special job classes were developed. As we all know, plumbing systems in one building differ from the plumbing systems in other buildings. Consequently, the work requires different skill sets that justify a higher or lower rate of pay. As a result, the plumbers in one unit would not be qualified to work on the systems serviced by the other unit. In another large agency, all of their bargaining units were based on department and not job family or level. As a result, clerical and administrative support jobs that were virtually identical ended up in 16 different bargaining units. Because the unions were unwilling to collectively negotiate the compensation level for the jobs that crossed departmental boundaries, the agency had to negotiate the rate of pay 16 different times resulting in differing salaries for the same job depending on the terms and conditions of the contract involved. This also took several years since the various contracts came due at different times. The consequence of all this is that the agency has created a system where employees can apply for jobs in other departments simply to get an increase in pay for doing the same or comparable work. This all sounds eminently logical to us since it is a recognized business practice for an agency to pay multiple rates for the same job thereby creating competition for personnel within the organization (who says you always need to compete with other agencies)? In this example, you can compete with yourself and always come out the winner!

One state government that we know well actually has three different personnel systems: one for the university system, one for the schools and one for everyone else. Because the three systems have different requirements, the result is that the same job (accountants, personnel analysts, systems analysts, etc.) all are paid differently thereby creating internal competition.

Oops -- your question is why is this *not* a good idea, and here we are telling you how one group can use the classification system to leverage pay for their employees to the detriment of the organization. If you will give us the contact name at the agency or agencies that want to do this, we will send them an invoice for our advice.

Silly us -- that is not their problem; it is yours. So, how is this a bad idea from your perspective? Well, the biggest problem is that when you try to figure out the market value of a given job, the narrower the job, the tougher it is going to be to get good market data. If you cannot match the job in the marketplace (at least five good data matches in your defined labor market for the job in question), then the job has no definable market value (at least that is the conclusion one must reach when applying the criteria established by the U.S. Department of Justice in recent federal consent decrees related to potential violation of the Sherman Anti-Trust Act). Using the earlier example, you will probably not be able to match an airport plumber versus a regular plumber in the labor market. Have fun trying to deal with that problem.

Another reason a department-specific approach is not a good idea is that the changing demographics in our society are such that it is going to be hard enough to find qualified personnel for many public sector jobs in the years to come. The more narrowly you define the job, the tougher it will be. Just consider how hard it is going to be to find skilled personnel in general without then limiting your search to only department-specific skilled personnel. While this may give your recruitment staff (or outside headhunter) job security, it certainly won't help you get the talent you need.

As you can imagine, the narrower you make your job classification structure, be it to address department specific issues or to satisfy a specific employee that feels that his or her job is so unique and special that it must be classified differently than others, will only serve to make your system more difficult to manage over the long term. One alternative approach that you may wish to consider is the use of working titles. For example, the US Navy recently agreed to allow sailors to retain the use of what they refer to as "ratings." Historically, Sailors had both an occupational rating and a pay rate. While the Navy had attempted to standardize and use only the pay rate title (e.g. Petty Officer First Class), the sailors wanted to retain their occupational rating (e.g. Electricians Mate First Class.) While the underlying job classification or pay rate is the same, the use of the working titles or "ratings" was preferred by the Sailors. Allowing use of the working title is often an effective compromise.

The advantages of a simpler classification system structure (one that crosses department lines) far outweigh a structure that is specific to departments. This is not something that department heads and employees necessarily want to hear but it really is time to wake up and smell the coffee. The labor market is changing and organizations really do need to accommodate new realities.

This article was initially published in April 2007. It was updated in December 2016.

EMPLOYEE CONCERNS ABOUT CLASS & COMP STUDIES

Question: Our organization is getting ready to begin a classification and compensation system review. Our employees are, to say the least, a bit nervous about the study and what it will mean for them. Many employees believe that that they do more than employees in other agencies in comparable job classifications and they want to make sure that this is considered during the study. Do you have any words of wisdom that will help us address employee concerns as we begin this process?

CompDoctor™: Let us first make sure we understand your question, as this is something that we have rarely heard from employees in other organizations that we have worked with over the past 25 years. You say that your employees believe they do more than others in similar jobs in other communities or organizations that have similar or comparable job classifications and you want to make sure that their concerns about the study recognize this fact and are taken into account during the study. This is really a much more complex question than you may realize. In those rare occasions that people feel they do more than others (we are obviously being a bit facetious here), the concern can be related to perceptions about a number of different situations.

The first and most common issue relates to the amount of work that one person does versus another, either within the organization or in other organizations. We know that this may come as a shock but some people feel that they just work harder than their peers. Workload may relate to the number of positions available to do the required work, the confidence that a supervisor or manager may have in the reliability of one employee over another in terms of getting stuff done so they put more on their plate than they do on others' plates, or simply that some people work faster or smarter than others so they are more productive. Unfortunately, none of these factors change the type of work or the level of the work that is actually performed. As a result, this situation should not be addressed as part of a job classification review. Please note we specified classification here. Compensation is another matter but we will get to that shortly.

The second most common issue relates to organizations that assign a different mix of duties to one position versus another position that is currently in the same job classification. This could conceivably be a job classification issue IF the duties performed by one position are of a higher level or a totally different type than others in the same class.

Obviously, the organization will need to determine whether assignment of the higher-level duties to the one position is appropriate but that is a whole other matter. If the work performed by an employee is truly of a higher level in terms of the level of responsibility and/or the skill/knowledge required to perform the work, and the higher level work does meet the standard for being an essential duty as defined by the EEOC in guidelines based on the American's with Disabilities Act, then, depending on the classification concept (broad versus narrow job classifications) that has been adopted by the organization, a separate or higher level job classification may be appropriate. However, if the work is simply different but it is comparable in terms of type and level, then a change in job classification would likely not be justified.

Now we can move on to the more important issue—how much an employee should get paid versus other employees, both within the same organization and relative to other organizations that are within your defined labor market. Let's take each case separately.

When it comes to paying your employees based on market conditions, one thing you absolutely have to deal with is how you see your organization relative to the labor market. By this, we simply mean are you trying to pay the median of the market or do you want to be the highest paying employer. That philosophy will dictate how you respond to employees relative to their concern.

Quite frankly, there is always going to be another employer who will pay more than you do. They may or may not be out front about it but they do exist. Unless you are committed to never having to say you're sorry (we apologize for the reference to a line in *Love Story*), the fact that someone else pays more is a reality of the market.

If you are trying to pay your employees competitively (somewhere around the 50th to the 60th percentile of the market), there will always be employers who pay more, just like there will always be employers who are paying less.

There are a couple of other key points we feel compelled to raise. The first is that when someone tells you that my brother-in-law's next door neighbor's cousin works at the neighboring city and she or he does the same work that I do but gets paid $20,000 more, you need to step back and say "whoa."

The problem with these types of situations is they are anecdotal at best. While someone may be in a similar job, each organization will structure the job a bit differently. That is why the Department of Justice and the federal courts have provided guidance relatively to salary data comparison related to the Sherman Anti-Trust Act (which is a whole other topic for separate discussion).

Nevertheless, the *WorldatWork*™ guidelines stipulate that a job can be used for comparison purposes if it is a 70 percent match to the subject job. (We have addressed that subject in previous discussions.) Since professional standards stipulate a 70 percent standard, that means there could be a 30 percent difference. The other thing to keep in mind is that the other organization may pay its people differently than you pay yours. They may have a performance based system and you may not.

Now we can get to the issue of workload. From our perspective, a pay system that does not recognize the contribution of an employee is not going to address this issue. For those organizations that are committed to the traditional step type pay plan where all employees can advance to the top of their respective salary range or grade based on simply meeting basic job requirements simply cannot address this issue. However, those organizations that address individual employee performance can and typically do compensate high performers more than average performers.

We could keep going on this topic but we hope you get the idea. There is no one answer but you absolutely need to understand and explain why differences may occur.

This article was originally published in August 2010. It was updated in December 2016.

STAFF REDUCTION AND IMPACT ON CLASSIFICATION

Question: Over the past couple of years, our organization has gone through several rounds of reorganization in order to accommodate reduced staffing levels. As a result, several of the positions within the organization have been combined with the incumbent now performing the work that was previously performed by employees in two different job classifications. Other positions (same job classification) have also been combined so that now one employee is doing the work that was previously performed by two (or in some cases three) employees. You will not be surprised to learn that these employees now feel that they are doing "more" than they used to and are asking for changes in their job classification. In our organization, such reclassifications typically result in a pay increase. Can you provide some guidance to us as we struggle to deal with this issue?

CompDoctor™: Your question is very timely as we see this situation occurring more frequently as public agencies all over the country adjust to the "new normal" that we have discussed in prior columns. As you state, governments of all sizes and shapes are forced to downsize in order to reduce cost but the impact is that the manner in which work is performed and services delivered have changed along with it. Depending on the size of your organization, the manner in which these changes have been made will vary. Following are some of the approaches taken by agencies:

- Elimination of specific services that were previously provided.
- Imposition of or increasing user fees to offset the cost of providing specific services that were previously provided at low or no cost.
- Contracting out specific services.
- Reduction in the level of service provided, such as longer wait times for service.
- Asking or requiring individual employees to take on new duties (at the same level as their current job classification) or consolidating positions that were previously assigned to different job classifications (not always at the same level).

Since your question really relates to the issue of position and job consolidation, we will focus on that subject since the others go beyond the issue of how you classify positions or pay people. We will first address the issue of combining multiple positions that were previously in the same job classification and then talk about combining positions that were previously in different job classifications.

Positions in the Same Job Classification

One of the fundamental advantages of a job classification system is that positions within the class are, at least theoretically, doing the same type and level of work. Consequently, asking an employee to do work previously performed by another employee who had the same job classification may be shocking to some, but to us, it is a no-brainer. The only issue that we see in this scenario relates to workload for the employee. This would not be a basis for any change in job classification as the work should be the same type and level as the work they have been performing. Since workload is normally used as the basis for determining staffing levels, the only issue under this situation is whether one employee can perform the volume of work that is now expected in a manner that is acceptable to the agency. For FLSA non-exempt positions, the employee will be eligible for overtime if they are asked or required to work additional hours to complete their assigned duties. For FLSA exempt positions, the employees will likely complain that they are being burdened by additional work and that they just cannot possibly do the work of two or more positions. Obviously, you will need to work with the employees and the affected departments to determine whether the work is structured appropriately and processes and procedures are adjusted to accommodate changing conditions. In this case, the sole issue relates to the amount of work you are asking an employee to do. In this situation, it is likely that other employees are also being asked to do more work (in terms of volume) so the bottom line is that just because someone is asked to do more work, it should not result in a reclassification or increase in compensation.

Positions in Different Job Classifications
This is where the fun starts. Obviously, combinations of jobs can take many forms. For example, you could combine an administrative specialist and a financial specialist that were equal in terms of compensation but had different job requirements. Other combinations we have seen recently fall in the management category such as combining two department head positions (e.g. police chief and fire chief or finance director and HR director) into a single position. The third, and potentially the more complicated, would be combining two jobs that have vastly different types and levels of responsibility, including very different skill sets. We see lots of these situations in higher education where institutions are trying to accommodate two functions that each only have need for a half-time position but the institution is trying to provide full-time employment to an individual.

In the case of two positions in different classes that have the same internal and ideally market value, consolidation of the two job classes into one broader and more flexible class will normally address the classification issue. At the same time, since the two jobs are performing work at essentially the same level (or at least comparable), then the salary range would likely remain the same unless the skill sets for the two classes are sufficiently different as to make the combined class more complex, thereby justifying a higher overall pay grade. For example, if you were to require that a position be both a journey level electrician AND a journey level plumber, it is likely that the job would have a higher value.

If two executive level positions are combined, the primary issue that we would want to consider is whether the scope expansion warranted any differential in pay, since the type and level of work would probably not have changed. While the employee may want, or expect an increase in pay for taking on the broader role, such an increase should not be automatic but should be based on whether the economic value of the combined job in the market place is any greater than the value of the previous job classes. In a prior discussion, we addressed the question of an employee who takes on higher level work that may very well result in an adjustment in the salary grade and, potentially, the salary of the individual.

In the event that two disparate jobs are combined, there are actually two different approaches that you might want to consider. The first option will apply if the work is actually being done for two different managers or business units within the organization. In that instance, you may wish to actually have two separate half-time positions since each body of work would be evaluated separately and an employee's performance may vary between the two parts of the job. A key question would relate to how do deal with an employee who may be a very good performer in one job and, but a less stellar employee in another. What happens to that employee?

Given the desire to provide full-time employment to an individual so that they qualify for employee benefits may preclude that option, but tradeoffs will need to be made. In that case, things can get really dicey and will require that the various supervisors and managers agree that they will mutually assess performance so that the employee would be reporting to multiple parties (not unlike the private sector where professional employees often work in a matrix organization). The difficulty comes in determining the compensation level. If both components of the job qualify for exemption from the overtime requirements of the FLSA, life is simpler, since you could either set the salary based on the highest value work that is being performed, or you could blend the rate between the values of the component parts. From a practical perspective, we typically suggest that the value be tied to the highest-level work that the employee is expected to perform since you still have to recruit, motivate and ultimately retain the person to do that work and the job.

But what if one part of the job would be FLSA non-exempt and the other part exempt? Now we have a challenge. Since the overtime requirements would apply to the whole job (if you combine them—which is why we would not suggest doing that), the higher the rate, the more you will be paying in overtime. In this scenario, we would discourage organizations from combining the positions into a single job.

As you can see, this is not a simple issue but there are options for you to consider. Good luck!

This article was first published in June 2013. I was updated in December 2016.

WHY ARE JOB DESCRIPTIONS DUMBED DOWN?

Question: I recently filled out a position questionnaire for my job as requested by HR including my thoughts regarding the necessary qualifications to do my job. Although I indicated that a college degree (which I worked hard to obtain myself) is necessary, the updated job description that was eventually posted indicated that only a high school diploma is the minimum qualification. Why is the job description for my job "dumbed down" in terms of required education?

CompDoctor™: You are to be congratulated for obtaining your bachelor's degree on your own. That clearly displays initiative and recognition that higher education can be beneficial to you in your career. There have been numerous studies conducted that demonstrate that having a college degree will increase your long-term earning potential by an amount that will exceed the cost (in most cases anyway) so the economic cost/benefit ratio is usually positive. Unfortunately, obtaining your college degree is not relevant to our friends at the Department of Labor (DOL) and the Equal Employment Opportunity Commission (EEOC) who are charged with administering and enforcing the American's with Disabilities Act (ADA).

For those who are not aware of the ADA, the law requires, among many other things, that employer's may only impose requirements on a job that relate to the essential duties of the job. Neither the law, nor the rules established by DOL and the EEOC, make any accommodation, relative to the requirements, based on the qualifications of the individual in the job. The employer must demonstrate that the minimum requirements would enable an employee or applicant to perform the "essential duties" of the job, with or without reasonable accommodation relative to the physical attributes of the work. Essential duties are then further defined to include work that represents at least five to ten percent of an incumbent's time and each serve as one of the core elements of the job and the reason the job exists.

Consequently, while a college education may be beneficial to an incumbent, and even potentially beneficial to the employer, unless it can be shown that the degree is required to perform the work defined as essential, the law simply does not allow an employer to impose the degree as a minimum requirement. That is why, even when a qualifications statement is written as requiring a college degree, most organizations will also include an equivalency statement that would allow anyone otherwise possessing the required knowledge and skills to also apply for consideration.

Now we will give Congress and the DOL their due in that the law does not go so far as to say that an employer needs to hire the least qualified applicant. It only says that the employer may not discriminate against those who meet the minimum qualifications. As a result, while the employer is required to consider all eligible applicants, the employer does have the latitude to select for a job the best or most qualified and capable person so long as hiring practices are not discriminatory. The law is particularly interpreted to preclude employers from establishing qualifications that could only be met by a very small pool of individuals especially if that group was limited to, oh shall we say, white males of certain age, height, weight, appearance, etc. While the primary focus of the ADA relates to the physical attributes of the work, it also applies to the other qualifications for the job as well.

A couple of examples come to mind. In certain communities, such as smaller cities with a college or university campus as a major industry, applicants for city jobs will often be highly educated spouses of graduate students. While they may have great credentials, the jobs to be filled may not require that level of education. However, the employer is free to consider them for an open position requiring lesser minimum qualifications and hire them if they are the “best qualified”. We also recently worked with an organization that had a large number of law school graduates. However, many of those employees were doing work that did not “require” them to be attorneys or members of the state bar association. Nevertheless, the law-educated employees wanted to be compensated and treated as attorneys even though that credential was not minimally required to do the work.

While these examples may not make you feel a whole lot better, one would certainly hope that you are acquiring knowledge and new skills that make you a better and more productive employee. Such performance tends to get noticed by management so that when openings occur for higher level positions that may be considered career growth opportunities (and may minimally require a degree), your name will come to mind.

Although this may sound a bit preachy, it is important to remember that a job description is designed to capture the type and level of work performed by incumbents in the job and what the minimum requirements are to perform that work. Job descriptions (or class specifications) are not intended to address work load (that is a staffing issue, not a classification issue) or performance as that relates to the individual.

Hopefully, this explanation will help you understand that while you have demonstrated great initiative in getting your degree, it simply does not change the reality that the work you have been hired to do does not minimally require it. While we like to think that the work we do demands the level of education and experience that we have individually acquired, the qualifications for the job, as stated on a class specification, must reflect only the minimum knowledge and skill necessary to conduct the essential duties rather than an incumbent’s attributes.

This article was published in February 2017.

JOB EVALUATION

Ronnie E. Charles, IPMA-SCP, Principal Consultant, Arthur J Gallagher, HR & Compensation Consulting

Job evaluation (JE) is the next natural step following the formal job analysis process. In our firm we simply define JE as a systematic process to determine the relative worth of a job to the agency / organization. Many ask why this is important. Be careful what you ask because, although the answer is a no-brainer in our world of Compensation Management, it can be complicated for the average practitioner and certainly your key stakeholders who have to make major decisions. For example, JE supports the establishment of equitable pay structures, single or multiple pay plans, budget, program evaluation, and reorganizations.

This section of the book is informative and has key articles that support learning objectives such as differentiating the various JE methodologies, job/class grade assignment, and who should be involved in the process. Before I forget, JE is also essential in the defense of disputes and grievances regarding pay differences and, as you know, gender equity has been on the rise in recent years. Consider this reading another wrench in your HR & Compensation tool box.

INTERNAL EQUITY VS. MARKET PARITY

Question: Our organization has been using a structured job evaluation methodology for over 20 years to address issues related to internal equity. While still an issue for some within our organization, others feel that we should be placing more emphasis on market parity. This is starting to become a fairly big issue here and we are trying to figure out which approach is best. Can you offer any guidance or insight that will help us resolve this dilemma?

CompDoctor™: An interesting question. This is one of our favorite topics since virtually every organization we work with struggles to some degree with the conflicts between internal equity and market parity.

In the 1980s, many public sector organizations tackled the issue of comparable worth (the concept that jobs could be measured and that male and female employees doing comparable, as opposed to equal, work should be paid alike.) Recently, states including Massachusetts and California have adopted gender equity laws bringing the subject back to center stage, but now for private sector organizations, as well. Conceptually, job evaluation provides a formal process for building a job worth hierarchy within an organization. This hierarchy creates a proxy for job value when market value is not known. Clearly, they are two very different approaches (market pricing and job content evaluation.) Now, some of you may use the very sophisticated dart board method but that really doesn't count since it is tough to legally defend (even though you may think you are smarter than some EEOC lawyer.)

Even though the two approaches are different, they do have a couple of things in common. First is the fact that you need to have a current valid job description (oops, you say you don't have such a thing?) Well, without a current and accurate job description, you cannot accurately evaluate a job against any structured criteria for internal relationship assessment and you will not be able to price the job in the marketplace since you won't know what you are pricing. Sort of the equivalent of wanting to determine the price of a BMW 5 series but only having information that describes a four-door sedan. The information just won't be relevant.

Now, once you have done either the internal assessment or compiled the needed market data (after you updated the job description) then you need to reconcile the internal and the external data unless you don't care whether they line up or not (something that is more common in the private sector than in the public sector.)

The biggest problem we see is reaching a consensus within the organization as to which is the most important. That is why most governments take the approach that they want to blend the two approaches. Unfortunately, when you do that, some jobs may actually be paid above market while others may be somewhat below market. Then you need to have a mechanism in place to add a market premium or factor so that you can effectively recruit, motivate, and retain employees in those very high demand classes without screwing up your overall pay plan. Of course, most of your employees will claim they are underpaid and therefore deserve the market premium.

Having said all of this, which is best? Well, job content is generally accurate and reliable but requires good job descriptions and is good for organizations with lots of different functions. Market pricing is quick and market-based (assuming you have the stomach to lower salaries when needed as well) since it reflects current reality but requires lots of data to be defensible.

Job content evaluation is internally focused and can be perceived as rigid. Depending on the tool you are using, it can also be time consuming and, dare we even suggest this, it causes supervisors, managers, and employees to play games and try to manipulate the system. Market Pricing, on the other hand, can be a problem if you are the 500-pound canary in your marketplace and it can perpetuate gender inequities.

Determination of which is best will depend on the size of your organization, whether you are in a union or non-union environment, whether good market data is available, how competitive the market is in your area, the quality of your job descriptions, and the number of jobs involved.

Some of our friends prefer job content evaluation and others prefer market pricing. We concur with our friends.

This article was published in October 2006. It was updated in December 2016.

WHAT IF THE MARKET DATA IS DIFFERENT THAN THE INTERNAL GRADE ASSIGNMENT?

Question: We just installed a new pay system and it seems that the salary range for certain jobs does not match with the market. Should we raise the grade of the job so that the market and the pay range match? This might upset internal equity, but if we don't, we risk losing some of our employees. Do you have any solutions?

CompDoctor™: Yes, we do have solutions. Here they are:

1. Can you stand the heat? Yes? Read on.
2. No? Get out of HR. Just kidding.

Assuming that the second alternative is not acceptable, you will find that your problem is very common. So, while you are not the only one with the issue, you are also not the only one without an ideal solution.

First, recognize that the issue you raised is one of the classics in the field of compensation. To put it in different terms, it is the battle between internal equity and market parity. You can have one or the other, but there is always a compromise if you want both. Every organization has both; it is really a matter of which one is predominant.

Here is why: To achieve **pure internal equity** you will not care what the outside world pays for similar jobs. Think of it this way. You are on an island as a result of a ship wreck, and you have not yet been discovered by the current inhabitants. You are currently joined by others who were on the ship, but you have no idea who they are or their background. So, all you care about is yourself. However, in order to get food and shelter you may find it beneficial to team up with some of the others who may have talents that you don't have. Certainly, you might want to develop some form of organizational structure so that you are efficient in your efforts to find food and shelter. Your organization might include a leader or organizer and the rest are workers.

On the flip side, to achieve **pure external parity**, all you care about is what others are doing. You are like some celebrities; you are always interested in what others are thinking about you. In this respect, you don't care about yourself, unless you hear it from people outside your organization. Now assume that there are other celebrities that have the same opinion, and each of you wants to make sure that you are more liked than the other celebrities. So, you are concerned about how you are trending on Twitter or have more "likes" on Facebook and so on.

Unfortunately, these two issues never seem to be in total alignment with each other. (Can you imagine the celebrity who was also on the boat with you? Their total self-worth would be reduced, because their only reference would be what others think of them).

That means that for some jobs (such as engineers, planners, inspectors and some trades jobs) at some times, the market will pay more for these jobs than your internal value system thinks they are worth, given your internal equity concerns. On the other hand, you will find some jobs that you believe are highly valued, but the market does not. And for some jobs you will simply not find any good market data, or they are so unique that they are hard to compare to other jobs.

We recently came across a job title that denies both of these situations. It was called "Director of Fresh Ideas." No market data for that one, and it most certainly is hard to compare to other Directors! Anyway, you may have a similar situation.

When you have an internally equitable and a market competitive pay structure, you will need to compromise in both areas. Here is an example. Currently, beginning engineers, accountants, and HR Generalists require a BA or BS degree. To some, these jobs should be paid at about the same rate, because they require the same level of education and experience. Following this logic, if you have a pure internally equitable pay system, they would be assigned to the same pay grade. The current pay plan for the Government of Thailand is based on this concept. All employees who are hired with a BA/BS degree are placed in the same pay grade. Individuals with Master's degree in the next higher grade, and those with a Ph.D. are at the next higher grade regardless of whether the job requires that particular level of education or whether it is consistent with market pay rates.

But the market thinks differently. Market averages in 2016 in the central US for these entry-level jobs are:

Entry Level Job Title	Average National Pay
Accountant	$47, 617
Engineer	$62, 351
Human Resources	$51,746

Because of various market forces, supply and demand, and other factors, average engineer salaries are more than 30% above the Accountant. If you stick to your internal equity argument, you may decide to compromise by selecting a pay grade that is a middle point between the market data for the Accountant and Engineer job. If you decide that the grade with a midpoint of about $54,000 is the best compromise, you will be overpaying for the accountant and underpaying for the engineer. Thus, you are not paying at the market rates, for any of these jobs, but you are internally equitable!

Now, suppose the situation is reversed. In this case, you have a job that reports to the top job. This job is not only a gate keeper of his or her boss's time, but also keeps the boss informed of events that may affect his or her decision making and makes sure that the boss is on time to appointments. In addition, the job is responsible for the office's historical record, assembling the budget, keeping department heads in line, and managing the administrative affairs of the board. Clearly, this is a valuable job to the organization and it is evaluated at grade 10, midpoint of $70,000. Unfortunately, the market cannot support anything better than $51,750, grade 6, the same grade as an Accountant.

If you follow the market in this case, this job will be paid at the same level as the Accountant. But clearly, the level of authority and impact of decisions is greater than the Accountant. Again, if you are striving for a pure market based pay system, you will pay this job at what the market pays, grade 6. If you are interested in internal equity, you pay it at grade 10. If you compromise, it will be grade 8.

Either way you choose, you will need to give up some principles to achieve others. The only way that you will have a totally internally equitable and externally competitive pay structure is if all your competitors define the jobs in exactly the same way you do. Believe us, that is not going to happen. Hello, Director of Fresh Ideas!

So, back to the original question. Can you stand the heat? If you can, then compromise. If you can't, get out of HR, or…….

You could set up distinct salary structures based on the market for those jobs that don't fall into the normal pay structure. Thus, you would set up a special pay structure for engineers, and any other jobs where the internal pay grades are not competitive with the market. Or you could establish market contingency pay rates, and make sure that they are administered as separate pay conditions. If you go this route, and some organizations have, you should set up some guidelines that will govern when a job will be paid from the "special" pay structure. A common rule is that the average of the market should be at least 1.5 times greater than the midpoint of the assigned grade, before it is paid from a special pay structure or is entitled to a market premium. Or you could establish a guideline that states that only certain job families are paid from the special pay schedule, such as engineers, architects and data processing jobs. By setting up rules to guide which jobs are eligible for the special pay schedule, you will have some handle on when and how a job is taken out of the standard pay schedule. Be careful with this because, as you probably know, each occupation is special and therefore should have its own pay structure.

One of our clients had this situation and over the years ended up with 200 pages of pay structures. Some structures were only a couple of pennies apart. It just didn't seem to us to be an efficient or fair way to run the compensation system. But you decide -- it is your house and you have to live in it.

This article originally appeared in October 2007. It was revised in December 2016.

JOB EVALUATION VS. MARKET DATA

Question: We are having a debate in our organization about the use of job evaluation versus using market data to set our salary structure. Our boss wants us to use market data, but we, the analysts, think that a job evaluation system will keep our internal equity more in line and reduce grade creep. What advice can you give us?

CompDoctor™: Well, some of our friends use market pricing and others use job evaluation. Since we always strive for objectivity, and we also like to support our friends, there are advantages to both approaches. How is that for a political answer? In reality, though, we think you should use both. In fact, you have to use both if you want to gain any respect at all. There, now everybody is happy. Aren't you glad you asked?

Here is the deal. It is like peanut butter and jelly – you get your best result with elements addressing the need for contrasting flavors, if you get our drift. You really need to look at both, because they serve two different but complimentary purposes. Let's discuss each one in detail so that you can see how this all works and how they can be used together to get to a best practice answer to your situation.

Market pricing is a one of seven generic methods of job evaluation, but it is a rather strange method. In essence, its approach is to look at the market data to determine what you should pay your employees. This sounds simple enough. However, there are a few problems with this approach when used all by itself.

First, there is no true and definitive market for every job. Market data can vary widely based on the organizations with which you compare to, and the closeness of the match. If you compare only to organizations that are larger than you, your salaries will likely lag the market. If, on the other hand, you compare to organizations that are smaller, you will likely find that your salaries exceed the market. Not a great way to proceed in our opinion.

Similarly, if the match is not a good one, you will have wide variability in the market data. So, if you get to this point, how do you decide which is the right market. Likely, this decision will be rather subjective and probably based on what your current salaries are in relation to the data that you have. That doesn't sound very defensible, now does it? Of course not; because it is not.

Another problem with market data is that if you use it religiously, you may end up with a hierarchy of jobs that is not consistent with how you would rank the jobs in your organization because not everyone values work the unique way that you do. But, if you are going to follow this method, you need to follow the market religiously. What really happens is that when the market data does not support your (not you personally, of course) perception of the appropriate ranking of jobs, you will discard that piece of market data as being invalid. Actually, the data is not invalid; it simply does not conform to your perception….wherever that came from!

Finally, you will never find data for all of your jobs. And if that is the case, what salary will you give to those jobs for which you do not have data? Somehow you will need to "evaluate" those jobs in relation to others where you have market data. Most people will use the highly sophisticated "slotting" method, where you guess where the jobs should be paid in relation to the jobs where you have good market data. Try defending that decision against a disgruntled employee!

Just to give you an idea as to how market data can mess you up, let us tell you about a client that used this approach without much thinking involved. This client, a rather large organization by most standards, used market data to set their salaries. They did this for years. And, they were able to find matches for many of their jobs. If the market said $X, then their salaries were set at that amount. The result was that some jobs in a series had salaries that were pennies apart. So, if the first level had market data that showed the salary should be $32,897, and the next level up showed a market salary of $32,898, that is what they paid. To make matters worse, in some years, the market value of the lower level job exceeded the market value of the higher-level job. This occurs because of the changes in survey respondents and the make-up of their employee base. So, when they found this, they changed the salaries of the lower level job to exceed the salary of the higher-level job. This practice never made any sense to us, but they thought that made all the sense in the world to them. You be the judge as to whether this is a good approach.

And then there is the problem of downward movement. While our employees love to think that their market value is always going up (these are the folks that always buy stocks when the market is at its peak), we know from experience that this is not always the case (just look at what happened to all of our pension assets over the past few years!) It is relatively easy to increase compensation rates even if the process is inconsistent as outlined above. BUT, the public sector has not been particularly good at reducing salary levels thereby creating an inconsistency in the overall structure.

Now, how about job evaluation? Using a formal method to determine the internal equity of jobs in an organization will give you a hierarchy that conforms to your internal values and your perception of the jobs in your organization. But, it will not give you any idea of what to pay them. The advantages of a formal job evaluation method, like a point factor plan or our own Decision Band Method®, is that all jobs are reviewed against a standard set of criteria. It is a relatively objective way to establish an internal hierarchy. And, when you have employees claiming that they are doing more, you have a way to determine if that qualifies them to move to another salary grade.

The problem with job evaluation is that you still need to find market data. However, you do not need as much market data as you would with a market pricing approach. In fact, you can select only those benchmark jobs that you know are very similar to your own jobs, thus resulting in much more valid matches and defensible results.

But, with job evaluation and market data, you need to find a way to blend the two pieces of data. Most organizations will use a line of best fit to relate internal equity from the job evaluation system to the market data. Using this approach, you will have an internally equitable salary structure that is also market competitive. There may be an occasional anomaly or outlier in terms of a job that the market says should be paid substantially more than the blended result would indicate or it could show that the internal value is substantially greater than the market value. In those cases, you have options that you can consider ranging from use of market premium pay (a whole discussion unto itself), creation of a separate occupational group pay structure which is not uncommon for public safety or IT job families, as well as other approaches. The bottom line is that there is no absolutely perfect solution but by blending the two approaches, you come closer than you would by using either single approach.

This approach usually sounds like a bunch of hocus pocus to some, but we have had great success explaining it to policy makers. If explained clearly with appropriate charts and graphs, it is amazing how quickly they understand the concept and grasp its significance for making policy decisions. The value is in keeping the discussion about salaries at the policy level rather than at the specific employee level.

As we said earlier, some of our friends go one way and some go the other and we agree with our friends!

This article was published in August 2008. It was updated in December 2016.

CLASS CONSOLIDATION AND MARKET VS. INTERNAL EQUITY

Question: We are about to redo our classification and compensation program that has not been looked at in over 15 years. We want to substantially reduce the number of classifications because they have exploded over the years and it is getting harder to manage and maintain equity. We used to have a job evaluation system to assure equity but that has fallen by the wayside and it was not a good experience. We are hoping to avoid using job evaluation and base our pay on the market only. Can you advise us on the advantages and disadvantages of this approach? Since we only have one chance to get it right, we want to make sure that we build something that will last.

CompDoctor™: Boy, have we heard this question over and over again. And it doesn't much matter what type of organization or how large or small it is. Overtime, classification systems just seem to grow one job description at a time. After a number of years, the systems tend to get out of whack! (That is a professional term, by the way. For a complete definition of the term, we suggest you go to Section 7 and read the article titled "Our Pay System is *Out of Whack*: How to Get It Back into Whack."

If mentioned the use of a formal job evaluation system in the past. We find that organizations often jettison these after a few years because of either the time involved in maintaining the system, the system's failure to give them the answer they want, and/or the values that control the perception of job value change over time, so the old system doesn't seem to be compatible with the new order of things.

The problem is really two-fold. On the one hand, a job evaluation system helps to keep your internal equity in-line, and introduces some justification into your system. On the other hand, most job evaluation systems are quite subjective and the basis for job comparison shifts since the job values tend to get skewed, usually upward.

Basing pay just on the market is fraught with problems as well. Here we have a situation that sounds good on paper, but has trouble in the real world. Unless you have an organization that looks **exactly like** every other organization that you want to compare to (and, by the way, we have never, ever seen two organizations that are exactly alike), you will never be able to get absolutely solid, market data on every job. There will always be some gaps, or some of your jobs will not be defined exactly the same way that your comparators' jobs are. Jobs with the same title can have substantially different duties and responsibilities, decision-making authority, and/or reporting relationships. That means that you will have to have some way of assigning pay to those jobs that do not have a good market match. Further, you will never to be able to argue that you are unique!

Before we go much further, it is always a good idea to get back to basics. Essentially, it is our belief that you need both market data and job evaluation. Here is why. Job evaluation is great for establishing internal equity among jobs. While it is easy to rank order jobs that are in the same department or job family, the real difficulty is when you try to compare one job in one family with a job in another job family. Apples and oranges, right. Well, this is where job evaluation comes in. By using the same criteria to evaluate and compare one job against another, even though they are doing different things in different departments with different definitions and terms and reports, you can easily compare one job to another on common characteristics, such as accountability, supervision, complexity, and so forth. But, here is the problem. Job evaluation only produces an internally equitable job worth hierarchy. It has nothing to do with the value of the job in the market. This may sound easy, but when people evaluate jobs, we often hear such phrases as: but they are paid a lot in the market so we need to give them a higher job evaluation. Wrong. That conversation should not happen at this point.

Given the fact that job evaluation does not consider market, it should be obvious that you need market data to complete the process. Otherwise, how can we use job evaluation to set equitable salaries? Job evaluation helps you to establish an internally equitable job worth hierarchy, and when market data is added, it allows you to establish an internally equitable and market competitive salary structure. Regressing job values against market data does this. While it may sound complicated, you can do this with Excel. From this process, you can then set up salary grades and pay levels for each grade.

The beauty of this process is that it will align all of your jobs in a well-documented, internally equitable and market competitive pay structure. It is highly defensible, transparent, and can be managed effectively for many years to come. In addition, since the job values help to establish internal equity, you only need to obtain market data for about 30% of your jobs. The job evaluation system will help you to set competitive wages for the jobs for which you do not have market data.

We have seen clients that have adhered to this process to maintain their systems in an equitable fashion for over 20 years. It does take some discipline to maintain, but we have also seen that job classifications do **not** grow, salary equity is maintained, and market competitiveness is achieved.

Now, let's consider the use of market data without job evaluation. We would argue that this cannot be done, unless, of course, you have exactly the same jobs as everyone else that you want to compare to or are willing to focus solely on the type and level of work performed without consideration of the job specifics. We addressed that issue above, so we hope you have figured that such an occurrence is highly unlikely.

If you use just market data to establish your salary structure, here is what you get: You will need to have market data for 50% or more of your job titles. We did not pick that number out of thin air. It is the professionally accepted standard espoused by organizations such as *WorldatWork*™. Can you do that? In addition, you will have to have absolute confidence that the market is the true arbiter of job value for your organization. That may not be a good idea if the market contains a bias in favor of, or against certain protected classes. Finally, how are you going to provide a market value for the jobs that you don't have any market data for? Most will answer the later question by slotting the jobs into the salary structure based on a whole job ranking of the un-market data job to the jobs where you have good market data. This is the typical approach, but because whole job ranking is not supported by the EECO as a legitimate system for judging job worth, you may want to reexamine this approach. It is difficult to defend and it is not transparent. In our experience, organizations that take this approach, end up redoing the system again five (5) years later because it is out of whack!

So, while we can respect your desire to avoid job evaluation, in public sector organizations, we have found that job evaluation with market data is probably your best long-term solution. In either approach, you will use both market data and some form of job evaluation. If you want your system to last and achieve pay equity, then why wouldn't you strive to use the most defensible approach available? In our opinion, that means formal job evaluation combined (regressed) with market data.

You will hate us now, but thank us later.

This article was published in June 2015. It was updated in December 2016.

GENDER EQUITY

Question: Given the recent activity at the State and Federal level focusing on gender pay equity, our State Legislature is considering passing a law requiring gender pay equity. While this is not a new issue, the activity in our State indicates that this is likely to pass this year. We are trying to understand what this means and what we need to do internally in the event that this passes. Can you help us determine what we need to do now so that we are prepared if or when it happens?

CompDoctor™: An excellent question, but remember the adage about leading a horse to water but not being able to make it drink. A requirement to deal with the issue and having the resources and commitment to dealing with the issue are two different things.

Gender equity, like any other form of pay equity, must first be defined. Sort of like something a former President once said and that we have quoted before: It depends on the definition of "is." Does Gender Equity mean that if you add up the compensation paid to all men who work for your organization and then divide it by the number of men to get an average rate of pay for men that the average for women should be the same? Or, does it mean that men and women in the same job classification should be paid the same? Or, does it mean that women should be paid the same even if they are doing different jobs? As you can imagine, one can come up with three different answers depending on what the question actually is. So, to be prepared for any eventuality as to the definition, we suggest that you consider the following six factors in your preparations:

1. **Good job descriptions**

Fundamental to any equity study, be it gender, race or any other criteria, are good job descriptions. Since the early 1980's, we have conducted hundreds of gender equity studies for public entities ranging from cities and counties to state governments. One of the common elements in every study has been the job classification system. Do you have a narrowly focused job classification system or have you moved to a broader system that focuses more on the type and level of work rather than the individual tasks that may be assigned to a specific employee? Are the job descriptions current? Job descriptions must be up-to-date and contain the basic elements of good job descriptions including a summary statement about the type and level of work; distinguishing characteristics between the class and those above, below and adjacent to it; the essential duties of the class in compliance with the requirements of the American's with Disabilities Act; and minimum qualifications that are also consistent with legal requirements. Otherwise, you will have difficulties defending issues that ultimately arise relative to internal equity. We have found that agencies using a broader system have fewer issues when it comes to determining whether positions are performing comparable work.

2. **A gender-neutral job evaluation system**

Once you have addressed your job classification structure and your job descriptions are in order, you can then begin to address how you are comparing jobs to each other for purposes of assessing internal equity. There are, generically, different tools that can be used to evaluate jobs. For those who have been in this business for many years, we grew up using traditional point-factor job evaluation systems. However, today there are seven basic quantitative and non-quantitative tools available.

The Federal EEOC has opined over the years that the non-quantifiable systems are not going to provide employers with a defensible basis should they ever be challenged relative to pay equity, regardless of the criteria. That leaves us with about 3 quantifiable methods such as factor-comparison, point-factor and other tools such as our Decision Band Method® of job evaluation. For example, traditional point systems require a high degree of specificity in the job descriptions and may be more applicable in narrow job classification systems, while the Decision Band Method® can be used reliably with either broad or narrow job classification structures.

Although the Decision Band Method® has been used for over 30 years in public sector organizations to help organizations comply with pay equity laws, it is not clear that other job evaluation methods can claim that they are gender neutral. Selection and wording of the job evaluation criteria or the weighting of the criteria need to be tested for gender neutrality in order to pass the scrutiny of regulators. Ultimately, selection of a specific tool should be based on a variety of elements but must include the employer's ability to maintain whatever system is put in place.

3. **Pay data that is not influenced by gender**

Obviously, since the issue is going to be whether you are paying males and females equitably, you will need data about what the various jobs are worth. Unless your Legislature adopts a law similar to the one adopted by the State of Minnesota in 1984 that simply says that female dominated jobs need to brought up to the pay level of male dominated jobs (which is entirely an internal equity assessment), you will need to know what the various jobs within your organization are paid in the market. You can either conduct your own survey or you can contract with an outside firm to do that for you.

But, you need to be careful here as well, since one argument is that if you select the wrong benchmark jobs, you will simply be duplicating the bias that already exists in the market. Since many jobs tend to attract one gender over another, the pay that you survey may reflect the very same condition that you are trying to eliminate.

4. A way to blend internal equity with market parity

Assuming you have a pay-policy established for your agency, you will then want to determine whether your overall pay structure is tied exclusively to market rates, internal equity, or a blend of the two. If you agree that the market is already biased or you cannot identify jobs that reflect a good gender balance, then you will likely base most of your conclusions on internal equity-- not market data.

Some pay equity laws ignore market rates altogether, basing their conclusions on whether your pay practices are gender neutral. The market may be important, but the argument is that pay equity is primarily an internal equity question. You might want to revisit the need to assess the market if your pay equity law says little about the market.

5. Developing a comparison between male jobs and female jobs

Once you have the basic data, you will then want to run the appropriate analysis. If you have jobs placed into grades based on your internal equity assessment, an easy way is to average the pay of females and males in each pay grade. If you find a difference, then you might need to go further and determine if the pay difference is related to gender neutral conditions such as seniority, performance, qualifications etc. This type of analysis can become very involved and may require a higher order of statistical analysis.

We have also seen some analyses that basically develop a line of best fit between jobs occupied by males and those occupied by females. Then, if there is a difference between these two lines, the solution is to bring the female line up to the male line, assuming that the female line falls below the male line.

There are other more refined analyses that can be conducted, but the upshot is that somehow, you need to compare jobs of similar internal equity with what is being paid. The ideal situation is that you find no difference between what females and males are paid for similarly valued jobs.

6. Identifying the costs

Finally, based on the identified differences (and that assumes that the males are paid more than the females of similar value), you can calculate what it would cost to bring female pay up to that of the males. If the females are paid more than similarly valued male jobs, there is no issue to resolve, at least with regard to pay equity. You may want to make other adjustments, however, according to your organization's pay philosophy.

Although we have outlined six basic steps, there really is a lot more to gender equity assessments (just as there would be if you were dealing with racial differences) but we hope you get the drift that this is not something you can just sit down and do in your spare time. You really do need to understand all the ramifications if you are to adequately and fairly assess gender equity within your organization.

This article published in Summer 2017.

MARKET ANALYSIS

Ronnie E. Charles, IPMA-SCP, Principal Consultant, Arthur J Gallagher, HR & Compensation Consulting

The conduct of Market Analysis and industry standard review is the one and most prevalent areas of weakness that I continue to see in public organizations (I'm just saying). As a consultant, I often hear clients express their desire to be market competitive. However, when I ask when was the last time a comprehensive agency / organization market analysis was completed, I unfortunately hear 8, 10 or 15 years ago and even then the final report gathers dust on the book case!

Market Analysis combines your compensation philosophy and pay strategies and are assessed against competitor pay practices through published and /or custom surveys. Without doubt, this process is heavily quantitative but necessary for your compensation program. This section is inclusive of articles that explain the importance of internal and external competiveness. Great insight is also provided as it relates to defining labor markets, and how to strike a balance with results and actual implementation.

ACTUAL PAY VS. RANGE MIDPOINT ANALYSIS

Question: My boss keeps wanting to compare actual salaries that we pay our employees to the midpoint of the salary ranges from other organizations. I think that is the wrong comparison. Can you give me some advice on how to set him straight?

CompDoctor™: You have come to the right source. Not only do we have a proprietary potion to straighten out bosses, but we also have a website that you can go to where you can direct him or her to finding the right answers.

But first, let's explore why your boss thinks that s/he should compare your salaries to the midpoint of the salary ranges of other comparable organizations. We think that s/he may believe that that is where most people are paid, (probably a wrong belief) or s/he could think that the midpoint is where they should be paid (partially a correct belief). Thus, by knowing the midpoint, we will know how close to the market your pay really is.

Oh, my, oh my. We have a lot of explaining to do. So, hold on to your handlebars and keep your eyes open, because we are going for a ride that will open your eyes and scare you to death.

Nope, skip the last part. You will just be scared a little bit, and we do believe that you will still be alive and healthy when the trip is completed.

The first thing to know about market data is that it comes in all sorts of strange and varied forms. Your job is to make sure that you are dealing with apples when you want apples, and oranges when you want oranges. Mixing apples and oranges makes a nice tart fruit salad, but may not help you make the best orange juice!

Data will come to you representing a variety of different "effective dates". You need to make sure that you have aged the data to a common period. You can get aging factors from the Economic Cost Index or from *WorldatWork*, although they will call it something else, like merit or salary structure movement. Next, you will need to make sure that the data all represent the same metric. This is obvious, but you don't want to compare hourly with monthly with annual salaries. Furthermore, you want to make sure that the data all represents the same number of work hours. In this area, you need to make an assumption, (especially if you are comparing monthly or annual salaries, less so if you are comparing hourly rates) that the number of hours worked is about the same. However, because hourly employees, in some markets, work only seasonally, the rates may be significantly higher. Some organizations have "official" 40-hour workweeks, whereas others have 37.5 or 35. For our comparisons, we assume that the data we obtain represents a work year of at least 1950 hours for salaried employees. That is equivalent to a 37.5-hour week, and it works well with exempt jobs.

Finally, the data should be adjusted by geographic factors so that it is common to your geographic location. (If you are located in Fulton, South Dakota, (population 50, on a good day!) you don't want to compare your wages to New York City wages, do you? I take that back, you probably would, but your Council may find that comparison a bit unusual.) There are several independent sources that can help you with the geographic factors and you should use them, since calculating them yourselves by some unauthorized method may get you into more trouble than using diesel fuel in your gasoline engine.

Now, once all of the data have been reviewed, corrected, and entered into an analysis application such as MS Excel or a statistics program, a check for 'outliers' should be performed to exclude any extreme data figures. Calculating salary figures that are +2.00 or -2.00 standard deviation points from the market trend regression line does this. Standard deviation is a statistical term that represents how far data points are from the trend. If a salary figure is greater than + or - 2.00 standard deviation points from the trend, it means that the job match is poor or other factors which may not be identifiable, are affecting this salary. Outliers should be excluded from your analyses.

By now you may have regressed yourself to the point of throwing up your hands in the air and crying "wolf", but don't fall prey to this. Hang in there; it has just begun to get scary.

Once the data has been 'cleaned', it can then be summarized. This means calculating statistics such as totals, averages, and medians of the data. Your organization's pay strategy will determine what statistics from the market you will calculate and compare to your data. Three statistics commonly calculated are unweighted average (a simple average), weighted average (averages weighted by number of incumbents) or median (50th percentile or the middle rate). The most commonly used statistic is the median since it is the middle rate and is not impacted by any high or low rates, which would be reflected in an average.

Now that we have all the data in place, cleaned, scrubbed, massaged and in good shape, what can we do with it? Let us tell you of the magic that waits.

Here is what we do. You might want to follow along since some observers we know have felt they have better ways, and have tried a different approach. Sometimes we find such observers years later sitting by a tree babbling to themselves. We don't want you to go there.

Comparisons can first be made on a job-by-job basis. A job-by-job basis compares your organization's salary against the market salary for each benchmark job. This should be done on an actual internal average salary to actual market average salary. You will do this on an unweighted average basis or by comparing the median of the actual salaries if there are enough data points. This comparison tells you what your employees are paid on average with what other employees are paid on average. These are the types of figures that employees will come to you with saying things like "I know Bob over in Spencer does the same job as I do and he makes $5,000 more, and has fewer subordinates." So, you need to know this information. What it tells you is what employees are actually paid. What it does not tell you is why or how they got there. For that, we need to do some additional comparisons. Oh, by the way, we would never set a salary schedule up based solely on actual salaries, and neither should you.

We would take our analysis further. This comparison however does tell us those individual jobs that are above or below market. Jobs whose salaries are +/- 15% from the market should be reviewed more carefully. But, you may not want to adjust pay just yet. Jobs that are +/- 15% or greater may be the result of unusual turnover, longevity, performance or other reasons that can lead to a variety of different solutions, if required. At this point, just keep these jobs in mind. Also, you should calculate an overall average encompassing all benchmark jobs to get an idea of how your organization compares to the market in general.

Our next analysis uses regression analysis, so that we can smooth out some of the bumps and ripples that we found in the analysis described above. This regression analysis allows us conduct a comparison on a grade-by-grade basis. A grade-by-grade basis compares your salary by grade to market salary by grade. This comparison tells us those grade levels that are above or below market (or how your organization's current structure compares with market), but adds one additional element that we did not have in the above comparisons. In this comparison, we have added internal equity issues.

Regression analysis is a "line of best fit" between an independent variable, such as grade, and a dependent variable, such as base salary. The formula produced by regression analysis can be used to predict market pay rates for jobs at various points along this line of best fit, (i.e., internal equity). Thus, for any given grade level, the predicted market pay for that level can be determined. This is useful for determining predicted rates of market pay for jobs that were not benchmarked. It is also very effective for keeping internal equity and market data in line with your pay philosophy.

We can also do this regression analysis on the average minimum of the range and the average maximum of the range from the market data. This tells us how our salary range minimums and maximums compare to the market. Now, if we superimpose the regression of the actual average salaries against our structure and the market structure and the actual average of the market salaries against the same, we can find out where our employees are paid in relation to our own structure as well as where they would be in a competitive market structure.

Confused yet?

We make this simple by having a special software application draw the regression lines on a graph and then adding lines one at a time to the graph until all the lines are on one or two graphs. These graphs make it simple to look at and come to the answers to the following questions:

- Where are we paying employees in relation to the market?
- Where is the market average for these jobs?
- Where in the salary structure are we over paying, underpaying or paying competitively?
- Which jobs do we need to adjust to be market competitive and in line with our internal equity?
- Are our employees moving through the salary ranges at a market competitive rate?

You will notice that during this whole analysis, we did not once compare actual salaries to the midpoint of the market. That is not the best comparison. You want to compare your actual salaries to the actual average salary of employees in comparable organizations because that is what people actually pay. You also want to compare your structure with the structure of the market. But what you don't want to compare is your actual salaries to the midpoint of the market because that would be comparing real data with salary data that no one is really paid. Your employee does not work for the "average of the market." They work for you. You need to compare the right numbers; otherwise you could be looking at the wrong end of the telescope and end up paying more or less than you should for all the wrong reasons.

So, now that you have survived that one, how about a little principal component, orthogonal factor analysis of your job evaluation system to make sure you are evaluating non-redundant, independent and meaningful factors of job worth?

This article originally appeared in October 2004. It was revised in December 2016.

HOW TO DEVELOP A MARKET BASED STRUCTURE

Q. We want to develop a market-based pay structure. How do we go about this and what are the advantages and disadvantages?

CompDoctor™. So, you actually want to pay your employees what the market is paying them? What a radical idea. While we were thinking that the best way to figure out how to pay people was to look at how much money was available after we funded the mayor's low income housing program and the new aquarium, you advanced the thought that employees should get paid for the value of the work that they do. Truly radical! We have been in this business for 30+ years, and this is the first we have heard of this. The very idea! Have you been going to seminars or talking to European trade unions? I guess we will have to recommend cutting your training budget because such radical ideas have got to stop!

Actually, this approach is what private sector employers and many public sector employers have been doing for some time. Your question really gets to the heart and soul of compensation planning. And the question is… should we base our pay on internal equity or market parity?

And the answer is….yes. You need to do both, but the real dilemma is how much of each and do we need to have one or the other. This is very simple. If you want to have a market-based pay system, you need to have market data on over 50% of the jobs that you have in your organization. The data that you need has to cover about 75% or more of your employees. If you have data on fewer than 50% of your job titles, then you really have a pay system that is influenced by the market, but is more dependent on internal equity.

Both are very important, and the toughest part of your job is deciding which is the most important in your organization. If you are the largest employer in your labor market or you are located in East Nowhere, then a market-based system will not work. Why? Because in the former case, you are the market and any comparison will be to employers that probably do not have the same type of jobs as you do, nor may they have the capacity to pay as you do. Thus, you may have trouble finding enough meaningful salary data. In the latter case, you are the only employer. Where else would employees go to work? Again, in the latter case, you will have trouble finding enough data that can be useful to you to define the market.

But, let's say that you actually are not the largest employer, and you are not in East Nowhere. What does it take to set up a market based system? Here are the steps involved. What you might call the Betty Crocker recipe for a successful market based salary structure. (The Emeril Lagasse recipe isn't available yet!)

First. Identify the benchmark jobs for which you need salary data. These benchmarks should be from all major occupational groups, represent all departments and functions, represent many employees and represent the jobs that are likely to be found in other organizations. For example, if you have a job called Engineer, that would be a good benchmark, but Pothole Engineer-Gravel Roads, may not be. Why? Because you may have the only Pothole Engineer-Gravel Roads in the country, so you won't find any data on it anyway. Don't waste ink on a job that no one else has.

Second. Summarize these jobs. That means that you will need to describe their main features in about 4 or 5 sentences, identify their educational, experience and licensing requirements, who (not by name of course but by organizational level or job title) they report to and who they supervise, if any (again, not by name but by the type and level of jobs supervised). You need to do this so that others know what kind of job you need data on.

Third. Identify the organizations that you want salary data from. These organizations should represent who you and your employees define as the labor market. We discussed this in an earlier CompDoctor™ article (Pay Strategy: How Do We Define Our Labor Market) and we have reprinted the main material here for your reference.

Labor Market Definition by Job Type and Level

Job Type Market	Executive/ Management	Professional/ Supervisory/ Technical	Clerical/Trades (Non-exempt)
Industry	Government	Private/ Public Sector	Private/ Public Sector
Organization Type	Similar Programs	Similar Size	Similar Size
Geography	National/ Regional/ Local	Local Regional	Local

Fourth. Collect the data and make sure that it is good data. Make sure the matches are good, eliminate the outliers (those that are 15-20% or more away from the trend) and make sure the data is consistently reported in hourly, monthly or annual figures. Average the data for each job. It is best to use the median because it represents the most stable number and it is the halfway point in the data you have collected. In other words, half of the employees are paid more and half are paid less. Arrange the jobs from lowest paid median to highest paid median.

Now the fun begins.

Fifth. You need to decide how far apart you want the salary ranges to be. A good starting point is about 15%, although we have seen as low as 5% or so. One way to figure this out is to decide how much of a pay difference, on average you want supervisors to be from their subordinates. A good guideline is about 10% or more. Once you decide this, then just half this number to get the percent difference from midpoint to midpoint.

Let's say that you have decided that the ranges should be 10% apart. Using the lowest ranked salary (from step four), divide this median by 110%. For example, if the lowest median you have is $24,000, then divide by 110% (1.10) resulting in $21,818. This becomes the midpoint of your first range. But be careful that this amount is not below the minimum wage laws. The midpoint of range two is 1.10 times $21,818 or $24,000. Then the midpoint of your third range is $24,000 times 1.10 or $26,400, and so on, until you exceed by at least one range the maximum salary from the market. Once this is accomplished, you have the start of your new market based pay structure. All you need to do now is decide how wide you want the ranges to be from minimum to maximum, and you will have your salary structure. For guidance on how to calculate minimum and maximums, go to our website at the following address:

https://www.ajg.com/media/1698284/calculations-of-minimums-midpoints-maximums.pdf.

Six. Go back to the jobs for which you have market data. Assign each job that you have market data to the pay range with a midpoint (either higher or lower) closest to the market data. This becomes the pay range of the job.

Seven. Hope for a miracle! This is the tough part. What do you do with the jobs for which you don't have any market data? Here are some options. You can use an internal equity tool called job evaluation to determine the best range or you can slot each job into the structure based on a ranking or whole job evaluation process. A job evaluation tool is more rigorous but it means that you will have to evaluate all of the jobs. The slotting or ranking process involves using the following guidelines. For the jobs where you don't have any market data, slot them based on their:

1. Relationship to other jobs in the same occupational group. Look at jobs that are both "more difficult" and "less difficult".

2. Relationship to supervisors or subordinates, if any. The typical guideline is that you want to have a minimum of a two-range difference between a supervisor and his or her subordinates. Supervision is defined as having performance evaluation authority over the subordinate job.
3. Relationship to other jobs that require the same level of complexity and difficulty, or similar education and experience requirements.
4. Make sure all of the following guidelines are in balance.

Eight. Stand back and admire your work. You have just created a market based pay structure. Beautiful, isn't it?

Oh, by the way, you may have to bend a few guidelines or rules now and then because you will come to the conclusion that some jobs appear to be "overpaid" based on your sense of internal equity or past history. Some may actually look "underpaid" for the same reasons. Get over it! This is one of the difficulties of a market based pay system. The pay actually represents the market! But this may conflict with your sense of internal order. Somehow, you will need to resolve this. You would have had the same difficulty if you focus mostly on internal equity, but that is a topic for another article.

Finally, you will need to update your market data on a periodic basis. This could be every year or every other year. Use the same process of collecting the data, and use the same jobs and same comparable organizations as much as possible. When you get the data back and have it all cleaned up, you will need to redo steps Six through Eight all over again. If you do this, then you will always have a market based system, even though some jobs may move up and some jobs may move down in the range structure. Remember, this is a market-based system. No one ever said it was fair (but neither is life). But again, that is a topic for another time.

Of course, it goes without saying that employees will still question their pay range because you used the wrong comparables, or you didn't survey their exact job, or you "cooked the books". Welcome to the wonderful world of compensation. Until next time, keep your numbers in order.

This article originally appeared in June 2005. It was revised in December 2016.

MARKET PRICING AND CONCERNS ABOUT DRIVING THE MARKET

Question: We are using a market pricing approach for setting our salary ranges. For the most part, this has worked well for us. However, our board, made up of mostly private sector types, thinks that we are "driving" the market since our market is defined as the other public sector organizations in our area. How should we respond to this concern?

CompDoctor™: The first step to addressing this issue is to contribute heavily to the alternative candidates during the next election. This way you can have a better chance of getting someone who shares your views and not some socialist with a myopic view of how the market works. On the other hand, if your candidate does not win, you should dust off your resume and see if you can get a job at the company where one of your board members works.

Assuming that neither of these options is desirable, extensive education of your board may be necessary. Issues that you will need to address include such things as how jobs in your organization differ from those in the private sector, the nature of the labor market and the recruiting market for your jobs as well as turnover data that reflects where employees go when they leave your organization. In addition, a few lessons in the market pricing approach, the science of market surveys and salary setting will be essential.

Certain functions, such as jobs in public safety, planning and community development, building regulations, public utilities and social services are relatively unique to the public sector. Thus, there is only one place to go to find comparable market information about the value of that work. For more generic jobs, including administrative support, human resources, finance and information technology, the private sector could be incorporated into your market mix. The key is determining whether private sector employers are really competing with you for the same pool of talent. It is also important for your board to understand that while public agencies generally pay somewhat more than the private sector for FLSA non-exempt jobs, for the most part, the private sector pays substantially more for professional, managerial and executive jobs. If the board were inclined to consider generous incentive and bonus programs that are often available in the private sector, then a comparison with the private sector would make some sense. We, however, think that will not happen.

The argument about "driving" the market, may, to some degree be true, if your compensation philosophy is to pay more than the other agencies in your area. If that is the case, then every time someone raises pay, you are obligated to raise the pay of the jobs in your organization. However, if your philosophy is to pay your employees on average at a level that approximates the average of other similarly situated employers, then you are not driving the market -- you are using the market to help determine what you should pay. In addition, our guess is that you are not blindly following the market in setting your pay. In fact, what you are probably doing is looking at the market data and then integrating it into the culture and uniqueness of your own organization.

You say, what does all that academic mumbo jumbo mean? It means simply that you are looking at the market data and judging how it makes sense in your organization. Your organization likely has a different structure than the "market" and you may have more or fewer levels in the same job family. Simply stated, you are integrating internal equity with market data to make sure that your salary structure is in line with the jobs that you have and the way they are organized and defined. Because you are applying some judgment to the market data and not just following it blindly, you are not "driving" the market.

Here are some further points that you might want to make. If you are collecting actual salary data of real incumbents in the market, then each time you survey the market you will be getting a different set of data. Some employees will have left the surveyed community and some may have been promoted. So, each year, you are sampling a different set of employees. Therefore, you cannot be "driving" the market. If, on the other hand, you are surveying the minimum, midpoint and maximum, you are surveying what the market has established for salary ranges, but that is not the same as surveying what people are actually paid within those ranges. Thus, once again, you cannot be "driving" the market.

Finally, you might want to simply ask your board what they would have you do to determine what to pay your employees? If it were not for some intelligence on what the market is paying, what other guidance is there in setting salaries?

Oh, yes, I guess you could set your lowest grade at the minimum wage, increase the salary grades by some agreed upon percent and then place the jobs into the structure based on some notion of a job hierarchy. This would mean that you would not have to look at the market at all, and would only need to adjust your salary structure whenever the minimum wage is raised (which given Congress's track record as well as the record of those states that have their own minimum wage laws would be about every 10 years or more). It would also mean that you would not have any applicants or employees after your employees figure out what NOT "driving" the market means.

The reality is that you need to look at the market and make some informed decisions about what you will pay in relation to the market data. If you don't, the market has a very persuasive way of telling you that you are out of line with reality and if you care to have employees who actually show up *and* work, you need to sample the market now and then. Or, you could simply stick your head in the sand and hope the democratic election process works in your favor!

This article originally appeared in December 2005. It was revised in December 2016.

MARKET COMPETIVENESS – NEW HIRES VS. INTERNAL HIRES

Question: We recently compared our compensation structure to the market of similar organizations. We found that we are very competitive with the market. However, when we try to hire replacements from the outside, we find that our compensation offers are not competitive. Are we looking at the data correctly? What are we missing?

CompDoctor™: Yes, you are looking at the data correctly, but you are asking the wrong question.

What, you say? Let me explain. Back in the day, those of us in compensation used to talk about surveying the market to identify what the market was paying for similar jobs. In fact, we still talk like that. (As a group of professionals, we are slow learners). The object was to identify similar organizations and compare your compensation plan and what you are currently paying your employees to see if you were paying competitive salaries and wages.

There is certainly nothing wrong with that. In fact, we would suggest that you continue to do this on a regular basis. And, to no one's surprise, many organizations find that they are not paying competitively. So, finances permitting, they raised their pay structure and the pay of their employees. This has been done all over the country. So now, many organizations are finding that they are competitive with the market but cannot hire the right people into the jobs at those salaries.

A picture might make this clear. Let us say that a majority of the employees are paid a competitive wage. This is all well and good for you, and all well and good for the employee. This means that you are likely to keep the employee because they have no compelling salary reason to look elsewhere. And it is good for the employee, because they don't need to hop, skip, or jump across the country to increase their wages.

But there is a problem with both of you being focused on competitive pay. If the employee is going to leave, they are going to look for an increase in pay. If they are happy now, why would they want to leave the organization they know, uproot their family and traipse across the state or country to get the same amount of pay? So, unless this is a life style change or is being driven by some family reason, they are likely to ask for an incentive to endure the pain of moving. How much will they ask for? Probably about 10-15%.

We just made that number up; so, don't quote us on it. Now, if you hire them in at 10-15% more than your normal hiring rate (which is typically the minimum of the range, or up to the first quartile of the range) you will be offering them a pay rate that is well within the range. However, the hiring rate could easily be over the midpoint. If you do that, you will have all sorts of problems to contend with from your current employees. After all, they may not be paid as well and they have been with your organization for a lot longer. From their perspective, what gives you the justification to hire a newbie (and an unproven one at that) when you won't even pay that rate to your current trusted and loyal employees? Something is just plain wrong with this picture.

Before we venture into what to do about this situation, why is this problem occurring now? Three reasons come to mind. They are (not in any specific order):

1. An increasing reluctance of qualified candidates to relocate for similar positions without a substantial increase in pay.
2. A general decline of promotion-eligible candidates in the labor market.
3. Increased demand for a smaller pool of applicants.

You are not the only organization facing this problem. And the solution may be difficult and tricky.

So, what is the solution? Silly question – pay more. But, how can you do that when you have a competitive wage structure?

It depends on the amount of pain you want to endure. If you want to endure a lot of pain, then simply pay them more within your current pay structure. But, you will need to communicate very carefully and clearly with your current employees. In the private sector, this is less of a problem since salary tends to be a bit more confidential. However, in the public sector, where everyone knows what everyone else is making, this can be a big deal. If you want to endure less pain, you could raise your pay structure. Then you can hire new employees in to conform to your hiring policies, but your current employees will soon get wind of this maneuver and figure out that they may not even be paid in the new range. They will demand a pay increase. Another solution would be to broaden the ranges. This would mean raising the maximum and lowering the minimum. We don't think this is very clever idea because it doesn't accomplish much other than to look good. You could pay the new hire at a lower rate, but have a performance evaluation within 6 months, and if they are performing at the level that you think they are worth, you can raise their pay to where you need to in order for them to accept the job. Or, finally, you could give them a hiring bonus and pay them at the level that your pay practices will allow.

Will any of these solutions work? In some cases, yes. But the real solution is twofold. First, you need to ask the right question of the market. Rather than asking "is our pay structure competitive with the market," you must ask, "what is the competitive market for the talent that we need in order to manage the organization in the future?"

And the second part of the solution is that you need to make sure that you have a well thought out plan for succession planning. This will give you the right talent from within the organization at the time that you need them. The answer to the first part of the solution is likely to be expensive. The answer to the second part of the solution will also cost money, but it will cause less pain in the future. The problem with succession planning is that some employees will feel that you are cherry-picking and that they did not have the same opportunities given to your chosen few.

All in all, how much pain, and when, do you want to endure?

This article originally appeared in July 2006. It was revised in December 2016.

STREAMLINING THE PAY STRUCTURE

Question: We are in the process of updating our classification and pay structure. We are trying to reduce the number of pay grades from what we currently have. Our department heads and managers are really resisting some of the things that are being done. Can you provide any insight as to why they are resistant to streamlining the pay structure and what we can do to get them to support the changes?

CompDoctor™: Department heads and managers being resistant to organizational change—we have never heard such nonsense. Given the fact that you are dealing with managers in a governmental setting, this is most unusual since the managers we see (recognizing that we may be under the influence from time to time) appear to be very progressive and supportive of change. Where did you get these folks? Of course, you probably got them the same place most other agencies got theirs; you promoted them.

You have actually asked two separate but related questions. The first question relates to why they are resistant. We will address that first. If your agency is like most public sector organizations, granting of discretionary pay increases is something that is extremely rare and requires, in some cases, an act of Congress, or at least the state legislature, county board or city council. Because pay increases are limited to traditional cost of living adjustments, step increases or the occasional market adjustment, managers have had to become creative in order to give their friends (oops—we mean their subordinates) a pay increase. They have done this, in rare cases, because they did not want to be perceived by their friends (oops, we did it again—we mean their subordinates) as not looking out for them. Besides, it isn't their money. If they did not do something for their friends (oops—subordinates), other managers would gobble up the few available dollars for their friends (oops—subordinates). To do this, they created lots of very narrow job classifications that were only marginally different than other classes. Of course, the new classes had to paid at higher salary grades than the old classes. Thus, in the past, additional salary grades were added to the system to accommodate all these new jobs.

On top of that, public employees have been very successful in getting salary ranges increased at the lower level through various means like collective bargaining. Elected officials have been reluctant to grant comparable increases to upper level positions since those positions are often paid more than the average resident (like the voters) of the local community. The result is that what was once a very sustainable ratio of lowest paid to highest paid of about one to ten, we are now seeing ratios of as low as one to three, with one to five being very common. In one city, the lowest paid employee earns $22,000 and the highest paid employee earns $90,000, or a ratio of one to five. In another city, the lowest paid position earns $57,000 and the highest earns about $180,000, or a ratio of just over one to three.

This change is the equivalent of one originally living in a 10-story building with each floor having 10-foot ceilings. Because the current system is designed around the 10-story building, (because there is a top-level salary that we are afraid to go over) we now have a ceiling height of three to five feet. What has happened is that floors have been added to the building but the overall height of the building has stayed the same. We don't know about you but most people really have to bend over when the ceilings are that low. In simple terms, this is why you have pay compression. So, in short, your reduction in the pay grades means that their favored friends (darn… we meant subordinates) and their hard-earned extra classes and pay grades will be wiped out and they will not be considered "special" anymore.

The second question relates to what you can do to move them to your point of view. That is a tougher question but we have found the best way is to simply show them the numbers. When we see FLSA non-exempt employees making as much or more than exempt positions, it is easy to see why hourly folks do not want to give up their current positions to take on higher level jobs. Since the pay difference between successively higher promotional levels is virtually nonexistent, one can hardly blame them.

Recently, one large city reported that some police sergeants earned more than $200,000 per year with overtime. That is substantially more than even the police chief earned that year. Other examples put the most pressure on the first exempt level. Clearly, when structures are compressed, this will happen and the only way out of the problem is to eliminate levels.

If your managers have any concern for the well-being of the organization, they will wake up and smell the coffee. Will they do so willingly and gracefully? Who knows? We only know that if they don't, and you are unable to address the problem, the communists will finally be able to say that they won the cold war since communism (from each according to his ability; to each according to his need) is alive and well in the U.S. Obviously, if we will pay all public employees just about the same salary, regardless of the job they are paid to perform we will have to adjust our understanding of what a capitalist ideology really means.

This article originally appeared in July 2007. It was revised in December 2016.

PRICING UNIQUE JOBS

Question: In a previous column, you talked about how to get a 70% match between a job in the labor market and a job in our organization. However, we are a small organization and some of our jobs have some rather unique combination of duties that are not typical in other organizations. How do we match those jobs or figure out how much to pay them? One of our employees thinks we should price each part separately and then just add up the two numbers and pay them for two jobs. How do I tell this employee that there is a more logical way, assuming that there is?

CompDoctor™: Well of course there is a more logical way. Our guess, though, is that your employee will not like the approach since it means getting paid for one job and not two (unless you are working that person 16 hours a day and then you may actually want to pay them for two jobs). Actually, your situation is not all that unique. We see similar situations in many organizations, although our all-time favorite combination job was in the Ag School at a major western University. It was called Saudi Student Advisor/Bull Semen Collector (we could not have made that one up if we had tried.) Nevertheless, there really was a logical reason for that combination but we won't go into that here. The real issue is what you do to figure out what the job is worth since neither part of the job represents 70% of the total. Rather, it is more like a 50-50 mix.

The first question that we ask clients when we see these mixed jobs is: Does the employee work under a single employment contract for the whole job or are they really employed in two one-half time/part-time jobs? This is significant since in the latter situation, the employee could be paid separately for each part-time job, while in the former status, it is one job and one salary or hourly rate. For example, in some colleges, some coaches are hired on a part-time contract but are then given another job as a groundskeeper or something else. Each job reports to a different supervisor/manager and they are technically two part- or half-time jobs. Consequently, if the employee were terminated as a Coach, they would still have a part-time job as a groundskeeper. If they are hired under a single contract and they are terminated from one part of the job, they are then terminated from the combination job.

If it is two separate jobs, then the matching would be simpler and the process we outlined in one of our other columns (Labor Market: Job Matching) would apply. But where there is an eclectic mix of duties, we need to get a bit more creative.

In this case, you can do a couple of things.

The first option would be simply look for those duties that have the highest requirements or involve the highest-level work. For example, if you have a doctor that is required to perform brain surgery, even though they only do it 5-10% of their time but spend the rest of the time doing administrative work, you could (and probably should) recognize that you need a brain surgeon so that is what you match the job to (unless you really want an administrative physician doing brain surgery and then your risk manager may want to have a conversation with you.)

The other approach would be to identify the market value of each component of the job and then simply take the salary for the highest valued component since you obviously need someone with those skills doing that job. This second approach basically answers the question – what skills will you need to replace if the employee leaves?

A third approach would be to average or blend the two rates but then you would end up underpaying for the skills you really need and that would result in your not being able to hire the right kind of person for the job.

One of the most common areas where we see jobs being blended is in cities where the City Clerk may also be assigned other duties ranging from Finance Director to Personnel Director, to Assistant City Manager. In our opinion, this is probably the easiest situation to deal with since it is fairly clear which part of the job has the highest market value (see second option above.) In these cases, we normally recommend that the value be tied to the highest level component of the job if that is really what you are expecting that particular employee to do (assuming that it is not a job they are given in name only.)

While it will be difficult, if not impossible to get a 70% match for the whole job, you should easily be able to get a 70% match to that portion of the job that has the highest value.

There is one other scenario that we have seen in rare situations. That is a job that was created for a particular individual with a truly unique set of skills (e.g. someone who is both a licensed attorney and a licensed medical doctor) and you need someone to use both sets of skills. In those rare cases, you may very well have to pay a premium above the highest valued individual skill set in order to recognize the unique combination.

Hopefully, this will help you defuse the argument that your employee is using to get you to pay them two salaries to perform one job, even if it is a bit unique.

This article originally appeared in November 2009. It was revised in December 2016.

JUSTIFYING PUBLIC SECTOR SALARIES AND BENEFITS

Question: We have just been hammered with requests from the city council, the media, the public and every other life form on the planet about the salaries and benefits offered by our city. This is probably the result of the considerable publicity about exorbitant compensation paid to officials in a few cities in California including a city manager making almost $800,000 per year in a city with fewer than 50,000 residents. At the same time, there are reports that a former city manager in another small California city was receiving a pension of more than $500,000 per year. To quote the former head of BP, we just want our lives back. What, if anything, can we do to "make this right"?

CompDoctor™: You want your life back? Just remember that the author of that quote got his life back and, although he is still employed by BP, his new outpost is Russia and not London.

Unfortunately, this situation, we believe, is not going to go away easily or smoothly but there is a lot you can do to at least address the problem and hope that the stakeholders in your community are open-minded enough to listen and smart enough to understand the facts. If they are not, then little that we say can or will make much of difference, at least in the short run.

The situation that has arisen in California as a result of the revelations of compensation abuse in the city of Bell are, we believe, unique, and, we hope, isolated. Unfortunately, the media has played this up in such a way that every public agency in California, if not throughout the nation, is subjected to a level of scrutiny about compensation that heretofore only existed when we went in for our annual physical exam. Now, we know that over the years there have been many local newspapers that have periodically published the salaries of all public officials earning over a certain amount of money. Many eons ago (back in the 60s), we recall that the amount was $10,000 per year. (When you all stop laughing, we will go on.) Slowly, the base amount rose to $25,000, then to $50,000 and then to $100,000. Now we have cities, counties and other units of government paying some top officials $300,000 or more in base pay. Whether these amounts are appropriate is a topic that we will be happy to address in the future; however, for now, we will focus on how to deal with the public scrutiny about public sector pay.

Over the past three to four years, we have all seen major exposés on private sector compensation abuses coming out of the financial services meltdown and the golden parachutes that many private executives have received, even when their performance was not stellar. We now have the federal government providing oversight of pay levels in certain private organizations as well as not-for-profits, and others are now required to disclose their compensation levels to shareholders and subject them to advisory votes. And, most recently, the feds have required new salary reporting requirements by gender (EE0-1 reports) to monitor gender pay equity.

We can all ask why this is necessary but it appears to stem from individuals getting greedy, comparisons with inappropriate peers (which means they really are not peers) and not thinking about compensation from a strategic view. When organizations define their compensation philosophy and strategies up front and there is open discussion of the philosophy and strategies, we find that there is generally less resistance to how pay is delivered and the amounts of pay.

In a survey conducted by IPMA-HR, 78 percent of public sector organizations have a defined pay philosophy. Whether that philosophy has been widely shared, or instructive, is another matter.

However, we have digressed, so back to the issue at hand. What can you do about this mess?

There are some things you can do right off the bat; the first would be to have an independent audit of your pay setting process. For example, the State of Colorado conducts annual audits (through the office of the state auditor) of the salary survey process used by the Colorado State Personnel Department to determine salary adjustments for state employees. The City of Denver conducts a similar audit every three to four years.

The audit process serves a very legitimate and public purpose and that is to show the stakeholders that the salary levels are reflective of the labor market and that the process used to determine salary levels can withstand public scrutiny. In other words, the process and the results are valid and reliable. If you have not had an audit of your pay system process and pay levels in the last couple of years, you might want to consider having one done at the earliest opportunity.

The second thing you can do (and agencies in California will be doing this because they will have no choice given legislative mandates that will no doubt result) is to put your entire job classification and pay plan on your Web site.

The reason we say both the classification and the pay plan is so that anyone can look up any job, see what it is, and what it gets paid. One of the problems that we have noted with the publicity resulting from the Bell situation is that reporters have been trying to show comparative data but, because the data is not easily available, they are making some rather erroneous assumptions and conclusions. This is simply a result of comparing job titles without any understanding of the differences in actual duties between organizations even though the titles may be the same or similar.

Publishing actual employee salaries is another matter. Ultimately, that information is public record in most states but whether you are willing to list every employee and show their current job title and their current pay, is a decision that each agency needs to make for itself.

A third thing you might do is become proactive. Rather than waiting for the media to come to you to ask for information, go on the offensive. Post and provide information that not only talks about what you are paying, but WHY you are paying what you are, which takes you back to the pay strategy! The public needs to understand why pay levels are what they are and, more importantly, what they are getting (i.e., performance) for their money. For example, if you pay your city manager and department heads more than comparable cities, but your crime rate is low, your emergency response time exceeds standards, your economic development is higher, and you have a healthier fund balance than other comparables, then maybe the pay level is worth it. Until you let the taxpayers know those things, you may have a problem with the perception of your levels of pay.

So, until public sector compensation is understood by the public and linked to performance outcomes that the citizens can “see and feel,” you may not be getting your life back very soon.

Hopefully, these thoughts provide some insight as to how you might respond to your elected officials and the media.

This article originally appeared in October 2010. It was revised in December 2016.

MARKET PREMIUMS FOR HOT JOBS

Question: In one of your other columns, you addressed a question regarding IT compensation relative to compensation of other jobs. While not wanting to beat a "dead horse", could you please expand a little on the issue of labor market for the jobs that are so "special". The IT folks in our organization are convinced that they are comparable to the folks at Google, Facebook, Apple and the other big IT firms but we question the validity of that comparison. Accordingly, we would welcome your wisdom on how to respond to these issues.

CompDoctor™: Google, Facebook, Apple? An interesting set of comparator organizations to say the least. You have not described the type and size of your agency but unless you are an organization with thousands of employees that is in the business of developing new and state of the art software systems, we can only assume that your employees are housed in a facility that has a limited oxygen supply or that they are consuming substances that are only legal now in a couple of states. Let us elaborate.

One of the key issues that every organization needs to address is how you define the competitive labor market(s) in which you compete. For some jobs, the market is local while for others it may be broader and focus more on the industry in which you operate. For example, recruiting for administrative support or routine maintenance staff may involve both public and private sector organizations within a relatively defined radius of your location. On the other hand, if you are recruiting for a nuclear physicist, you probably need to look nationally or wider and the focus might be on research institutions or other related organizations. Other jobs may have their own unique labor markets depending on whether prospective applicants for those jobs are considered mobile or whether there even is a labor market for the job in question. An example of a job that might not have any defined labor market would be an Optical Technician that grinds telescope lenses as opposed to one who makes eye-glasses. Since there are only a limited number of these people in the entire world, there is not really a definable market, so the value has to be set through internal relationships and internal value. IT folks will certainly argue that their skill sets are unique and that with the rapidly changing nature of technology, they should be treated differently. As we said last time, we are not disagreeing with that approach. What we do question with all of our clients is the market that they want to use in comparing compensation levels, so let's go in that direction.

It is relatively easy to compare city compensation levels to other cities in the immediate geographic area or the same state since the benefits packages will tend to be fairly similar. Comparisons tend to be fairly straightforward (assuming that the jobs are reasonable matches.) Things start to get a bit stickier when you cross state lines since each state has different tax laws and pension plans affecting public employees. While it is easy enough to apply geographic differentials relative to the cost of labor in these various markets, as well as the employer contributions towards the various benefits, employee perceptions are harder to address.

Elected officials have been asking for comparisons to the private sector for some time. As we have discussed in prior columns, obtaining private sector data has its own challenges. While the data that is available from published sources is generally quite good, the real issue comes down to whether the defined market is even appropriate. This starts to get to the key issue of whether using companies like Google, Facebook, Apple are appropriate at all, so let's talk about that for a bit.

Our first question to you would be whether you hire your IT folks to design new systems or whether they are hired to maintain existing systems? Then we would ask when you have a need for new or large, complex systems, do you build them in house or do you contract out for them? If you contract, do you need project managers rather than technical staff? Are you looking for people who want to work 23 hours a day for months on end to develop the next super application because they have an equity position in the company and are looking to be the next Microsoft millionaire or are you looking for people who are technically skilled but are content with having a job that is more balanced in terms of work/life?

There are numerous other related questions but the bottom line is you probably are not looking for the same folks that Google, Facebook, Apple are looking for. As a result, you are competing in a different labor market. That does not mean that you should not be using the private sector as a comparator. It just means that you need to define whom, in the private sector you are competing with in terms of industry, scope of organization, skill sets, etc. Once you have answered those questions, then you can respond to the IT folks in an informed manner that hopefully will not have them crashing your computer on a daily basis until you bend to their will.

Good luck. These issues are not going away and each organization will address them differently.

This article originally appeared in December 2014. It was revised in December 2016.

JOB MATCHING

Question: We are getting ready to do a total compensation survey covering our entire organization. As we begin the planning for such a survey, we find that our employees are insisting that compensation survey job matches be very job description-specific to account for all the "special" things they do different than their equivalents in the marketplace. This expectation is driven by the fact that our employees all want to have their job benchmarked because they all think they are "special". What are we to do?

CompDoctor™: What a great question! We really love hearing that your employees are "special" as that is something we hear so infrequently from our public sector clients. Not long ago, we were watching one of our favorite sit-coms on TV, the Big Bang Theory, and there was a reference to one of the lead characters as one of "the special people." Since we are so logic-oriented, we conclude that your organization is staffed with employees who are all members of MENSA and that you operate a physics laboratory at a major university. If that is not the case, and we added two and two but came up with five, then please accept our apologies. Now that we think about it, we should probably define what is meant by "special" when we talk about compensation.

First off, "special" can mean any number of things. There is the daily blue plate "special" at the local diner in which they are trying to use up an oversupply of a commodity that will go bad if not sold quickly. In that case, special means let's peddle this as the Chef's feature of the day hoping that enough people will buy it and the diner won't lose its shirt because it overbought an item that did not otherwise strike patrons' fancy. Special can mean that the job has requirements that do not apply to the more plebian members of the work force. For example, records clerks in the courts and public safety agencies must often pass a background check or take and pass a drug test that would not be required of a records clerk in the public works department. Or special can mean that while the type and level of work is the same as others, the specific tasks are different and, therefore, special. A fourth reference to "special" relates to performance. Some employees are simply better at their job than others which does not change the type and level of work. We will leave it to you to decide which definition applies to the employees in your organization.

However, labor market surveys tend to be immune to "specialness". One thing that is a given in conducting a market compensation study is that the more benchmarks you include, the more complex the survey and, therefore, the more difficulty you will have in getting good survey participation. You do need to keep in mind that you should be targeting the number of benchmarks to the structural levels of job classifications that you have and that you should not be benchmarking more jobs than required to build and maintain effective pay structures. Otherwise, you will find that comparator organizations will ignore or delay your surveys. And if that happens, you won't have the validity or reliability that you need. You will also need to include as benchmarks any jobs that you are experiencing recruiting difficulties but, overall, the number should be manageable.

Assuming that you have a structured and formal job evaluation system in place, you can usually limit benchmarks to about 1/3 of the total job classes so long as they reflect at least half of your total workforce and are jobs that typically exist within the labor market(s) that you are surveying. The Federal Trade Commission and US Department of Justice have also issued guidelines relative to the conduct of salary surveys including the need to have at least five matches or data points. *WorldatWork*™ has also issued guidelines for the conduct of surveys including job matching to a 70% or better standard. Given the Federal guidelines, as well as the *WorldatWork*™ guidelines, the 70% standard alone should be a clue that you are unlikely to find five or more matches that are exact in terms of your "special" jobs. Just getting one 70% match is often hard enough without the need to find five such matches that address class levels and distinctions so minimal as to not be readily recognized in the market. That is why we emphasize that the focus should be on the type and level of the work performed and NOT on the specific activities since those may vary to a substantial degree.

While the survey may not be able to distinguish "specialness", you can certainly ask questions about whether other employees pay a premium for certain credentials, certifications, foreign language fluency, etc. Some employers will pay premiums for working conditions such as different shifts or environments. However, if you are concerned that positions requiring the passage of background checks or drug tests should be paid differently than other positions within the organization, you should also ask that question in your survey. In our experience, those issues become selection criteria rather than true job differentiators.

The toughest issue to deal with, in our opinion, relates to performance since so many public agencies still have step based pay plans that reward longevity rather than the employees' actual contributions to the organization. Such organizations struggle to survey jobs where work is accomplished better, faster, more comprehensively, etc. than others in the market in general. However, respondents usually do not acknowledge that their same widget maker is slower, less competent, and less successful than yours and they simply match widget-making. Although surveying benchmarks is not a mechanism for directly addressing performance, one approach is to ask, as part of your survey, what type of pay delivery mechanisms do survey participants use to grant pay increases. As we discussed in prior columns, performance based compensation is becoming more common, although it is not yet the norm.

The bottom line is if you want meaningful data, keep the matches more generic and keep the number of benchmarks limited within guidelines to promote meaningful response to your surveys now and in the future. In addition, educate your employees on your job evaluation system so that they understand how pay structures are built and maintained even if a specific job is not benchmarked.

"Special" can be accommodated with performance pay and other mechanisms.

This article originally appeared in April 2015. It was revised in December 2016.

MARKET PREMIUM GUIDELINES

A market premium or differential amount is established that approximates the difference between the average market compensation level and the midpoint you have set for the classification. The premium amount is added to the entire salary range for the class. The salary grade for the class is not changed.

The compensation level for the individual employee (or new hire, as appropriate) is then established. Consequently, a new hire would receive the established minimum salary for the job classification (assuming that (s)he is not hired above the entry level) plus the market premium amount. The market premium will remain with the position until such time as market compensation levels no longer support the premium or differential. That determination should be made bi-annually during the market compensation study conducted to maintain the overall compensation structure.

Use of market premiums are appropriate so long as market levels substantially exceed the base or established range for the job. Consequently, as market levels change as a result of changes in a given industry or market area, the premium amount will need to be adjusted either up or down as appropriate. Consequently, if the market differential drops at a rate greater than the rate in which the overall structure increases, individual employees may effectively receive no increase in their total compensation, and could even have their total compensation reduced even though their base compensation has gone up.

Should the market premium fall to less than the required difference, then the premium should be eliminated and the salary for the individual position should be adjusted to fit within the established salary grade for the job classification. The details of establishing market premiums follow.

Market premiums or differentials should only be used when the average market compensation level exceeds the established midpoint for the classification by a minimum of 1.5 times the difference between the midpoint and the maximum of the range. In those instances, a market premium amount should be established for the class. The premium amount is then added to the minimum, midpoint and maximum of the salary range, as shown below.

Whether or not a market premium is warranted can be determined by applying the following two steps:

1. Calculate the difference between the established midpoint and maximum, and multiply times 1.5.
2. Add this product to the midpoint.

Maximum	minus (-)	Midpoint	= $ Difference	Times (x) 1.5	Plus (+) Midpoint	= Result

- If this result is less than the market median actual salary, a market premium is warranted.
- If this result is more than the market median actual salary, then no market premium is warranted.
- If a market premium is warranted, then the market median actual salary becomes the midpoint of the new market premium salary range.

An example of a situation warranting a market premium is shown below:

Market Premium Warranted

Market median actual salary:	$50,000
Salary range maximum for the class:	$45,000
Salary range midpoint for the class:	$39,000
Difference between max. & mid.:	$ 6,000
1.5 times above difference:	$ 9,000
Above amount added to midpoint:	$48,000

Maximum	minus (-)	Midpoint	= $ Difference	Times (x) 1.5	Plus (+) Midpoint	= Result
$45,000	-	$39,000	=$6,000	x 1.5=$9,000	+ $39,000	=$48,000

Is market median actual salary ($50,000) larger than result ($48,000)? YES, premium warranted.

New midpoint for the class:	$50,000
New maximum for the class:	$57,692

(calculated at same range spread of previous salary range)

An example of a situation NOT warranting a market premium is shown below:

No Premium Warranted

Market median actual salary:	$46,000
Salary range maximum for the class:	$45,000
Salary range midpoint for the class:	$39,000
Difference between max. & mid.:	$ 6,000
1.5 times above difference:	$ 9,000
Above amount added to midpoint:	$48,000

Maximum	minus (-)	Midpoint	= $ Difference	Times (x) 1.5	Plus (+) Midpoint	= Result
$45,000	-	$39,000	=$6,000	x 1.5=$9,000	+ $39,000	=$48,000

Is market median actual salary ($46,000) larger than result ($48,000)? NO, no premium warranted.

Well, there you have it. Three ways to manage an erratic labor market and take on the hot employer in town. Just remember, while it may not seem like it right now, this too shall pass. Or, you could train to be an engineer!

This article was revised in December 2016.

PERFORMANCE MANAGEMENT

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Performance Management is defined, created, and implemented differently in many organizations. This is easy for me to say because I am speaking from 30 years' experience in public agencies of all sizes but I am sure you can relate to this statement. Let's be serious, the topic of performance management has caused some to smile, but many more to frown, in confusion. Many public organizations have these systems in place. The key question is whether they are operationally functional, properly funded and generally accepted as being effective in measuring, rewarding, and achieving employee productivity and satisfaction? A much larger question is often "how is the system fair and does it adequately reward effort?" This question often reminds me of the old but continuous Equity Theory of management that runs constant in the minds of employees and management alike.

Performance Management systems have always been somewhat controversial and difficult to implement and maintain, even in the private sector where salaries are a bit less public. However, despite your individual experiences, there still remains a great need to focus on the "People" who drive the outcomes of your agency. It is not easy but it is doable if you are prepared, flexible, and ready. The beauty of this section is that it is based on the review and examination of many best practices and, oh yeah, the experience of many organizations. The articles are dynamic and even demonstrate the author's ability to talk with and understand its many audiences. I often call it Pay for Performance but I guarantee you somewhere out there it's called P4P.

TIPS ON HOW TO MOVE TO A PAY FOR PERFORMANCE PAY PLAN

Question: "In a recent CompDoctor™ you said that some public agencies are successfully moving to pay for performance systems. You also said that the shift requires more of a focus on cultural issues than on the design of the pay system. But you guys are comp guys, right? 'Cultural issues' sounds more like an organizational development issue. If the success of pay for performance in the public sector is more about a shift in culture, how do we do that? What recommendations do you have for preparing our culture for a move to pay for performance? Oh, and we'd like to make the change in the next six months. Is that possible?"

CompDoctor™: Great question. What a fabulous question! We only wish we had an answer! Just kidding. If you have read our articles before, you know we have an answer for just about everything…at least as it relates to compensation issues.

Actually, we are getting more and more calls from clients wanting to revise their performance evaluation systems, or simply develop them from nothing. They are all asking about pay for performance. In most cases, they have very little clue about what they are getting into and have not even begun to consider the cultural, management, and employee shifts that will be required. Oh, and of course, they too want it to be effective in six months' time (or in some cases, if you can believe it, even less!).

Now is the time for a reality check. Because unless you see the process laid out, you and your elected officials, board members, boss, or what have you, will think that if you can't get it done in six months, you are not focusing your attention in the critical areas.

Let us go through a process that we think you ought to take, regardless of where you think you are in the pay for performance development cycle. We are going to start at ground zero, so if you already have something in place, you can skip some of these steps, because you apparently have already gotten over these hurdles. On the other hand, if you are not so sure, it is always a good idea to start from the beginning and get it right. We are going to deal with this like a procedure manual knowing full well that with anything that affects humans and pay, such a systematic way of proceeding is just plain naïve. But, like Don Quixote, onward we will go, completely blind to such truth.

Step One: Are You Ready?
We think that you ought to engage in a readiness assessment before you go any further in your progress toward pay for performance. This is a short questionnaire (about 15 questions) that can be administered to all employees and then the results tabulated. The results will be enlightening, and in our experience, will tell you what areas you need to work on in order to be ready for a pay for

performance program, which we'll call "P4P."

The questionnaire highlights areas of organizational commitment, supervisor support, purpose, trust and other issues. In our experience, if the scores come back indicating that the organization is not ready for P4P, then moving to the next step is simply foolish and a waste of time and money. As we once told a city council, they wanted a highly tuned sports car (our analogy at the time was a Jaguar), when the kids didn't even know how to drive. Once they understood the situation, they concluded that maybe a Ford Focus might be a better choice (at least at the outset) so that they could actually learn to drive, bang up the car a bit and then move on to something more sophisticated when they were better prepared.

An adaptation of this is to get small groups of employees and supervisors together to discuss the results of the survey and identify an action plan for resolving some of the issues.

Step Two: What Are the Necessary Success Criteria?

Just knowing that you are ready may not be enough. There are also aspects that you may need to understand a bit more. So, in keeping with that theme, here is a quick list of questions that you should be able to have answers to before you take the next step, whether you are ready or not.

1. Do you have top management support? (That includes leadership plus the board/council members.)
2. Does the organizational culture accept change?
3. Have you developed an idea of how you will link pay and performance and also address cost of living issues?
4. Do you have a viable salary increase budget? (Well, who does these days, but our research shows that while more is better, the difference in effectiveness of a program with one percent of payroll dollars and five percent of payroll dollars is insignificant. Hard to believe, isn't it?)
5. Do you have an effective performance management system? (Even a lousy one is better than none at all because at least you have partial building blocks in place.)
6. Do supervisors and subordinates trust each other? (This is one of those make-or-break items. You might want to enroll in "trust worthiness school" if morale is in the dumps because of ineffective supervisors. Poor supervisors will sink you every time. Our best advice is to fix it.)
7. Are there measurable differences in performance in the jobs that you are focusing on? If not, then a P4P program may not be very effective. (Frankly, some jobs are either done or not, and there is little difference in performance that can be measured. Think airplane pilot; what does unacceptable performance look like?)
8. Do your managers have the ability and willingness to distinguish differences in

performance? (If they think all their employees are wonderful and then some random week, they want to fire them, you have a problem that needs fixing.)
9. Is your pay structure competitive and fair? (If you don't have a solid foundation, P4P is not going to fix it, and could make it much worse.)
10. Do you effectively communicate with employees? (If not now, when do you think it would be a good idea?)
11. Do you have the administrative resources to track and administer a program that will require about as much effort every year (if not more) than open enrollment?
12. Do you have a policy manual that you can incorporate a P4P philosophy into? (While more than a few words, the board should agree to the statement.)
13. Will there be consequences for managers who don't want to go along with the changes? (One bad apple that is not held accountable by top management is just as important to the program as a solid compensation program. Without this discipline, your chances of succeeding are minimal.)

As you can see, this is quite a list. And, do you notice that of the 13 items, only two have anything to do with compensation? All the rest address cultural and organizational development issues.

Step Three: How Is Your Pay Strategy?
OK, let's say that you are ready and have passed all the tests. You have looked at Step Two and are ready to go. When can we implement? Slow down. We are far from the finish line.

Do you have a pay strategy that is clear and incorporates P4P? We didn't think so. Most public sector organizations (about 70 percent) have a pay strategy, but about 95 percent of them do not incorporate P4P. A pay strategy is a statement(s) of the intent and approach that you will take in compensating your employees. Part of that approach is why P4P is such a big issue. Is it to retain top quality employees? What are you going to do with poorly performing ones then? Do you want to reward employees based on their contribution to the success of the organization, department, and/or work unit? Then you need to define what success looks like and again what you will do if an employee is not making the expected contribution to success. This needs to not only be thought out but spelled out. We doubt that it can be stated in one or two sentences in a short pay strategy statement. So, you may need to engage the board and top management in a rather intense discussion about why you pay employees what you pay them. The answer to that question is not resolved in an hour-long lunch meeting.

Step Four: What Do You Want to Reward?
This may sound like a stupid question, and it certainly is very directly related to the above step, but you need to answer this clearly. Just to help you out, here are a

few things that we have found that organizations want to reward:

- Individual performance
- Team performance
- Performance improvement
- Increasing capacity or competency/skills
- Education
- Personal/professional development

Interesting, isn't it? If you are in a college or educational environment, professional development and educational attainment are highly valued and are usually items they want to reward. Does that work for you? Or maybe team performance would be very important to a road maintenance unit, but not so to a housing inspector. The point is, it can be a combination of these things or it can be just one of them. You need to decide which ones and how much. And, different departments may have different things that they want to reward. No one can give your organization the formula that works for you. You need to find it yourself. How is that lunch meeting working for you now?

Step Five: Is Performance Management the Same as P4P?

Wait! Isn't pay for performance just the natural outcome of performance management? Well, yes, it could be, but for many it is not. Frequently we ask our clients if they have a performance evaluation system in place. Most of them say yes. Then we ask if they pay based on performance. The answers are interesting. Some say yes and some say no. (Well really guys, what other choices are there?) Those who say yes then follow up with saying that if employees don't receive a "satisfactory" performance rating, then they don't get a step increase or a COLA. When asked how many don't receive one of those kinds of increases because of unsatisfactory performance, they state that they can't remember anyone who didn't get an increase!

If this is the case, then you may have a form and performance criteria, but you don't have a very effective performance management system. You need one. And to have one, you need these things (see Step Two):

- Measurable differences in performance in the jobs that you are focusing on.
- Managers who have the ability and willingness to distinguish between different levels of performance.

If you have these elements in place, then you have a lot, but if not, you need to immerse your managers in a bit of training. To be honest though, some managers can be fixed and others can't. You need to figure out what to do with the latter.

Step Six: How Is Your Training?
If you are this far, you are in good shape. Not much more to go. When we asked our good friend, performance evaluation expert Marnie Green, of Management Education Group Inc., what cultural issues she thought were important, she came back with this answer: TRAIN, TRAIN, TRAIN!

We don't think she was talking about light rail. Nope, she basically yelled in our ears telling us that managers must have the skills to give specific feedback to employees and to clearly convey their expectations for what "good" performance looks like. This is the tough love of management. If you can't tell an employee that they messed up or did a good job, maybe you ought to find another line of work. Because effective managers can get a lot out of people, but they need to be honest, and sometimes that means they tell employees that they did not meet expectations.

In most organizations work groups are social groups. Managers and supervisors often are promoted into their jobs and view subordinates as friends. Think about parents who simply want to be friends with their kids—we don't need to tell you the consequences that could result from that type of parenting.

Step Seven: Where Are Your Employees?
Most managers and elected officials we talk to think that performance evaluation is the responsibility of the managers. It is something managers do to employees at the end of the year.

Wrong answer. If your performance management process does not significantly involve the employee, then you are destined to fail. Back to Ms. Green; after she yelled in our ears, she said this:

"And, employees need the skill to fully participate in the management of their own performance."

What that says to us is that employees need to be trained as well. After all, they need to be an integral part of the process. They need to evaluate their own performance and be on par with the managers when they talk about performance expectations. When you treat the employees as an equal part of the process, you break down mistrust and the feeling that it is a subjective process where only the ones who are liked by the boss get raises.

Step Eight: Do You Hold Managers Accountable?
Part of being an effective manager, and one of the criteria for a manager's performance evaluation, is if they have found differences in performance of their subordinates and they have had the willingness to clearly communicate these differences to employees. If you don't have this management skill, find a way to get it.

Step Nine: Have You Linked Pay with Performance?
Even if you don't have much money to play with, you need to find a metric to link pay and performance so that the top performers get more than the ones who are not top performers. This can be accomplished through a set-aside bonus amount, a linksge based on placement in range and performance (merit matrix) or a percent pay increase factor. Regardless, it needs to be established and understood.

Step Ten: Did You Tell Them How It Worked?
Ms. Green goes on: Communicate the results of the program so that staff as well as elected officials can see the impact that focusing on performance has on the organization. Use these data to maintain the funding support on the part of the board and possibly enlist union leaders, if you have unions.

Step Eleven: Repeat
P4P programs need to evolve. In fact, in our experience, once you set this up, you will do rather poorly the first year. You will evaluate more people as exceeding expectations than should be (one county we heard of had 93 percent of their workforce "exceeding expectations"!). You will set easily achievable goals or you will define performance expectations poorly. Do not be dismayed. The next year you will be better, and the third year you will be pretty good. By then you will want to revise the program! And we think you should.

So, back to your question. As you can see, this process is mostly cultural, organizational and employee development. But, if you don't have the essential underpinnings, you can have the most elegant merit matrix or bonus plan and great funding support and it will fall on its face. And you said you wanted this in six months? Really?

As Don Quixote said: "Ah, ah, now I understand you, Sancho! Oh, yes, lots of time, and I feel it coming right now. Get me out of this pickle, because it's already pretty messy in here!"

Originally appeared in March 2012. It was updated in December 2016.

BARRIERS TO PAY FOR PERFORMANCE

In our experience, individual performance evaluation programs are the type that are used most frequently in government and the type of program that most government officials think of when they think of pay for performance. In this article, we discuss some of the structural barriers to implementing an effective individual pay for performance program and some ways in which these barriers can be overcome.

Budget Cycle Barriers

Psychology teaches us that individuals will perform and continue to perform at certain levels as long as they are rewarded for their efforts. It is a simple equation. If the reward comes after the performance, it is likely that the employee will perform again. Sounds sort of like the rat in the maze. But the principle is quite solid.

Now enter the elected official. S/he encourages the organization to develop a pay for performance program. Which it does. Employees are trained in the system and go about the process of developing goals and objectives of performance. The year goes by and some employees have performed at the highest level possible. Not all employees will exceed expectations, but even if they do, that doesn't matter for our example. Let's just say that this employee gets a performance rating of 4.5 on a 5-point scale, indicating that s/he did really well.

Now, we wait for the money to be funded in the budget. There is talk that next year will be particularly difficult and the money is tight. Guess where the council will find the money? You got it, right in the merit budget. In fact, they will probably decide that the market has not moved much and they can afford to fund the merit budget at only 1.5% this year. There will be no across the board, "cost of living" or market adjustment.

Our employee has just done an outstanding job and received more than the 1.5% average. Let's say 2% for this level of performance. For the typical employee making $40,000, this outstanding performance has grossed them a $800 raise for the next year, or about $28 per pay period (24 pay periods) after taxes. Not much for inspiration.

The problem, in a nutshell, in addition to the minimal amount of money, is that the budgeting is done after the performance period. Thus, the employee has no idea if the performance will actually be rewarded; they have to take it on faith. Sometimes, dare we say frequently, the faith is destroyed. This is where employees get cynical distrust the pay for performance program. This can be resolved by biting the bullet and budgeting for raises before the performance year. Such budgeting may be very difficult in your jurisdiction but the pain only occurs for one year, then the cycle of budgeting will be back to normal.

Inability to Distinguish Different Levels of Performance
This problem is nothing new for pay for performance systems. The only difference is that in government, salaries are typically known or knowable to anyone who wants to find out. This makes the decision to differentiate employees' performance through pay all the more difficult.

Not only do you have to determine how to rate the employee's performance, you also have the possibility that you will need to defend your decision to all the other employees in the department. Since the manager's job success is dependent on the work of his/her subordinates, keeping subordinates happy is one consideration that is magnified when all the other employees can see what you have done, but may not understand the reasoning behind your actions.

Some Jobs Cannot Be Rated for Performance or if You Can, It Doesn't Matter
The last time that you flew by airplane, did it matter if the pilot came on the intercom to let you know which city that you just passed over? In the back of your mind, what really mattered was that if the plane took off successfully, you also wanted it to land successfully. All the rest of his/her behavior didn't matter. If you were his/her boss, how would you rate his/her performance if the plane crashed into the side of a mountain? Would "less than expected" do justice? I'll bet the pilot really wouldn't care.

The point is, the performance of some jobs in government cannot or, at the least, should not be evaluated with a performance evaluation system. You may be better off spending your time developing a skill-based pay system.

Difficulty Determining What is Important
Talk to your organizational development friends sometime and they will argue that performance evaluation starts out with a clear vision and mission statement flowing into goals and objectives at the department and unit level until you identify the performance objectives of the employee. Now, step back a minute and ask yourself if that is really possible. First, the answer is probably no since government organizations (cities, counties, states), have such a multitude of needs to serve, that one vision is unlikely to survive the process needed to establish it. Even if it is possible, it probably is insufficient to drive behavior toward that end. So, where does that leave you? Somewhere between measuring the irrelevant or establishing goals and objectives that can't be measured. Tough spot to be in.

These are not encouraging conditions for a pay for performance system to work in government. The bottom line is that to get to the point where pay for performance is meaningful, it requires a lot of up front work. It can be done, because we have seen it done. But don't expect it to work on day one, unless you have spent lots of days developing the right conditions to make it work.

This article was revised in December 2016.

LINKING PERFORMANCE MANAGEMENT TO PAY

Question: Our city is in the process of developing a new performance management/evaluation system. The new system is going to need to link to our new compensation plan in which salary increases (within the range) will be based on performance rather than longevity. Our current system is largely focused on behavioral aspects. The new system will focus more on performance and other objective measures. Can you please talk a bit about the use of behavioral measures versus performance outcomes as the basis for salary increases or bonuses in the public sector?

CompDoctor™: To paraphrase Shakespeare, behavior or outcomes, that is the question. The whole concept of performance management and performance evaluation has evolved over a period of many years. At one point, performance evaluation was seen as simply having a good "form". We soon learned that the evaluation was more than just a "form" that you could buy at the local office supply store. Today, we know that the form itself is largely irrelevant, and at best only serves as a guide for the performance evaluator and employee to follow. We have also seen numerous changes in the focus of evaluations, including the evolution from the old Behaviorally Anchored Rating Scales (BARS) systems in the '60s and '70s to outcome-based evaluations to competency-based evaluations, which look strangely like the old BARS systems, to a single blank sheet of paper for a narrative evaluation.

One could easily conclude there really is nothing new in performance evaluation, just a change in focus on what is important at a given time. Conceptually, it is hard to argue otherwise.

The main issue to address is what you think is important and how you want to measure it. Contemporary thinking is that performance should be based on tangible results as much as possible, rather than measured by what could be perceived as subjective or something that may have little direct connection to the employee's contributions to the organization. Given that thinking, behavioral criteria are likely to play a lesser role in the process than the more tangible, outcome-based criteria. A typical approach is to give a weight of 40 percent to behavioral criteria and 60 percent to tangible criteria for the overall score.

Nevertheless, one of the hot buzz words that we hear every day is "competencies." Many organizations have expressed the desire to define competencies for every job class, ranging from technical competencies to the behavioral. Even in the human resources profession, we have a competency model that professionals are encouraged to access and receive training in order to develop the required competencies. While completion of the training is no doubt beneficial, ultimately the value to the employer will translate into "what have you accomplished for me lately."

Now, given that we are such sensitive individuals and truly in touch with our inner feelings, let us talk briefly about behavioral characteristics. One evaluation system we recently reviewed includes multiple evaluation criteria that all relate to how well individual employees interact with other employees. Of course, this brought out our inner child and long-repressed memories of elementary school where children were evaluated on how well they played with others. While socialization is certainly important, one may or may not believe we need to measure this "competency" if someone is doing the job for which they were hired. Clearly, if a person was hired to be a customer service representative, the degree to which customers feel that their needs were met would seem to outweigh whether the employee plays well with other employees.

Another example would be certain IT jobs. Incumbents are often hired based on their technical skills and proficiency rather than their social skills. Yet behaviorally-based evaluation systems create numerous problems when it comes to pay issues. Unfortunately, technical skills often become outdated, so any system will need to address changing requirements as part of the technical competencies. Many of us are old enough to remember the days of mainframe programmers that used languages like Cobol and Fortran, which probably mean very little in the systems world of today. Back then, most of these folks were absolutely critical to the success of the systems that formed the foundation of business operations. At the same time, many of these people could not be placed into general society for any number of reasons including certain personal habits and general hygiene. Nevertheless, they were worth every nickel we paid them (and in some cases a lot more), but because the evaluation system was behaviorally-based, we had numerous problems to overcome in order to deal with pay issues. On the other hand, firefighters who work as a team every day of the week must rely on each other to perform their duties and, in some cases, their lives may actually depend on the team play of each individual. Accordingly, the evaluation process needs to accommodate both scenarios. In fact, most contemporary evaluation systems measure objective/goal type criteria and the more subjective behavioral criteria.

Without getting into how performance evaluations are conducted, we are trying to limit our comments to the criteria that should be measured through the process. At a macro level, most systems today attempt to measure the quality and quantity of the work performed, and the degree to which customers are satisfied.

While quantity of work performed can easily be measured for some jobs, it is clearly more difficult for others. Similarly, measuring quality of work can be subjective depending on the type of service provided. For example, the quality of the work performed by a mechanic fixing a car can be measured by simply determining if the repaired-vehicle works and is not returned to the shop for the same problem within a reasonable period of time. Measuring the quality of the work performed by an HR analyst may need to be measured by the degree to which the work performed achieved its stated objective. The key is to keep it simple. For example, if you want to measure behavioral criteria, you limit the evaluation to about six criteria. If you have any more than that, you will essentially be measuring the same thing several times.

Similarly, if you have objective criteria, you should limit this to between three and five goals or objectives and they should be significant. Again, any more than three to five and you run the risk of over-measuring or you will find employees and managers getting tired of all the paperwork and ignoring the process.

Hopefully, we have given you some perspective on the issue as you work toward transitioning your performance management system so that it supports your city's new compensation program in an effective manner.

This article was published in December, 2013. It was updated in December 2016.

MOVING TO PAY FOR PERFORMANCE

Question: We just completed a comprehensive classification and compensation study and found that we have a lot of pay compression in our current system. The suggested solution is to adjust pay based on the length of time that an employee has been in their current job title. Fixing the problem will cost a lot of money. We are not sure that paying based on "time" is the best way to solve the problem and we want to move to a performance-based pay system and away from the historic approach for pay based on longevity. We think that with a good pay-for-performance system, we will be able to alleviate the pay compression problem consistent with our pay philosophy. What do you see as the advantages and disadvantages of this approach?

CompDoctor™: Congratulations! You have not only identified the problem but also a potential solution. You are courageous in pursuing development of a performance based pay system that will be consistent with your pay philosophy. You can count yourself as one of a small but growing number of organizations that are questioning the value of pay based only on time.

However, to be fair, this is a long journey and a tough one. You will have many battles ahead and we think you should understand what those battles might be. Still, we think your approach makes all the sense in the world; however, this journey is not for the faint of heart.

Let us outline the challenges ahead, so you know what you are undertaking.

First, we again state that the approach of basing pay on performance is a good one. But let's not kid ourselves. It will be a long and arduous process. If you do not have a performance management system in place currently, or you want to revise the one you have, we suggest that you plan on at least a five-year transition process.

You see, going down this path does not simply involve developing a new evaluation form and tying the results to pay increases; it is a total cultural change. That takes time; lots of it. You need to make sure you are ready, that your supervisors and managers are ready to make tough decisions, that you have clear measures, that the system is consistently applied across all departments and supervisors, and that your senior level leadership and policy body are committed to both the concept and the realities of implementation. A host of other issues that involve significant changes and expectations also apply. Rather than detailing them here, we suggest that you read one of our previous articles on this topic that can be found at http://www.ajg.com/knowledge-center/articles/CompDoctor™: -tips-on-how-to-move-to-pay-for-performance. That article focuses on what is needed just to get to the point where you can say you are ready to implement pay changes based on performance.

Still with us? Great! We were afraid that you might have bailed on us at this point. There have been a few organizations that dream of what may be but do not have either the organizational support to make it happen or the courage to step into the unknown in the face of organizational resistance to a change of this magnitude.

Now, as we see it, here is the problem with the longevity-based approach. If you have employees with compressed current pay, or you have pay inversion and as documented by a study, the question you need to ask is: Are employees going to wait for five years or more for you to implement a new performance pay system so that you can correct the pay disparities that you have recently discovered?

I think you know the answer already. In the phrase of the day, taken from a recent AFLAC commercial, "That's a big fat NO!"

So, what can you do now that will work to:

- Alleviate pay compression.
- Not cost you an arm and a leg (or result in a taxpayer revolt because of the cost).
- Be consistent with your compensation philosophy of paying based on performance?

First, it is our opinion that you need to correct the pay disparities before you can even start on a performance-based pay system. The reason is best explained by an analogy: Do you want to build a 10-story building on an unstable foundation? (If you answer yes, go take a look at the Tower of Pisa, and see how that turned out: nice site-seeing destination, but not worth much else, https://en.wikipedia.org/wiki/Leaning_**Tower_of_Pisa.)** That is how your system will look if you don't fix the underlying pay disparities first. In other words, interesting to look at, but not worth the money you paid for it.

So, the first thing that you need to do is make sure that all the employees are paid at least the minimum of their new pay range. If you can't afford that, then here is another approach: identify the 40% (or 30% or some reasonable percentage) of employees who are the furthest from the minimum of their respective pay ranges, and adjust pay accordingly. Then next year, tackle the remaining employees or another 40% (or half of the remaining employees).

Now, to be certain, this will increase your pay compression problem because you will be advancing the pay of some employees and not others. But, this will start to fix the foundational problem of your new pay system. Try to accomplish this foundational correction in two years, because Boards rarely have the patience for more than two (remember what we said earlier about having a commitment from organizational leadership and policy makers.)

The next thing that you need to do is at least try to reduce the remaining pay compression. We have written about this in another article that you can access from our website: http://www.ajg.com/knowledge-center/articles/the-problems-of-and-the-solutions-for-pay-compression.

If you have read that article, you will see that the solution is primarily seniority based, but we would suggest that there is a twist that will set you up for your performance pay system.

Our suggested approach would work as follows: Measure the total pay compression cost and calculate it by department. Now take a percentage of the total needed to represent the number of years needed to address the problem (50% if your planning on a two-year implementation.) So, let's say that you have come up with $60,000 for a medium sized department. Now take half of that, or some other percentage. Assuming you only use half, that would cost $30,000 for year one.

Now, take 90% of that number, or some other high percentage. So, if you started with $60,000 as the total cost and took half of that, you now have $30,000 to spend in year one. If you take 90% of this, you will have $27,000. If you do this same calculation by the gross individual employee cost to correct pay compression you will have identified the amount of money available for each person. But, what about the remaining $3,000? That is what we call performance money.

But, you say, I don't have a good performance system in place so employees will cry foul. Well, here is how you fix that:

Ask the managers to rate their employees' overall performance on a scale of 1 to 3 with 1 being the worst and 3 being the best. No fair giving them all 3's! This really does work and is reasonably valid and reliable.

Take that score and use that to distribute the remaining $3,000. Next year, do the same thing.

If you have followed this process from the beginning and you have simultaneously worked on a new performance based system, you will be at year 4. Year 5, you implement your new performance based system, and proceed accordingly.

So, here is what you have accomplished:

- Spread out the cost over several years, so the impact is not so significant in each year.

- Made progress in alleviating pay compression.
- Built a solid foundation for performance-based pay.
- Introduced performance-based pay slowly and with minor initial impact.
- Started on the road to organizational change that will support a performance-based pay culture in the future.
- Had a whole lot of fun in the process.
- Improved your Excel skills!
- Looked like a genius in the eyes of your superiors.
- Saved the day!

Well, that's all we have for this month. Thanks for reading.

This article was originally published in June 2016.

GENERAL HR/COMPENSATION MANAGEMENT

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This section, General HR / Compensation Management, provides a comprehensive overview of the Human Resources function and the integration of compensation management as one of the key building blocks of talent management, particularly in the Public Sector space. Why is this important? Because you are no longer the "personnel" folks that once existed to simply manage the status quo of traditional civil service systems. Instead, in today's modern work environments which demographically consist of baby boomers, generation x'ers, and millennials, you are now representing the HR profession from a much different and most likely cultural perspective. You are expected in this 21st century to be strategic in your thinking, manage rapid change, be technologically innovative and, most importantly, be a respected key contributor in the accomplishment of agency / organizational goals.

The articles in this section are extensive and provide the context of how the HR function and its foundational program of Compensation can elevate your personal expertise and ability to demonstrate leadership in Human Capital and Talent Management. In other words, linking the various processes strategically.

I encourage you to absorb the lessons of the articles while remembering that together, HR and Compensation program management represent a necessary and total Systems approach. Enjoy!

OUR PAY SYSTEM IS *OUT OF WHACK*: HOW TO GET IT BACK *INTO WHACK*

With all of the public sector organizations that we talk to each year, the most popular reason for hiring a compensation consultant seems to be because their compensation system is "out of whack." While we never really understood what that meant, being such literary geniuses that we are, we figured it was not good. And the reason they hired us was to get their system back "into whack."

As silly sounding as the problem of an "out of whack" system is, it is even sillier to think of what a system would be like if the system was "in whack," since we had never heard anyone describe their system that way. In fact, we wondered if there were degrees of "whackiness" that could be measured. Could a system be slightly whacked, seriously whacked or totally whacked? Would the opposite be perfectly whacked? Or wonderfully whacked? And would a system that is really whacked be a good or bad thing?

The more we explored the twists and turns of whackiness, it became apparent that what we need is a Whack Index. Such an index would be like a thermometer that would measure the degree of whack that your system is in or not as the case may be. In other words, if your system scores 90 on the Whack Index, your system is in serious need of a complete overhaul. On the other hand, if your system scores only 15 or 20, then it is only slightly whacked and probably could be repaired with a little tweaking. (We are now deep in the complex and confusing lexicon of compensation and classification professionals! We have introduced some very technical terms that deserve to be defined more fully.)

It has also become apparent that those who operate in this field would need to be specialists in the assessment and use of the Whack Index and, of course, in the correction and repair of a whacked system. They would have to be schooled in the techniques of whackiness and tweaking necessary to get a system back into whack. In keeping with sound classification techniques, these specialists would need a new job description and a new title. A pay grade adjustment, of course, would be justified.

To address each of these issues, we offer the following definitions:

The job title of those who work in this area will be known as Whackos. There will be entry-level whackos, Class Title: Whacko 1. The journey level will be known as Whacko 2, and the lead or senior level whacko will be Whacko 3. The career path will be flexible, by week. In other words, any person on any day could be a Whacko 1, 2 or 3 since they all do the same thing. Whacko 3s have just been aged a little longer than the Whacko 1s (sort of like wine that has been aged in fine French Oak), which endows them with the right to work on more serious and complex systems that are out of whack. We have seen Whacko 1s plunge right up to their necks in whackiness and perform at a higher level of whackiness than an old grizzled Whacko 3. The supervisor of this job family will be the Whacko Boss, and we all know what they are capable of!

So, to function in the Whacko unit, you need an index of whackiness (see below). The key to this index is to answer the questions truthfully. Each question answered "yes" earns you five points. If you answer no, then you will earn zero points on that question. If you think the answer to the question is neither a "yes" nor a "no" (in other words, you believe it is a definite maybe), then score yourself 2.5 points or any other score that makes you feel good. The point is to get to a score that reflects your degree of whackiness, and therefore the right to pester your board regarding your desperate need to hire someone to fix it.

1. Does your system assign a different pay grade to jobs that require the same entry-level skills?

2. Does your system overpay some employees substantially more than others because some time ago there was a serious shortage or political problem that you needed to solve and money seemed to be the way to fix it?

3. Do more than 10 percent of your classifications request a reclassification review each year?

4. If you have at least 15 employees, do you have more than one title for every 15 or fewer employees?

5. Do you distinguish jobs by creating a new title, even though the level of work has not increased substantially?

6. Do you then assign a new pay grade to the new job title?

7. Do you create a new pay grade between two existing pay grades because you have a new job title that is just a bit more difficult or complex than the job it was before the creation of a new pay grade?

8. Do you have more than 40 pay grades in your system?

9. Does it take more than one or two pages to show your salary ranges?

10. Is there less than a five percent difference between the midpoints of salary ranges?

11. Are you finding that new employees need to be paid as well as or better than existing employees in the same job title?

12. Are you confused over what a salary range is and what is does for your organization?

13. Are the salary range widths or spreads inconsistent from grade to grade?

14. Do you regularly add a step to the top of your existing salary ranges so that none of your long-term employees are "topped out?"

15. Are job titles organized by department and not by job family or occupational group? (Does every department have its own occupational group that is not found in any other department?)

16. In 1999-2000, did you raise the grades of the IT jobs so that they would be in a higher pay grade, but now you realize that they are overpaid and you can't lower their grade?

17. Was the last time you did an extensive market survey before 1995?

18. Was the last job audit of an occupational group done more than 10 years ago?

19. Have you adjusted the salary ranges annually by a cost of living amount and also adjusted employees' salaries by the same amount, so that year after year, the employees have not moved up in their salary range?

20. Have you adjusted a salary range or grade of a job just because your board insisted?

Now that you have completed this self-diagnosis of your system, measure it against the official Whack Index below. This scale not only tells you the degree of Whackiness, but also what your solutions might be.

The Whack Index

Degree of Whackiness	Whackiness Score	Possible Solution
Totally Whacked	80 - 100	Blow it up and start over.
Seriously Whacked	60 - 79	Destroy most of your procedures, and redo the pay schedule.
Moderately Whacked	40-59	Conduct an audit of the high turnover jobs and highly populated jobs, validate the grades of these jobs, and then recalibrate the salary ranges to reflect the market.

Slightly Whacked	10 – 39	Just tweak some of the policies and procedures and move on to bigger problems.
In Whack	0 – 9	Celebrate. Your whackos have done a good job of keeping your system in whack.

As you can see, this Whack Index can serve as a self-audit of your system and will guide you to getting your system back into whack. Being "in whack" is something that we all strive for but never fully achieve.

Please be advised that someone who is not a whacko should not use this index. There may be some whackos in your organization that will try to tell you that your system is "out of whack", but they will not know the full story of how whacked it is. Listen to them with respect and compassion. They may be trying to take over your job as an official whacko. You cannot let that happen. Only official whackos are authorized and trained to measure a system to determine if is whacked.

Good luck. Your future career as a whacko is secure.

FLSA EXEMPT VS. NON-EXEMPT

Question: I am the HR director of a large public university. Lately, we have been looking at our jobs, and we think that some of the jobs that we currently treat as exempt should really be non-exempt. I have approached the president and told him of the result of my review and the penalties of non-compliance, but my advice – to correctly designate the jobs as non-exempt – seems to be falling on deaf ears. What can I tell him that will get his attention to the seriousness of the problem?

CompDoctor™: Well, I hope your president is familiar with the expression "inviting the camel to stick his nose under your tent."

Given the scenario you outline, there is a very good likelihood that he will become intimately acquainted with one camel in the form of the U.S. Department of Labor's Wage and Hour Division fairly soon should ANY affected employee decide that the university has been treating him/her unfairly by not paying richly deserved overtime. While you have talked to your president about the penalties for non-compliance, we assume that he does not fully appreciate the consequences of letting this particular camel stick its nose under the university's tent.

Putting aside all of the legal reasons for complying with the law, the DOL version of the TV show "Fear Factor" should be enough to get one's attention. If the DOL does come in to investigate a particular claim, and they find that an employee is due overtime pay, they typically reach a couple of other conclusions as well. The most significant one is that if you were short-changing one employee, you must have been short-changing others. If there is smoke, there must be fire is their motto. At that point, they begin to review all of your jobs, along with your general pay practices. Should they find other cases where overtime was due but not paid, the university becomes open to sizable additional back pay and penalties. In this day and age, when public universities are scrounging for every nickel just to keep up, do you really want or need to incur the potential costs that such an audit could uncover. In a large university, can you honestly say that the problem is limited to the position(s) you have already identified?

Something that the president may not understand (but you need to know with absolute clarity) is that even though an employee may claim (today) that they are a "professional" or that they "have no problem with working whatever hours are needed to get the job done," the employee cannot waive his/her rights under the Fair Labor Standards Act. Although they may be happy today, should a problem arise, they can go to the DOL tomorrow and file a claim for back pay. This is a very common occurrence and one that your president needs to understand.

In 2004, the Bush Administration proposed changes to the exemption criteria. While there was an attempt by the Congress to block funding for implementation, the new rules ultimately went into effect. The fact that the duties tests that are currently used were first established in 1940 and last updated in 1949, or the fact that the salary basis test was last updated in 1975, does not seem to matter to elected officials who are endowed with infinite knowledge and wisdom when it comes to updating the regulations. Please note that in 2016, the Obama Administration proposed a change to the salary test related to the FLSA but they did not propose any further change in the duties tests. Since this article deals with the duties test, we will not address the impact of the proposed salary test changes in this article.

The rules proposed by DOL in 2004 would allow exemption of certain jobs that were, at that time, often treated as non-exempt. University jobs that appear to be of particular interest to DOL include athletic trainers and dietary managers. In our experience, the administrative and para-professional jobs that you may have been treating as exempt create significant potential exposure to the university.

The best course of action for you and the university would be to review the actual duties performed by those employees who you believe may be incorrectly categorized, along with a sample of other jobs within the university that are classed as administrative or professional, to determine if your exposure is greater than you think it might be. While you will need to take appropriate corrective action once you know how the position should be categorized, the fact that you have taken a positive action may help should you subsequently be subjected to a DOL inquiry or audit.

Then, when the camel comes calling, you can simply feed it some munchies and send it back to the desert.

This article was published in April 2004. It was updated in December 2016.

PAY COMPRESSION

Question: We have an internal pay compression problem because we have not moved our employees through the ranges. Now, new hires are coming into our organization and they are often paid more than the employees who have been in the organization longer. The longer-term employees are paid less than the new employees and they are training our new employees. Employee morale is at its worst and we cannot figure out a way to get out of this. Do you have any ideas?

CompDoctor™: Of course, we have a solution, and it is one that will restore employee confidence in the organization and get you back on track by paying employees according to their job, as well as their experience. But we should warn you—this will cost some money.

First, let's recall how you got in this situation. You got there because you did not have any logical way of moving employees through the ranges. Your board gave across-the-board increases to all employees and, at the same time, you moved the salary ranges up by the same or nearly the same amount. The result is that employees felt that they were not going anywhere in the range. In addition, you had hiring practices that said that you should hire at the minimum of the salary range for minimally qualified candidates and only (if the earth shook on a Tuesday at 3:02 p.m.) would you hire anyone in at a higher level in the range.

This all seemed to work reasonably well until all of a sudden, you came to work and none of the qualified applicants would accept your pay offers. So, giving into the pressures of the departments, or the economic conditions of some jobs, you made some exceptions and hired candidates at higher levels. Maybe you even hired candidates at a rate up to the first quartile of the range. Or, if the only known person with the skills you absolutely needed walked through the door, you may have been forced to pay up to the midpoint of the salary range. Of course, this required an act of Congress, and the blessing of the Pope, but you got it done and you had your person. Then you found out that the new person did not walk on water, nor were they the omnipotent one that you were promised.

Sound familiar? You are among friends, or at least you are among many, many others who are in the same boat. Unfortunately, your boat has a small leak and you are in the middle of ocean with no land in sight. The leak in your boat is only going to get bigger and let more water in unless you get a Gallagher glue stick. This potent goo will not only fix the problem but will help you to build entirely new boats as well.

Here is what you need to do. First, assume that all your current employees are performing at a satisfactory level. If they are not, the first prudent thing to do is to put them on a performance improvement plan or remove them from your employment. Call this "clearing the decks." You need to do this if you want your solution-to-pay compression to resolve the issues and put you on the correct path.

Next, you need to make sure that all employees know the hiring policies and practices. You will never get away from hiring candidates at rates that are above the minimum, although some current employees would like you to do that! You need the flexibility to hire qualified people and sometimes that requires a hire-rate that exceeds what current employees are getting paid. It may not go over with great applause from current employees, but if you reinforce this as the exception and not the rule, most employees will accept it.

Now comes the fun part. Divide your ranges into about 12 *temporary* partitions or increments. You could do 10 or you could do 14, but 12 seems to work for our purposes, and it corresponds to what we know about human performance.

The next calculation requires that you be a wiz at spreadsheet calculations. You will need to be able to write "IF…THEN" statements, do "V-LOOKUPS," sort the data and perform normal arithmetic calculations. Do not try this without a computer or a spreadsheet, and certainly don't try this at home. You will need a listing of employees' names, titles, current pay rate, current grade range and their classification date. The classification date is the date that the employee entered their current job title, not the date that they first became an employee of the organization, although for some employees it may be the same date. If you don't have this information in your HRIS, you will need to review personnel folders and do it by hand. You will also need to make some decisions about the classification dates for employees that may have taken a leave of absence, or are working part-time or whose job titles have changed since they were hired or who have been reclassified. This may require a giant leap of faith that the employees have actually been doing the work that is required by their current job classification, which may or may not be an accurate assumption.

The formula that makes sense for eliminating compression is as follows. For every year of satisfactory performance in the current job, grant the employee one pay increment in their range, not to exceed the midpoint of the range. Thus, for those employees who have six years in their current job, they will be paid at the midpoint of the range, or what is normally considered the average of the market. For those employees who have more than six years in their current job title, grant them one increment for every two years of job experience, but do not exceed the maximum of the range. This calculation slows down the pay adjustments for those who are paid over the midpoint in order to recognize that they are paid above the going market rate. In addition, normally an employee's learning on the job levels off after a period of years in the job. Calculate the cost to implement this change. It will be a big number.

This approach is guaranteed to "fix" your pay compression problem in a simple to understand and rational approach, but there are other options if this costs too much. For example, you could use the same basic approach but have more increments. Or you could grant one increment for every two years of service up to the midpoint and one increment for every three years of service beyond the midpoint. You can always adjust pay over more than one year.

If you are successful in fixing the problem, you need to adopt a few more pay practices to make sure that this does not become a major problem again. This involves making sure that the hiring policy is well understood and applied consistently from department to department.

Second, you need to make sure that the salary ranges and the spread of the ranges are appropriate for your market.

Third, you need to have a solid, workable solution for moving employees through their ranges. You can do this based on performance, skill for certain jobs, years of service or a combination.

Fourth, you need to make sure that your classification system is not so out of whack that the new employees are always being hired at a higher classification but doing the same work as employees in the lower classification. In short, your classification system needs to make significant distinctions in the work that employees are performing so that pay grade distinctions reflect the work that is being done.

Finally, you need to resist with all your HR abilities the tendency to grant "across the board" increases that raise the range at the same level as you raise the employee's pay. If you cannot resist or convince your Board that they are committing the equivalent of pay suicide, then patiently wait five years. After five years, take this article out of your files, and start at the top once again.

Now that you have fixed the leak in the boat with this special glue-stick, you may return to normal pay administration.

This article was published in June 2005. It was updated in December 2016.

MARKET ANOMOLIES – IT, ENGINEERS, NURSES, ETC.

Question: In 1999, we raised compensation levels for IT jobs to reflect the market conditions at that time. The result was that we nearly doubled the base pay for some jobs (such as programmers) from around $50,000 per year to about $100,000 per year. We did a market study IN 2003 and found out that these jobs are so drastically overpaid relative to the market. Now, in 2016, we are faced with the same issues as we were in 1999. We are not quite sure what we should do. Do you have any sage advice?

CompDoctor™: Sage advice—isn't that something you ask a chef for since they know when to use sage versus thyme or rosemary?

Seriously though, we are not sure that you will find our advice on this topic to be all that "sage" but we can certainly suggest a few options for your consideration. However, before going down that road, let us first ask you what in the devil you were thinking when you raised base pay for any job classification by nearly 100 percent due to a market condition that to most mortals—at least those who were paying any attention to all of the hype surrounding Y2K (Year 2000 for those of you who were off on safari or otherwise out of the loop during 1999)—was obviously caused by a short-term shortage of programmers and others that could deal with the old legacy systems that many large governments were operating at that time.

While this anomaly may have been extreme in 1999, the same issues seem to crop up from time to time, but with different job families. The issues are similar and the solutions should be too. Read on.

As you are no doubt aware, the labor market is not your local Safeway. It is continually changing and some jobs will be in greater demand one year than the next. What makes the market so interesting is that when there is a shortage of one profession, there may very well be an abundant supply of well-qualified candidates in another field. Going back over the past 20 year years, we have seen at least two cycles where nurses and pharmacists were in greater demand than usual. Other fields that have experienced serious shortages include traffic engineers, planners and information technology professionals. Other occupations, such as police officers, corrections officers and school teachers seem to be in a perpetual state of short supply (at least in some markets) while still other occupations seem to always be easy to recruit for, such as firefighters. When there are shortages in the market for any commodity, the price goes up and when there is an abundant supply, the price (usually) comes down. While not rocket science, it is a basic principal in a free market society. The question really is how do you deal with the ups and downs without creating all kinds of internal conflicts with your overall pay plan, as well as things like employee morale.

We never cease to be amazed at how elected officials want to respond to market conditions. Your situation is a good example where people failed to think through the implications of their action. We have talked about the implications of using a pure market-based model in the public sector. One of the few things we know for certain is that it is easy for agencies to raise pay but *very* difficult to reduce pay. It is just not something we like or want to do. For that reason, most agencies use some combination of market and internal equity to determine appropriate base pay and then deal with market anomalies outside of the base pay system. This can take many forms but the easiest and most common is to simply apply a market premium to a job. This means that you pay the employee from their current range, but add an additional amount that equals the market premium for the job. You need to measure this premium every year and adjust it accordingly. If you treat it as an extra line on the pay stub, or pay it on a quarterly basis, then it is more likely that the employee will not consider it a part of base pay and grow their lifestyle as a result. The premium remains as long as the market value of a job is substantially above the internal value of the job.

As an example of this concept, just think about the hot car that gets introduced each year and the manufacturer either underestimated demand or is intentionally trying to generate a buzz. Across the country, you will see dealers taking orders for the car with delivery months later at full retail price *plus* an additional market premium. If someone wants that car bad enough—and there are thousands of buyers every year who do—they will pay that premium in order to get what they want. At the same time, when the manufacturer has an oversupply of a particular make or model, then prices come down. The same principal can apply to compensation but, as we said, we are comfortable dealing with shortages but less comfortable dealing with oversupply.

Getting the compensation levels for your current IT employees back under control can be accomplished by freezing salaries until the market catches up, which could occur in about 2025, but you may also need to consider a two-tier pay plan for these jobs so that you do not keep hiring people into those jobs (although why you would have a vacancy to fill is beyond our wildest imagination since anyone in those jobs making that kind of money would have to be nuts to leave) at the over-market rate of pay. Recognize, however, that this will create a certain amount of jealousy among the newer employees that will always result when you have a two-tier plan. At some point, though, you have to dig your way out of the hole. Other options include contracting out the IT function and then eliminating all of your current positions, or simply working with your employees to get them to understand that you cannot continue to pay salaries that are so far off the market since funds are limited and you really need to divert the extra dollars to other jobs that are now in short supply.

Of course, that is easier said than done, but many organizations are now working through that problem, so you are not alone.

Finally, depending on turnover, you could just stonewall them and not increase their pay at all. We have had some clients who have done this and they did not suffer. They went on a public relations campaign to talk to their employees about the other benefits of the organization, such as healthcare, retirement, sick leave accumulation and so forth. They were able to keep the employees who were able to see the longer view and continue their employment. They also got all of their IT work accomplished.

The long and short of it is that market forces work over the long haul and we should respond over the long haul as well. The knee jerk reaction that so many organizations had got them into the situation they are now in. You shouldn't have to join them.

This article was published in April 2006. It was updated in December 2016.

PROBLEMS OF, AND SOLUTIONS FOR, PAY COMPRESSION

It has been said that every organization runs the risk of pay compression.

Pay compression is when either:

- a subordinate is paid more than their supervisor, based on regular, not over-time pay, or
- when a less tenured employee is paid more than the more senior tenured colleague in the same job.

I am sure there are other examples of pay compression, but these are probably the easiest to describe and the most prevalent.

The latter form of pay compression is the most common—or at least it has been in more recent years. This is because organizations have held pay increases to a minimum, but new employees are paid a salary to attract them. Organizations have had to do this just to fill vacant positions. This problem becomes more severe in economic downturns, such as the 2008 recession, but it occurs even in better economic times due to the way pay increases are managed.

The former situation usually is most evident in pay systems where lower level jobs, either through union contracts or other market forces, create a situation where first-line supervisors are paid less, on an hourly basis, than their subordinates.

Defining Pay Compression

Many times, we hear about the first form of pay compression when supervisory employees compare their take-home pay with the take-home pay of their subordinates who are most likely earning over-time. Technically, however, this is not pay compression. Pay compression is only when the standard rate of the supervisor's pay is less than their subordinates when calculated for the same hours of work. Unfortunately, though, supervisory employees do not see it that way.

Either form of pay compression is a symptom of a pay system that is not being administered correctly or not keeping up with the salary movement. At its worst, pay compression generates legal action, equal pay claims (sometimes unwarranted), or, at its least, a serious employee morale problem. Our experience indicates that it is costly to fix, and the damage to employee trust and morale takes years to resolve. In one case with which we are familiar, a 2,000-employee organization estimated that it would require $11 million to substantially reduce or remove pay compression over a three-year period. They never totally eradicated the problem because other priorities emerged in the third year. Seven years later, the problem is still unresolved, and a continual employee irritant.

Recognize that regardless of how hard you try, as long as you have employees entering, leaving or moving in the pay system, you will have some degree of pay compression. You should try to minimize it as much as possible, because once it gets out of control or its causes become institutionalized, the cost to get out of the problem will be large, the pain will be deep and the solution elusive.

Identifying the Situation and Finding a Solution

But how do pay administration practices create these situations, and what is a long-term solution for them?

It has been our experience that supervisors are paid less than their subordinates when there are either separate pay schedules governing pay for the subordinates and the supervisors, or there is some disconnect between the pay schedules or the adjustment to the pay schedules. Compression usually occurs at the first-line supervisory level and does not extend to the supervisor's supervisor.

The existence of separate pay schedules may be the result of:

- developing a pay schedule that is specific to a job family and/or
- a union contract governing the subordinate's, but not the supervisor's pay.

In this situation, because there is no direct connection between the two schedules, the process of adjusting them may be different in timing or amount. Thus, when a union contract governs the subordinate pay schedule, the pay adjustment is governed by negotiations. These negotiations may be influenced by tradeoffs in work rules, benefit costs, special pay categories, skill- based pay adjustments and previous arbitrations, as well as most jobs at this level are paid based on a step system, whereby the employee receives a step increase and a schedule increase, as long as they have not exceeded the maximum of their pay range.

The supervisor's pay, on the other hand, is more likely to be part of a supervisory/managerial pay schedule, which is most likely not governed by union negotiations or other restrictions. In addition, the pay schedule is more likely to be an open range, based on performance or some criteria other than years of service/step increases. As a consequence, elected officials are more likely to agree to the union contract, but try to hold pay increases down for the supervisory/ management group. If there was a difference in pay between the supervisor and the subordinate before this situation occurred, then pay compression will become apparent after only a few years of this pattern of disparate pay schedule adjustments.

We have also seen this situation in recent years as organizations broaden the pay ranges, creating a greater degree of overlap between adjacent pay ranges.

About 30 years ago, pay ranges for most government jobs had about a 25-35 percent spread from minimum to maximum. This was generally sufficient because the work was tightly controlled, highly specific, and made it easy to establish about seven to 10 steps from minimum to maximum for employee pay growth. In addition, pay was usually compared to the market at the maximum of the pay range, as opposed to the 50th percentile of the market, which is now the typical situation.

Over the last 30 years, we have seen the development of broad-banding, skill based pay, competency based pay, and a shift to look at the 50th percentile of the market as the comparison point to the midpoint of the pay ranges. This has resulted in pay ranges that are broader and fewer. But this has not occurred for all jobs. Non-exempt jobs still have salary ranges that are narrower than managerial pay ranges. It is not uncommon in some organizations to have 60-percent range spreads for managers, and we have seen some as high as the 85th percentile.

To anyone doing the math, it is obvious that if the range spread is broadened, the minimum will be lower and the maximum will be higher than in the past. If this is done for both subordinate and supervisory pay ranges, or if it is only done for the supervisory pay ranges, what happens is that the pay ranges of subordinate and supervisory begin to overlap. Thus, a new supervisor, if paid at the minimum of their pay range, could easily be paid less than the longer-term subordinate.

So, what is the solution to this issue? It appears obvious to us, but it is not an easy solution. That is, the jobs need to be placed on the same internal hierarchy and priced together. This sounds simple, but it involves the adaptation of a job evaluation system or an internal hierarchy scheme that is common to all jobs. While internal equity has always been an important consideration for valuing jobs within a schedule, it has not always been as important to be used across schedules. If applied correctly, there will be one hierarchy across all comparisons with an agreed upon comparison group. Then, when market data is introduced, and internal equity is merged with the market data, the pay structure of grades and ranges will dictate pay ranges that will, for the most part, create a significant pay difference between the subordinate and the supervisor's pay ranges, provided that the overlap between ranges is kept to a minimum, and the grade of the supervisor is usually more than one grade higher than the subordinate job grade.

Establishing Internal Equity

Since most organizations already have salary ranges in place, this solution means that some effort will need to be made to establish the internal equity link between the jobs of the supervisor and subordinate. This can be accomplished in the next round of pay adjustments or over time, depending on the severity of the problem, or it can be accomplished by adjusting the differences between the ranges and the range spread. Ideally, there should be at least a five percent difference between adjacent pay ranges, calculated at the midpoint of the range (or the minimum or maximum. Normally there will be a two-grade difference between the grade of the subordinate and the supervisor. If this is the case, a broader salary range will not create significant pay compression issues, if any. If you can manage a larger difference between grade midpoints, like 7 to 10%, it would be even better, but you need to make sure that the market and internal equity differences are consistent with that degree of spread.

If this pattern is established and maintained, this form of pay compression should be resolved. And if the pattern of internal equity is maintained for the other jobs that are above the supervisor, the cost will be relatively low to maintain this solution.

The second form of pay compression, where a more senior employee is paid less than, equal to or nearly equal to a newer employee in the same job title is generally a costlier solution. In addition, in order to maintain the solution without slipping back into pay compression in the future requires a different way of managing pay and pay schedule adjustments.

Recall that this form of pay compression usually emerges when a current employee does not receive an increase in pay that is matched by the market movement. Then, when a vacancy is filled, the new employee who is less constrained by current pay administration practices receives a salary offer that is sufficient to attract them to the job, but also sufficient to set off pay compression issues.

Of course, the applicant is well worth the money (or so we are told) until about a year later when we find that their value was really not at the level of the salary that was paid. So now you are faced with the proposition of either trying to smooth the "compressed" employee's ego, or throwing money at the problem in the hopes that this solves the problem.

The irony of the issue is that the former does not work in the long run, and the latter could have been avoided had prudent salary management been used.

Prudent Salary Management

What is prudent salary management? It consists of the following two issues: Salary range adjustment and employee salary movement.

I do not know where this idea came from, but it has been around for a long time. When most salary ranges were managed with steps, it probably made sense, but if you don't have steps, it doesn't. That is, when salary ranges are moved by a standard factor, such as a "cost of living" adjustment, then everyone on the salary range moved up by the same amount. Now, if the salary range has steps, and an employee also moves up a step, then most everything is kept in sync. Especially, if new employees are hired at the first step without exception.

However, when you move from steps to open ranges and adjust ranges and employee pay at the same amount, the problems begin. This is because an employee who is hired at the minimum of the range will remain at the minimum of the salary range regardless of what adjustments are made to the salary ranges. Then, when a new employee is hired, their pay is usually at least as high as the more senior employee.

The Solution

There is a permanent solution and a one-time solution. The permanent solution involves adjusting the ranges by an amount that is less than the "cost of living," or adjusting the ranges every other year. Then, adjust employee pay at an amount that is greater than the cost of living.

Regardless of how you define the cost of living, this will keep the pay compression issue at bay. This may seem like a foreign concept, but the private sector has been doing this for years. This solution recognizes that the purpose of a salary range is to guide overall hiring rates to be reasonably competitive with the market and to control top-end salaries. It should not be used to adjust employee pay. If it is considered in this perspective, an adjustment of the salary ranges should not necessarily trigger a salary increase for any specific employee.

Many elected officials will complain that in lean financial years (when have we ever had boatloads of money?), they could not afford this solution. However, what we are finding now is that these same organizations have hired new employees and have a pay compression problem that is seriously affecting morale and increasing turnover. The solution now becomes a temporary one-time solution and is very costly. It involves reviewing the seniority of all employees in their current positions and adjusting pay accordingly. When we have performed this analysis for clients, the cost is usually significantly more than if the organization had followed the prescription outlined above that would have avoided the issue in the first place.

The solution usually involves adopting some form of algorithm that specifies how employee pay should be adjusted. For example, one model follows these guidelines:

- An employee receives an X percent pay increase for every year of service up to a certain number of years.
- For every two years of service after that, they receive an X percent pay increase up to a certain number of years.
- For every three years of service after that, the employee receives an X percent increase up to the maximum of the salary range.

This will normally spread pay out over about a 20-year to 30-year career, but the timing can be adjusted at any point. For example, some organizations have capped increases at the midpoint instead of the maximum. The correct solution is dependent on the money available, as well as how the organization wants to manage pay adjustments in the future. It should be noted, however, that unless the organization adopts the first solution in the future, pay compression will quickly re-emerge.

Pay compression is a tough issue with which many organizations struggle. In our experience, no one resolves the issue once and for all. It requires constant vigilance, board education and improved salary management practices. It may not be totally resolved, but its negative effects can be substantially reduced. And for that, there is usually a monetary cost of some form or another.

This article originally appeared in February 2013. It was revised in December 2016.

HOT EMPLOYERS

Question: We have a very unique environment that is causing havoc with our compensation system. Many of our employees are leaving to go to work with the new hot employer in the area. The hot employers are hiring not only laborers and trades employees, but also many of our professionals like engineers, planners and GIS employees. We can't compete because their hiring rates are $10,000 higher than ours and sometimes employees have been able to almost double their salaries. Consequently, we have had to hire some of these skills through private contractors, who are very expensive. We need these skills, but what can we do?

CompDoctor™: Have you ever thought of going into engineering? Just a thought.

Actually, you are not alone, and this will not be the last time that this problem comes up. We should try to get this right the first time so that you aren't asking the reverse question in 2-3 years; and that is, now that we have paid them to keep them, how can we get their salaries back in line?

This sudden, extreme high demand occurs periodically. Sometimes you can predict it and sometimes you can't. But if you have the correct tools in your toolbox, you will be in better shape. At least when it occurs, you will have some proposals that will help to answer the department heads who will be at your door step when they have just lost their third employee in the last three months.

The aftermath of Hurricane Katrina was not just widespread destruction and displacement of families, but it spawned a shortage of laborers, trades personnel, inspectors, appraisers, planners and engineers. Market pay rates increased 30% and communities all along the Gulf Coast had to compete for higher-priced talent. Some of the shortages of personnel, combined with high demand, have been reduced recently and we expect that there will be more people available and salaries will return to normal. You need a plan that allows for this sort of market movement or fluctuation.

When mining, oil, gas and other commodity prices started moving up, the companies that are in that business returned to mining, oil and gas exploration, and more speculative operations and investments. And sure enough, they started hiring at any rate of pay that would attract the right talent. Then they had the audacity of offering new employees bonuses and other perks that you could not offer. You were out-bid and out-maneuvered. (Of course, what they did not say to their prospective and new employees is that there would be no retirement program, that they could be fired at will, or whenever the market went south or that they would be putting in 60+ hours a week and might spend considerable time "on the road" away from home). You may need a solution that will work for this environment as well.

Just for purposes of establishing a floor, you need to decide how much pain you can endure. As a first level assumption, it appears that you are spending more than you want for some jobs, because you are hiring outside contractors, so I think we can agree that when and if it is necessary, money can be found for the critical tasks, even if you grumble about the outrageous cost. Sometimes you just have to take your medicine and move on. Be comforted in that fact that this "pain" will not go on forever; at least in our 30+ years of experience, it has not.

Now that we know that money is not what is holding you back, let's explore some options to retention and hiring that many organizations have tried, and that you should, or at least could, consider as well. These have not been used extensively in the public sector, but we haven't found a legitimate reason, other than precedent, that they are not used more extensively.

Retention bonuses and hiring bonuses have been used for years in the private sector to hold on to valuable employees or attract new ones. A retention bonus is just what is says: a bonus is paid after you have not left! In other words, you don't raise the pay of the employee who is considering leaving, but instead you pay them a lump sum amount after a certain period of time that they stay as your employee. Maybe this is one, or two years or more, but in all cases, there is a window of time that they need to stay employed before they are eligible for the bonus. After that time, if they leave, then you don't pay a bonus. Some organizations also include some form of completion bonus that ties the payout to both sticking around AND completion of some predefined goal or project. The beauty of this approach is that you have not raised the base pay, but you have offered them an incentive to stay. This coupled with your retirement vesting may be enough to keep them, which is all you are asking for. And, under most interpretations of state laws, this approach can be designed to avoid the prohibition of a "gift of public funds". It can also be treated as pensionable income in many states.

Hiring bonuses, of course, work on the other end of the employment process. In this case, a bonus is paid to the employee to accept an employment offer. With this option, you can do a couple of things; you can match financially the offer being made by the private organization, and you can provide something that they cannot or may not want to provide, and that is more stable employment. Here is how I would structure it. Let's say that you have agreed to a $5,000 hiring bonus. This will be paid out as follows: On the date of hire, they receive $1,500. After six months of satisfactory performance on the job, they receive another $1,500. After 12 or 18 months, they receive the remaining $2,000. With this plan, you have attracted someone who may be on the fence, and you have built in an automatic retention bonus at the same time. And, you have not had to compromise your base pay plan or create pay compression with longer-term employees in the same job.

How do you sell this to the other employees who may not be eligible for these special programs? First, you will need to set some parameters around eligibility for any of these programs. Theses parameters may be related to a study of the comparable market and the difference between your average pay and the market average pay, (we will address this in more detail later), they may be related to a labor market analysis of availability of qualified labor in the market or turnover rates (this could be yours or a similar organization's), or a combination of several factors. In any case, you want to create a set of numerically verifiable and logical reasons why some jobs are eligible and other are not.

Finally, here is another solution that some have tried. We call it market contingency or market premium pay, and it works like this. Measure the market for the jobs that you are concerned about. (This will normally be just a handful). Calculate the difference between what you pay and what the market pays, on average. If this difference meets or exceeds a threshold, pay the difference to the employee in quarterly installments, not by increasing their regular base pay. Next year, conduct the same market study and measure the difference between your pay and the market pay. Based on this difference, pay the difference to the employee. In each year, treat their base pay as you would all other employees, but distribute their premium pay on a quarterly basis. We have provided an example in our article titled Market Analysis: Market Premium Guidelines, contained elsewhere in this book

This article originally appeared in June 2008. It was revised in December 2016.

REDUCING COMPENSATION COSTS

Question: My boss wants me to give her some ways that we can cut compensation costs. Are there ways that we can deal with reduced revenue without digging a deeper hole than we are in currently so that we will be able to remain competitive? We would like to avoid layoffs, if possible.

CompDoctor™: Oh, my, is there! And we are glad you asked. You see, the last time we faced this issue was during the "Great Recession" that began, depending on who you ask, in 2008 or 2009. Previously, it occurred in the years right after 9/11. Revenues were reduced, and organizations were scraping by. Some organizations cut staff. Some froze compensation, and some tried to make do with fewer people by not filling vacancies or hiring new employees. How you address this issue will help to determine how you come out when this financial meltdown ends. We can assure you that, based on the 9/11and the Great Recession experience, there are things you can do to make yourself more resilient and there are things that you should do only as a last resort.

Interestingly, your question is one that we have had to deal with repeatedly in recent months. If you have not thought of the options and the consequences yet, then you are obviously living in one of the few states that are not suffering from the downturn. (Specifically, we know that Wyoming and North Dakota are actually doing very well in relative terms. I guess you could move there!) Some agencies have continued to deal with compensation issues while others have deferred them. The problem with deferring any problem is that in the short term, it is probably not a big deal, but in the long term you might have a bigger problem. For example, if your car needs an oil change at 3,000 miles and you go an extra month or two, the car is probably not going to stop running. Any potential damage to the engine will probably be minimal so long as you actually do change the oil at, say 4,000 miles. However, if you defer the oil change until 12,000 miles, bigger and more expensive problems will surface later.

Unfortunately, if you defer addressing one problem, you are probably deferring others as well. The problems will then come home to roost when the economy does finally turn around and there are resources available to begin to address the problems that were deferred. That is when the fun begins since you will have to decide which problems are the most pressing and how much is available to deal with these deferred problems. If the turnaround is like past situations, (which by the way, seem to last 11 to 16 months and we are officially 12 months into the problem already) there are always policy makers who want to throw a little money at every problem thereby ensuring that nothing gets fixed right. Just to give you an example, we had a medium-sized client that had some severe internal equity and market parity problems with some jobs. In addition, they had not looked at the market for some time. So, a comprehensive classification and compensation study was in order. The Board funded the study and found that they were behind the market. Some jobs were worse than others and these were the ones that they had difficulty hiring. Recommendations for pay changes based on the findings were made to correct the internal equity and the market problems. Unfortunately, rather than deal with the problems that caused the study, the officials decided that they had to make everyone happy. When the study came to a vote of the Board, they voted to raise <u>everyone's</u> pay by 3-5% depending on the employee's pay grade, (lower paid employees got 5% and higher paid employees got 3%). Now, they have the same problem that gave rise to the study in the first place, and a bigger payroll!

As public sector managers and custodians of the publics purse and trust, it appears to us that our obligation is to use the limited resources that are available to get the "most bang for the buck." The above situation does not appear to us to be a good application of the "most bang for the buck" theory.

You might also find it informative that those organizations that were able to provide some pay increases to employees during the last economic turndown were much better off when the downturn ended. But those who decided to cancel raises because they thought that "no one else was giving pay raises" found that when the economy turned around and they went to the market to hire new employees, the labor market had left them in the dust and they were substantially behind the market. They were having difficulty hiring new employees at rates that did not cause severe pay compression with their current employees. What they found out was that other organizations had raised employee pay, and found other ways to reduce compensation costs.

Given that we are such great prognosticators of the future, we would like to suggest several things that you might do now to at least better position your agency for the future, rather than mortgaging that future.

One strategy is to simply downsize the organization without, hopefully, crippling it by decimating every service area. That, of course, means that you need to decide whether the agency can or should continue to provide the full range of services that it has historically provided. If you decide that you should focus on only selected or the most critical services, then it becomes a lot easier to do those things well. Unfortunately, we see many organizations take the easy way out – let's just cut everyone's budget by 5%, 10%, or 20% so that everyone feels a little pain. (This is really not a solution since it is just delaying the tough choices). These reductions can come in the form of layoffs, unfilled vacancies, or other steps that may reduce employee head count but will create other, longer term, problems. This approach is certainly easier than saying to one or more constituencies that certain services are simply not going to be performed so that the rest of the organization can provide the services that are considered most critical. Others have done it, so you can too. For example, one of the more creative solutions we have heard (not <u>the</u> most creative, mind you!), was to cut back on parks and recreation staffing unless the programs were self-funding so that they could keep more police and fire personnel on the job. You may have other examples where higher priority needs are retained, while the "nice to haves" are reduced or eliminated.

Now, assuming that there is no way to avoid across the board cuts, your next decision will be to do lay-offs or try other measures. Here are some steps that we have seen used to cut costs without layoffs. Obviously, for those agencies that have labor agreements, some or all of these approaches may require you to work collaboratively with your employee organizations.

- **Transfer employees:** This is a version of having all members chip in for the good of the team. Essentially, this approach involves transferring employees from functions with lower needs or work volume to areas with higher needs or work volume. For example, support staff in the planning and building functions could be transferred to other departments where workloads are greater thereby reducing or eliminating the need for overtime in those departments or functions. We see this in counties during elections and property tax collection time. Staff from other departments are "loaned" to another department for a short period of time to handle the increased workload. And guess what? For the period that they are assigned, the employees do not get to say "but it is not in my job description!" All we are saying here is that the entire organization should be considered the employer, not the individual department.
- **Freeze hiring:** By holding vacant positions open, and transferring employees from other departments or areas to cover critical needs, layoffs can often be averted. Again, you need to think organizationally, not parochially…employees work for the whole organization, not an individual department. That is just their current duty assignment. Having said that, layoffs may not be the worst thing to happen, if you have the ability to address performance in the process. If you are able to eliminate the least productive employees, you can often increase overall efficiency within the organization. This can be beneficial to those organizations that profess to have a high-performance culture. Recognize too that governments normally experience about a 7-9% turnover rate per year. If you just leave vacant positions open, you can substantially reduce overall compensation costs, although not as fast as you might like.
- **Reduce hours:** Reduce the number of hours worked by each employee. Many organizations have asked employees to work only 32 or 36 hours per week with proportionate reductions in compensation. Obviously, this strategy does not work in all functional areas (such as public safety) and may require agreement by labor organizations, but it certainly can reduce cost while eliminating the need for reductions-in-force.
- **Reduce the workweek:** In response to the high gas prices of last summer, some organizations explored moving to a four-day workweek. While this is

more complex than reducing hours because there may be expectations that public services should be available 8 hours a day, 5 days a week (except public safety which is typically a 24/7 operation) now may be the time to break away from that thought and consider what life may be like with less government. Organizations as large as the State of Utah are implementing this approach. The success has not yet been validated but these organizations are certainly evaluating whether it is something that should continue even after the immediate crisis is over.

- **Early retirement incentives:** Another way to shrink a force without layoffs is through voluntary reductions and/or early retirement options. While not painless, at least the reductions are limited to those who are a position to leave voluntarily. The risk here is that employees who you most want to retain could exercise the option and leave while those that you want to leave may elect to stay.
- **Phased retirements:** Here is an idea whose time has come, but may require so much debate and changed policy that by the time you figure out how to do it, the current downturn will be over. This option simply means that you allow eligible employees to phase into their retirement. It goes something like this: The first year, the employee cuts back their work to 75% of their normal workweek. They receive 75% of their pay as an employee, and 25% from their retirement pay (this is not 25% of their regular pay but 25% of the pension that they would normally be eligible to receive.) The next year, they reduce their time to 50%, and income is split proportionately. The third year they reduce work to 25%, and their retirement pay increases to 75% of their pension amount. In the fourth year, they are off your payroll and fully retired. This option, coupled with an early retirement incentive, might work for some populations. By the way, about 60% of organizations are now seriously considering this option.
- **Reduced or elimination of pay increases:** This is an option we do not like, but we are sure that many will take this approach. The actual cost savings will be temporary and may actually cost more in the long run. Last time this happened, organizations found out that they were way behind in the market because they reduced pay increases. While they were patting themselves on the back for such a brilliant management move, the market continued to increase salaries for their employees and hire the best ones away. The organizations that found this out needed to make substantial pay adjustments to everyone just to get back to being competitive. Keep in mind that even though the current news is doom and gloom, only about 25% of the organizations are cutting pay increases. Those that are, are cutting increases by only by about 1%. In other words, if the normal pay increase was planned to be 3.5%, only 25% of organizations are cutting it to 2.5%. That leaves the rest of the market at 3.5% increases!
- **Cut temporary staff:** Many organizations use temporary employees to fill a variety of needs. Use of regular employees to handle the work that would

have been done by temporary employees can reduce the need to eliminate regular positions. See "transfer employees" discussion.

- **Create efficiencies:** Some organizations have used "gain sharing" as a technique to look for more cost-effective ways to do business and now may be the perfect time to pursue additional efficiency efforts. Employees who understand that changing the way business operates is better than eliminating jobs just to maintain the status quo will be better positioned to weather the turbulent times ahead. There is an old saying in compensation circles that "what gets measured gets done." Sometimes the simple fact of measuring performance and posting the results on a periodic basis so all can see can cause employees to improve their efficiency.
- **Broaden your class structure:** From a classification and compensation standpoint, one of the best approaches to becoming more efficient is broadening the classification and compensation structure: fewer titles but broader responsibilities. This gives the organization the flexibility needed to change work assignments as needed without having to deal with the bureaucratic process related to reclassifications. It reduces wasted manager, employee and HR staff time in documenting, justifying and rationalizing changes in job duties. It also allows you to reorganize more easily if you decide to take a critical look at how you are delivering services.
- **Donate services:** Offer to provide services for other agencies that may have greater needs than your organization. Conversely, you may want to ask other agencies to provide services to your agency if you have needs that you can no longer meet. This approach also relates to how you can most cost effectively provide certain services.

Our biggest concern when organizations face economic difficulties is that you will do things that may save you a dollar or two now but will cost you significantly more later when the economy turns around. While layoffs may reduce costs now, the combination of unemployment costs, severance costs, loss of knowledge and trust, and the subsequent costs of hiring, training, lost productivity or increased errors (which can exceed the new employees' first year salary) can quickly drive your organization back to unsustainable costs. Because of the way layoffs are often structured, you may also lose some of your most valuable personnel. We have one client who recently had to reduce staffing levels and one of the positions eliminated was their "Employee of the Month" for the prior month.

Not dealing with compensation programs will simply make it more difficult to recruit key talent when the need arises. We have been urging public agencies for many years to think ahead about organizational needs when adopting a compensation philosophy and strategy. Unfortunately, not all agencies have taken that approach. We consistently find that public organizations will have a knee jerk reaction that will end up kicking them in the backside a few years later. Those agencies will be the ones that will incur the greatest strain when looking for ways to function when resources are limited, and will be at the greatest disadvantage when times begin to improve.

We know that there are other techniques that can be used to ease the strain but hopefully we have stimulated your thinking. Just keep in mind that what you do now will impact your ability to be responsive and competitive a year from now. Often a unique combination of several of these ideas will help you see through the tough times and better position you for the future.

This article was published in February 2009. It was updated in December 2016.

AUTHORITY FOR PAY DECISIONS

Question: **I am struggling with the management of the comp plan in our Agency. We have had a complete turnover at the top of the organization over the last two or three years. The new leadership wants more authority to make pay decisions. They do not want to have HR review any pay decisions they want to make, up to the mid-point of the pay grade. I am concerned about maintaining fairness, consistency and pay compression (as stated in our compensation plan) if HR is not providing them data to help them understand the potential consequence of the pay decision they want to make. The compensation plan requires that HR be consulted and provide professional advice prior to making a final pay decision. HR does not have the authority to deny the action. For the most part, Administrators are not following that policy. Can you provide any guidance on how to help them understand the potential impacts of this level of autonomy?**

CompDoctor™: Wow! Managers actually making decisions without HR? How can that happen? Actually, this is not unusual, and from what you have explained, I think you have a couple of options. You should also know that you are not alone.

Before addressing options that might exist, we feel obligated to point out that pay systems often allow the hiring authority to appoint anywhere within the first quartile or even up to the mid-point of the applicable salary range or grade. In systems that use the market rate as the mid-point or control-point of a salary range, accountability is transferred from HR to the appointing authority since the basis for control is the budget rather than the personnel system. However, HR typically has the right, if not the obligation, to provide guidance and counsel to appointing authorities so that they make sound and defensible decisions.

First, given that HR does not have the authority to override decisions made by Agency management, we think that you have the OBLIGATION as an HR professional to give them as much information as you possibly can, so that they make the best decisions they can. That means, in simple terms, that you give them information on market salary ranges, the Agency's overall pay structure, and the jobs that are assigned to each range or grade and the reasons why they are there. Then, if you know which pay grade they are thinking of for any particular job, then you can give them a spread sheet of the current employees in that pay grade, and their job titles and any performance data you have and/or how long they have been in their job. In other words, since you cannot review their actions, then you need to give them access to the information that you would use to make a recommendation if you had that authority. This may include a history of the job or the incumbents that may influence the decision. Then you need to hope that they make the right choice although they clearly have the right to ignore the information and make any decision they feel appropriate. For HR purists, there is a need to accept the fact that stupid decisions are not in, and of, themselves, illegal.

If you have the opportunity to voice an opinion before the decision is made, then you need to explain your opinion and why you have the opinion that you have including the downsides of their course of action. In either case, you need to make sure that they are not violating any law, and identify the potential outcomes if they do. Then you need to make sure that you have all this in writing so that in the event their decisions go sour, you will have provided evidence of your advice and documented your role. As we said before, stupid decisions are not necessarily illegal. Or to put it another way, incompetence is not necessarily a crime (just think back to a recent presidential election.)

If it appears that they want to ignore you altogether and their decisions violate state or federal law, then you have a whole new set of problems. This would be the case when the decisions are more than stupid. Then you may have to invoke your state whistleblower laws. But we hope that it does not come to that.

One of the reasons that pay systems are set up the way they are is that you may need to hire people at a higher level than you would like. This may cause pay compression. Unfortunately, you live in a very public environment where every action is visible and most every employee knows what every other employee is paid. If that is the case, then the administrators need to communicate very clearly and often to the current employees WHY they are doing what they are doing if they are at all concerned about their credibility.

The problem of not taking internal relationships into account when deciding salaries up to the midpoint is that it will cause tremendous resentment from current employees that may be paid less than the new comer, but have more experience, etc. In fact, the current employees may have to train the newcomer, which adds to the morale problem, lower productivity and in general, creates a sour working environment. In some cases, you also may need to be concerned about adverse impact.

What may happen with new employees is that they are not as good as you think they will be. So, sometimes there is buyer remorse. In other words, once performance is demonstrated on the job, you may feel that you overpaid for the talent and performance that you have purchased. If that is a fear, you might suggest that they hire the new person at a lower rate initially and then, if performance is warranted, give the employee an increase up to where they wanted to hire them but after the probationary period is up.

Pay compression can be severe and it is nothing to be cavalier about. We had one client with 2,000 employees where pay compression was so severe because no one was following the pay policies, that morale was terrible. The Chancellor (it was a college) was getting complaints daily and the Board was hearing the same things. When they finally got around to fixing the problem, it cost them nearly $10,000,000. To put it another way, while the administrators thought they were doing the right thing by hiring new employees at a higher rate than the current employees, they contributed to a substantial increase in the overall payroll. To be more precise, their actions got every employee an average raise of $5,000! In addition, their actions led to lack of trust, low morale and other assorted employee relations problems.

It might be instructive to understand how you may have gotten into this situation in the first place so that you can inform the powers that be that certain actions do have consequences. It has been our experience that many governments have difficulty understanding the difference between a pay raise for employees and an increase to the pay structure. Pay systems contain pay grades and ranges. They are, in their purest sense, simply guidelines to govern and control pay. The minimums and maximums of any salary range are policy guidelines that basically say that it is your policy to pay no less than a certain amount and no more than a certain amount. They are hiring guidelines at the minimum and cost control guidelines at the maximum. Some consider them proxies for finance department policies, but that is another story.

The problem is that once you have employees in salary ranges, the governing board adjusts the salary structure each year by (usually) a fixed amount. Some use the cost of living as a guideline, and some use other measures. Where problems occur, however, is that when they increase the salary structure, they also increase employee pay by the same amount. Thus, unless you have step plan where employees who are not at the maximum receive a step increase in addition to the structure increase, employees will stay in the same place in the salary range as when they were hired. They will not have advanced. With such a plan, you might as well have a fixed salary rate for each job rather than a salary range!

So now, when the hiring authorities hire new employees, they respond to the guidelines of the salary structure (as they should) but ignore the fact that the current employees are not paid appropriately in their range based on their seniority, performance or both. The result is pay compression.

What they should do to avoid this situation in the future is to advance employee pay at a different rate than they advance the salary structure. For example, if you want to raise employee pay by 3%, then raise the salary structure guidelines by only 2%. Over time, employees will advance in the range, and new employees can still be hired competitively without causing pay compression with every new hire. The 2% salary structure increase will not cost anything or affect any employee (unless you happen to have an employee that is paid below the newly adjusted range minimum), as long as sound salary management practices are in place.

While there is no clear immediate solution to your current situation, there are some options, including:

- Use hiring and retention bonuses rather than increasing base pay. Use of bonuses does not impact base pay and it is generally easier to maintain appropriate internal relationships.

- Hire at a lower level with a commitment to raise base pay following a fixed period of evaluation thereby allowing you to determine what an employee is actually worth relative to other employees after you have had a chance to assess their performance relative to other employees.

- If all positions have been budgeted at the market rate or salary grade mid-point (which is recommended when using a structure such as yours), allow adjustment of other employee compensation so that they can be compensated appropriately relative to the new employee.

You should also ensure that other management tools are in place including a meaningful performance management program so that pay distinctions based on performance can be defended should the need arise.

We hope that this gives you a few ideas as to how you can deal with your management. As outlined, this type of pay structure is designed to work differently from the older and more traditional public sector pay plans. The result is that HR's role in the process has also changed. We hope you are successful in educating your management and that the flexibility that is provided by the pay plan results in the benefits that were envisioned when it was initially developed and implemented.

This article was published in April 2009. It was updated in December 2016.

DECENTRALIZATION VS. CENTRALIZATION OF HR FUNCTION

Question: What is your perspective on decentralizing HR? We have several district offices throughout the state and each one of the offices has a business manager and a personnel representative. They both report directly to the district manager who is over the entire district. This organizational structure has been challenging to say the least. The central HR function has no authority over the actions taken by District Directors. In effect, it is like we are like several different employers. I am fearful of potential liability and all the ramifications of employees being treated differently from district to district. Central human resources has little authority to hold anyone accountable but we end up being the clean-up crew when District Managers get themselves in trouble. There are many issues to address in this set up, but I would appreciate insight on how we can effectively operate in a decentralized environment like this.

CompDoctor™: So, you decided to go into HR instead of become a hotel housekeeper? What were you thinking? No doubt you assumed that cleaning up others messes was a role limited to hotel and hospital housekeepers and that HR would be much more intellectual and professional. Now you know that the two careers have a considerable amount in common.

The situation you have described is fairly typical in large organizations such as state governments and university systems. Large cities and counties have similar issues if they have delegated certain HR responsibilities to operating agencies. Smaller organizations have these kinds of problems when policy makers decide to micro-manage or managers who were never trained as managers (such as educators in school districts who become operational managers) decide that they know more than everyone else about managing compensation and other personnel issues.

Over the past several years, we have strongly advocated decentralizing responsibility for managing compensation, along with other elements of the budget. Managers who do not have the authority to make the necessary decisions relative to how their individual function is going to operate are not really managers. Rather, they function as coordinators or administrators. Unfortunately, they still want to be paid as managers! What nerve!

Without trying to be a broken record, we have also stressed that with decentralization goes responsibility and accountability. Proactively you need to educate the managers of their responsibilities, the laws, guidelines and actions to take. Responsible managers, once they know of the dangers of their actions, will usually ask you for advice or guidance in the future. Irresponsible managers won't get it anyway, so you can just write them off. Well, not really but we know that you really would like to just write them off. It's the old horse to water routine. In these cases, all you can really do is keep banging away at them and, just maybe, they will finally pay attention, if for no other reason than to stop having to listen to you nag at them.

On the proactive side, you should be performing "performance audits" of their past actions, and preparing an analysis of what actions they did right (followed policy) and what actions they took which were not right. If you (or the HR function) does not have authority to audit HR actions in operating departments (which would be somewhat unusual), the you can always work with those who do have that authority. The audit results should be shared with Agency management as well as other stakeholders since these actions do have broader ramifications. For example, actions that could result in legal action have substantial cost implications and your attorney, risk management, and finance folks have a big stake in that. Independent auditors just love situations like this as it makes their jobs more meaningful. In State and Federal agencies, there may be an inspector general that can help. Regardless, giving operating managers the authority to make compensation related decisions is appropriate but, like children, they need to be taught how to use that authority and that there are consequences to their actions. Note we said "like children," not that they are children. If they were, techniques ranging from time-outs to corporal punishment could be used. Alas, that is not to be.

Of course, if you do not have a CEO or a legislative committee over HR that cares, you may have a bigger problem to deal with.

This article was published in July 2009. It was updated in December 2016.

RECLASSIFICATION VS. PAY INCREASES

Question: Given the current economic climate, we have not been able to give pay increases to our employees for the past year and it looks like it will be at least another year before we will be able to start giving raises again. In fact, we have had to ask employees to give back some of the increases they have received in prior years. Needless to say, this is not going over very well with some of our employees, let alone some of our managers. As a result, we have seen an increase in the number of requests for reclassification of jobs to higher-level classes or to classes that do not currently exist. Can you please provide some guidance as to how we might deal with this situation?

CompDoctor™: Human beings are strange animals. When something happens that they do not like, members of the species will often look for another option. We all love to figure out ways to "beat the system." In the case of classification and pay, when the pay door closes, there is a natural tendency to look for another door. In this case, that door is called classification. We have previously opined that this is one of the reasons public agencies have created the out-of-whack classification systems that they are currently trying to get back "into whack." Having said that, here are a couple of things that you might want to consider doing.

As we have observed, when managers cannot reward their employees with pay increases, they will try other methods often using the classification system as a reward. With limited "new money" available, this will lead to increased pressure to reward employees in other ways. Reclassification requests may begin to be approved without merit. This can start a chain-reaction of requests. Once one person is successful in obtaining a reclassification, other employees begin to question why they should not have their job reclassified. After all, they work just as hard, if not harder, than the employee who got their job reclassified. The result of all these reclassifications is that people frequently get placed in a job title that is not an accurate representation of the nature and level of work that they perform. Consequently, after a period of time, your classification system will be out of alignment. It no longer represents a classification of jobs, but an alignment of people. Even worse in this current economy is that payroll costs will no longer be controllable since pay is usually increased with each approved request. In the long run, you may spend much of the money you attempted to save.

We recall a very large agency that was dealing with about 3,000 to 4,000 reclassification requests each year (about 300 to 400 per month). (Yes, you read that number correctly!) When we went back over all of the requests, we found that they had approved almost 97% of the requests. Even though each request had multiple analysts review the request, they still granted nearly all that came their way. While they were able to control the two or more grade increase requests, each request took an average of three months' time and those that were approved received an increase in pay. The bottom line is that the cost to review the requests cost more than the cost of simply granting the requested reclassifications. It should also be pointed out that this agency had more than 3,000 job classifications that made the system virtually unmanageable. With that many classifications, no one really had a comprehensive understanding of all the jobs. Thus, there was no real standard classification structure against which the analyst could compare and contrast the reclassification request. Since they had no "standard," there was really no way to deny the requested reclassification.

While the best approach is to only approve requests with sufficient merit, HR professionals often bear the burden of intense pressure to approve job classification requests and pay adjustments. Our research in large government organizations shows that 60-70 percent of reclassification requests are approved, and with more salary attached. Usually the increase in pay for a successful reclassification is about five to 10 percent of salary. Now, let's do the math: if only 50 percent of the reclassification requests are granted in a population of 1,500 employees, and about 10 percent of employees appeal their classification each year, this results in about 75 reclassifications granted each year. If the average compensation of those 75 employees is $38,000 (this is probably conservative), and each employee receives a minimum of a five percent increase in pay, the additional compensation cost (not including the staff time to submit and review the reclassification) is a minimum of $142,500 per year…forever!

What can you do? There are a couple of actions you can take to ensure the integrity of your classification system is maintained during this process. One thing is to request a budget justification for any classification or pay change. This forces managers into finding the money within their own budgets to pay for any pay adjustments.

A second option, which we have found to be effective, is to require that reclassification requests only be submitted if the job has changed by more than 30 percent of the duties and responsibilities. These new or changed responsibilities must also be accompanied by a change in the knowledge and skills required to perform the work.

A third option is to require that reclassification requests only be submitted during certain times of the year. This schedule may be every six months or every year. This type of schedule tends to force a waiting period such that it reduces the eventual need to submit a reclassification. This process usually eliminates the minor job changes that occur during the year, but does not really address a job that has changed substantially.

A fourth option would be for the organization to use an external source to review reclassification requests. An external review would focus on whether the reclassification was consistent with the organization's adopted classification philosophy and strategy, assuming that one exists, and limit classification changes to whether the request had merit and was consistent with the philosophy. Requests that involve "reorganizations" or other issues that are not simply related to changes in the nature of the work performed could then be deferred to the annual budgetary review process. We have found that when reclassification requests are outsourced, the burden of proof becomes more difficult. This option might cost a little more today, but it may be cheaper in the long run, because your system will retain its integrity for a longer period of time. Besides, the outside party is not part of the social group that encompasses the members of most work groups. In addition, the outside reviewer has only one obligation and that is to the client organization. The old argument that "approving this reclassification is no big deal since it is not my money" simply won't hold any water.

Finally, if the volume of reclassification requests just doesn't subside regardless of what you have done, it might be a good idea to question whether your classification system is too narrowly defined for your organization. We have found that those organizations that have narrowly defined jobs (the ratio of job titles to employees is high such as one class for every three to five employees) tend to have more reclassification requests. With narrowly defined jobs, nearly any change to an employee's job responsibilities will not be described in their current job description. Thus, a reclassification is needed to correct this inaccuracy. However, if the job is more broadly defined to include a job's major roles and responsibilities in the organization, minor changes are usually already defined within the scope of the job.

Obviously, there are other approaches you can take besides the options outlined, but at least these should give you some ideas to start with. Good luck!

This article was published in June 2010. It was updated in December 2016,

PUBLIC SECTOR VS. PRIVATE SECTOR JOBS AND PAY

Question: We are a small, but very highly specialized, agency. Our Board has very mixed views about what staff ought to get paid. Some of our Board members are small business owners who think that the type of personnel they hire (clerks and lower level maintenance staff) are the type of person we need to fulfill our mandate. Other Board members recognize the skills we need in our employees are not available locally and that we need to compete with other employers around the state and the region. What can I do to get the Board to understand that just because we are a small organization, we need to be competitive in a different labor market in order to get the people necessary to do what we are required to do?

CompDoctor™: Your question reminds us of a County Board member several years ago that could not grasp why Deputy Sheriffs earned SO much more than security officers. After we caught ourselves looking absolutely stunned at that comparison, and we recovered some degree of composure, we had to really think about how we could educate people on a topic that we consider a no-brainer when they don't seem to feel that the differences are meaningful.

As you have probably observed from our previous discussions, we tend to use analogies a lot. Sometimes, the analogies are appropriate while others are less so. In this case, we think that an analogy may be very helpful in getting people to understand how certain jobs in your agency are different from the jobs that exist in the local mom and pop grocery store or local insurance brokerage (we use the insurance brokerage example with trepidation since our firm is part of one of the largest insurance companies in the nation so we want to make certain that our comments do not cause alarm within those circles.) I think the important issue for you is to separate those jobs that do exist within the agency that you can, and do, recruit locally (administrative support staff, maintenance and trades, and potentially other FLSA non-exempt positions) from those that are industry specific and require very specific knowledge and skill sets that are not found within the local labor market. Now, having said that, there is still a good chance that there may one or two other employers in your community that also have similar jobs so you need to be prepared to explain why you want to recognize a broader definition of the labor market for these jobs.

By defining two or more labor markets for the jobs in your agency, you can generally limit discussion and debate to those few jobs that are an issue which makes it a bit easier to get people to understand why these jobs truly are different than the other jobs in your organization.

Now that you have identified the few jobs that are problematic in terms of compensation levels relative to locally recruited jobs, you can have a serious discussion with your Board about the issues, and there are many that need to be considered. First, are there legal requirements for individuals in the jobs you are concerned about? Some jobs, such as registered engineers in a particular specialty or medical staff in certain specialties generally are the easiest for lay board member and the public to understand the need for looking outside of your immediate community. Other jobs, such as skilled water and wastewater personnel holding state certifications at a certain level are also fairly easy to deal with. The fact that some jobs require very specific licenses or certifications in order to perform the duties and individuals with these licenses/certifications do not reside in your community will usually get policy makers to grasp why you must compete in a broader market. This is no different than your need to purchase a major piece of construction equipment but you only have a Ford or GM car dealer in town. These dealers will not be able to provide the type of equipment you are seeking and you will need to get bids from suppliers in other communities.

The next group of jobs, on the surface, look like jobs that might exist in the local community but in reality, are really very different. For example, we once dealt with a job called Optician. At first glance, we (and probably just about everyone else) assumed that this job was no different than the technician at the local Lens Crafters. However, we soon learned that this Optician did not grind eye-glasses, but rather ground telescope lenses for a major observatory. The skill set needed for this job had little if any bearing on the skills possessed by the traditional optician. No license was required but we had to define why the jobs were different. Once that was accomplished, it became much easier for people to understand that local market rates had no bearing on the value of the job. Other jobs, like risk managers, purchasing officers, and pension plan administrators can be a bit more esoteric. While these are professions that have established standards and professional certifications, the issue relates to what the jobs in your organization require versus those that exist in the local market.

For example, if your purchasing people are dealing with commodity futures as opposed to buying cases of copy paper and other office supplies, then the skill and knowledge sets needed are drastically different. If your pension administrator is actually managing money versus simply overseeing contract managers, then the jobs are different. A risk manager may require an insurance background but if your risk manager is actually dealing with operational issues, then someone with a general liability insurance background would not have the requisite skill set. Consequently, the cost of hiring someone without the requisite skills will often exceed the higher compensation you will need to pay to get someone appropriately qualified to begin with.

Hopefully, we have provided some insight as to how you might respond to your Board and others who might share similar views.

This article was published in June 2008. It was updated in December 2016.

IMPLEMENTING A NEW CLASSIFICATION AND COMPENSATION PLAN

Question: We have just completed development of a new job classification and compensation plan. In strategizing how to implement the plan, we are faced with employees who have the expectation that they should be "made whole" since we have had no salary increases for the past four years. Since it had been the City's practice to give annual COLA increases as well as step increases prior to the freezes in 2009 to 2012, we understand their view but are at a loss as to how to deal with this issue. How can we address this issue without breaking the bank?

CompDoctor™: An intriguing question and one that implies either that some of your employees have not read a newspaper or other form of media reporting the decreasing resources available to public sector employers or they know that your City has somehow managed to generate substantial new revenue that you are not telling us about. On the assumption that your City has not suddenly come into a substantial bequest from a wealthy resident or that your revenues have not otherwise increased to such an extent that you would be able to erase the impacts of the recession that is just now coming to an end, we are inclined to think that you will need to address the issue head on since it would seem unlikely that you could, or would even want to, erase the sands of time.

We fully understand the desire of employees "to be made whole." We also think that it is both unrealistic on their part and fiscally imprudent for the City. The mindset for this desire clearly relates to the expectations of employees that they are "entitled" to annual increases. As we have opined on numerous past occasions, one of the biggest issues in dealing with the "New Normal" is the need to change the culture of public sector organizations relative to how and for what they are compensated. As organizations come to grips with this issue, more and more are moving away from entitlement-based systems to performance (however you want to define performance) and market-based systems. In simple terms, people are paid for what they bring to the "party," their contributions to the organization, or some criteria other than simply "seat time" (see our June 2013 column.) At the same time, compensation levels are tied more to market rates with less (or even no) emphasis on cost of living.

Now we get to heart of your question that relates to granting adjustments to individuals up to the point where they would have been had there never been a recession, or some other event, that caused an organization to essentially freeze salaries and/or benefits. One of the biggest issues that results from such freezes is that as new employees are hired, they often come in to the organization at a compensation level that is equal to, or above, the level of current employees. We see this fairly often with public safety where the traditional step systems still predominate. As a result, employee perceptions exist that they are being treated unfairly since these newer employees make the same or more than they do. As we discussed in a column a previously, this type of compression is not unusual especially in pay systems that are vertically compressed already.

So, we think you have a couple of options, as follows:

1. Do nothing. The simple (and we believe the most realistic) answer is that everyone is in the same boat and that the new pay system is designed to address issues going forward but there is simply not enough money available to assume that the new plan was in place at the time the freezes were initially imposed.
2. Give partial credit for the elapsed time through granting of one-step (in a step based system) for every two years of service during the recession assuming the employee is in the same job they were in throughout the entire period of the pay freeze. Based on that, you might grant two steps rather than four. In a performance-based model, you might consider an in-grade adjustment of about half the difference between what compensation~~s~~ levels were four years and what they would otherwise be today.
3. Go ahead and give the full adjustment but ask for something in exchange from your employees. One municipal client recently dealt with this issue by granting such adjustments to FLSA exempt positions in exchange for the employees' willingness to move to at-will status. Those employees who elected to give up protected employment status received a substantially greater increase than those employees who chose to retain their protected status. In this case, 92% of the eligible employees made the switch.

While there is not a particularly gentle way to say this, the bottom line comes down to economics and the culture that you are trying to support or change with your new system. Hopefully, this will give you something to consider as you develop your implementation strategy.

This article was published in August 2013. It was updated in December 2016.

COLA VS. MARKET ADJUSTMENTS

Question: We have recently implemented a new compensation program that is tied to a combination of internal equity and market parity. As a result, the concept is that we will make annual adjustments to our salary grade structure based on overall changes in the labor market with a more comprehensive market review about every third year. The amount to be budgeted for employee pay increases will be based on a combination of market changes and an amount that will be available for "merit" increases that are tied to performance or other growth within a job classification. The structure adjustments may or may not equal changes in the "Cost of Living (COLA)". Because COLA has been the basis for salary adjustments in our organization for at least the past 40 years, the mindset is that the City should also continue this practice. I am confused because I thought COLA adjustments were no longer appropriate if we are tracking the "Market." Please help me understand the role of COLA in a market-based world.

CompDoctor™: You are confused? We have absolutely no idea how there could be any confusion – market is market and COLA is COLA (and we are not referring to Coke or Pepsi.) Now that we have that simple fact resolved, we can deal with the real issue here that relates to employee expectations versus life in the real world (or the big city as they say.)

One of biggest issues that every employer needs to deal with is the culture of the organization that it has either intentionally or unintentionally created. In the case of most public sector organizations, the culture that has been established (and, quite frankly, nurtured over the past 40-50 years) is that employees receive annual pay increases for both longevity and changes in the cost of living (COLA). This approach came about at a time when public sector employers were seeking to minimize turnover and they wanted to create a career service that rewarded people for staying with the organization. That led to the establishment of step type pay systems where employees were awarded a fixed salary step increase every year until they ultimately reached the top of their assigned salary range or grade.

For better or worse, the original systems were nearly all designed with five or six steps with steps about five percent apart so that the ranges for all jobs (regardless of level) were between 25-30% wide from minimum to maximum and every salary range/grade was five percent apart resulting in what many referred to as a repeating pay plan (step 2 of one grade was the same as step 1 of the grade above.) Those systems worked fine in the early years as they accomplished a stated purpose - to keep people from leaving the organization.

Unfortunately, people ultimately got to the top of the range after five years of guaranteed pay increases. When they did not get an increase in the next year (because they were "topped out",) the first thing they did was to go to their supervisor or manager and ask what they were going to do for them since they now had no incentive. The result was that we started seeing requests for reclassification to new or higher level classes in order to "justify" an increase in pay and also to have more steps open to the employee. From there, the process just continued until someone came up with the idea that because of "inflation", the employer should raise wages to reflect the increasing costs of living needed to keep the employee "whole". That was probably OK when inflation was one or two percent per year but less so for those who were around in the 1960's and 1970's (I know we are showing our age but what the heck – at least a few of you reading this are just as old.)

Anyway, the systems we have in place have had a long time to develop and mature to the point that those affected by them have developed an "expectation" that this is the norm and that they are now entitled to annual increases in pay for multiple reasons which, for many employees, result in annual increases approaching 8-10 percent when you combine step increases with any applicable COLA increase.

Now we have a different reality – one where labor costs are under much closer scrutiny by the public and elected bodies. We have written on this topic at length over the past few years so there is probably no need to re-hash all of that stuff here. The net effect, however, is that the people who pay the bill are now saying "Wait a minute, I don't get that at my place of employment so why should public sector employees get it?" The new reality is that the systems are evolving to a point that the basic structure is more closely aligned with the market value of the jobs within the organization and movement within the pay range is more focused on adding value to the employer rather than simply tying pay to length of service (seat time per our previous discussions.)

Now that we have rambled on about how the problem came to be, the real issue is how you dig yourself out of the hole we have collectively dug for ourselves. Unfortunately, the answer is easier to describe than to actually do because it involves culture change. Culture Change – oh my gosh, we cannot do that because people will be unhappy. Well, unless you make the effort, nothing will happen and you will have an even more unhappy workforce.

Furthermore, the changing demographics in the workforce will necessitate change since younger workers today seem to have a very different view of the world, and how they should be compensated, than employees who came into the current system many years ago with a very different set of expectations. Simply stated, if you do not change the way you pay people, you ultimately will have very few employees to worry about since you will not be able to attract the talent needed to fill the vacancies that will be created in the next five to ten years. So back to the initial question, we believe the best thing you can do is to communicate the need for change to your employees and help them understand why you are doing what you need to do. While you won't convince everyone, you will certainly convince the majority of employees. Besides, if you have been instructed to follow a new policy, then those affected need to understand that it is the way of the future. Alternatively, you can slowly wean yourself off COLA by using a combination of COLA and market over a one-two year period resulting in using only market movement by the end of the process. Clearly, there are choices but we believe that the changes outlined are essential for public sector organizations to adapt to the world as it currently exists while positioning themselves to deal with even more radical change in the years ahead.

This article was published in October 2013. It was updated in December 2016.

COMMUNICATING ABOUT CHANGING CLASSIFICATION AND COMPENSATION

Question: We have had a very narrow job classification structure in place for many years. We have also addressed internal equity through use of a highly structured point factor job evaluation system. Our city has recently begun the process of moving in the direction of a job classification system that is based on the concept of broad job classifications. We will also be adopting a broad banded pay system. Unfortunately, most of our managers (let alone our employees) only know the system we have had in place for over 30 years. Can you offer any insight as to what we might tell our people regarding the reasons for moving away from the continued use of our familiar and comfortable narrow class and point factor systems?

CompDoctor™: Periodically, PBS, the Nature Channel and other TV networks broadcast documentaries showing people living in remote corners of the world never having enjoyed the modern conveniences we Americans take for granted such as running water, indoor plumbing, automobiles, computers and air travel.

There have even been stories on the national news about people on islands in the South Pacific, who did not know that WWII ended in 1945. For some reason, they managed to survive and never knew that there were other ways of living. We also tend to take for granted the things that make our lives easier or better, although one can certainly argue that such is in the eye of the beholder. Yet, every year, we learn new ways to do things even though some of us don't adapt to change as rapidly as others. We know people who (and this will really shock the folks at Apple and Samsung) still use their old flip phones for making phone calls. The point that we are trying to simply make here is that as human beings, we do not always know that there are new or different ways to do things that may actually be better than the way we used to do them. Yes, we know that not all new ideas are necessarily better, but this idea is not supposed to be taken 100 percent literally. For now, we ask that you humor us and go along with the premise. Once managers and employees get exposed to the new approaches, there is natural fear and trepidation that the world, as they know it, is coming to an end along with the ruin of civilization! For better or worse, that is usually not the case.

So if you are willing to accept the basic premise that change can be radical for some, we can then deal with what it will take to get people to accept, and ultimately embrace, the concept of broad job classes and broadbanding. A case in point -- one city in our neighborhood has decided that its volunteer firefighters will be made up of existing city employees and NOT outside volunteers! How about that for a radical change?

The first thing that you will want to do is make sure that all of your managers understand why the changes are being made. Before you even begin to deal with your employees, the managers and other leaders in the organization need to get on board, so that they can help educate others and provide *leadership*, as to why these changes are not going to cause the city's downfall or the loss of everything they have worked for up to this point. Unfortunately, you may have one or two managers that just do not grasp the need for the changes and are unwilling to support the new direction. Since we are talking about altering the culture of an organization, as it relates to how jobs are structured and potentially how employees are compensated, the simple reality is that change may need to be proactive in encouraging those employees to look for options that may lie elsewhere. A city manager told us that it took several years to fully change the culture of the organization. Along the way, it was necessary to make changes in the management team so that improvements could be fully and successfully implemented. Change is not easy or always pretty.

One of the key messages to be conveyed relates to why the new system is beneficial for the organization. Is it being implemented to increase flexibility to assign work in a changing environment? Or will it alleviate the compression in class and comp structures that diminishes incentives and pay differentiation? Will it reward employees for their contributions to the organization? Is it being implemented simply because it is considered the way things are done in the 21st century (hopefully it is the former)?

Once managers and leaders understand the imperative for the change and have indicated their acceptance and willingness to support the process, then it is time to carry the message to the rest of the organization. In recent discussions, we have talked extensively about the changing demographics in the workforce. If you have a workforce that is now comprised mostly of Generation X'ers and Millennials, then you will likely have an easier time communicating the benefits and need for the changes. If, however, your workforce has a large number of Baby Boomers, then your task could be a bit more challenging (we can say this since we, too, populate this category).

So now you have dealt with the change process. However, you still need to communicate why the changes are really an improvement, other than just increased flexibility for the organization and growth opportunities for employees. One big issue relates to the need to be able to distinguish differences in the type and level of work performed. As we have asked on numerous occasions over the years, how much difference makes a difference?

Traditional point factor plans are based on the concept that you can make finite distinctions between jobs by examining the component parts of a job (e.g. skill, effort, responsibility and working conditions). Unfortunately, as pay structures have become more compressed, jobs have become broader thus making finite distinctions less clear and certainly more difficult to define. Yes, every job is different, but are jobs *so* different that they need a new pay grade and classification title? At the same time, broadband pay structures can easily be misinterpreted so that employees (as well as elected officials and others, who have not been enlightened) assume that they have the right to get to the top of the band much as they could with the prior step and grade type system. Consequently, the other part of the education piece is trying to get stakeholders to understand how the new plan works and that it is *different* than the old plan. The hardest part, in our experience, is getting people to look at the new system without viewing it through the parameters of the old system.

As you can gather, changing to a more flexible system has its challenges. However, they are not without, in our humble opinion, substantial rewards. Hopefully, this will give you sufficient insight as to steps needed to make the transition as smooth and successful as possible. As you may have figured out by now, the continued use of your old system to fix the problems that it has caused may simply not be the solution to the problem. Some call that insanity. We will withhold our opinion on that one!

This article was published in February 2014. It was updated in December 2016.

MINIMUM WAGE RATES AND RESULTING COMPRESSION

Question: Now that the new minimum wage rates have gone into effect, we are concerned that lower level salaries are starting to get closer to rates that we are currently paying for positions that are more than entry level. We are also concerned about efforts in certain cities to raise minimum wages to even higher levels. While we do not object to paying lower level employees more, we are worried about the impact that this will have on the rest of our pay plan. Would you be willing to provide some guidance as to how we might deal with this issue?

CompDoctor™: Are we willing? Of course, we are. Whether we should is a whole other question given the political sensitivity of this issue (and those of you who have read this column before know how politically sensitive we are!) Nevertheless, we will dive in and hopefully not offend too many people in the process.

The subject of "minimum wage" and the related subject of "living wage" is one that has been debated for many years. Our comments will not get into the economic or social costs and/or benefits of either but will focus on the implications for public employers who are impacted by the need to implement these requirements (yes, we know the minimum wage laws apply to all public employers but the increasing limits do have additional ramifications).

Let's start at the beginning. If you set a minimum rate of pay artificially rather than based on market conditions, there are implications (if the artificially set rate is higher than the market will support for that level of job, the immediate result is pay compression. However, if the minimum wage applies to all employers who hire the same type and level of worker, then the artificial limit becomes the market rate for the job and that, unto itself, is fine. However, if the rate only impacts employers in one community, and employers in other locations are free to pay a lower rate, then competitive pressures can occur.

In the State of Washington, the residents of one community recently adopted a minimum wage of $15 per hour although it only applies to a select group of employers within that community. As we said before, we are not making any political or social judgments relative to the merits of such an action. The problems begin to develop when you look at jobs that actually have a market rate of about the same amount but are one, two or three levels above the job that you now must pay the new minimum wage. The dilemma is whether you now need to artificially raise the compensation levels for jobs already valued in the market place at the level of the new minimum in order to deal with the internal compression or whether, otherwise, you pay the entry level jobs the same as you are now paying higher level jobs. Since most public sector jobs today pay more than the Federal minimum wage, changes have not been a big issue except for some part-time or temporary positions. Rates such as the one adopted in

Washington are a different story since the new mandated rate is substantially above the entry-level rate of pay for many agencies. Interestingly (at least to us) is the fact that in the late 1990's, we had a large government in the southeastern US that had adopted a living wage of around $14,000 per year for their employees but the market data supported a base rate of $12,000. That organization simply said they were going to pay $14,000 for the lowest level job and not adjust the salary range for any of the jobs above. The result was that the starting salary for a true entry-level position was the same as a starting salary for a more experienced worker in the same occupational group. The net effect was that they began to experience recruitment difficulty for the more experienced level since applicants felt there was no need to apply for a higher-level job when they could make the same money with a lower level job with less responsibility.

So, what are your options? There are really only two. The first option is outlined above. The second option involves reshaping your overall pay structure so that the structure is more focused on internal alignment than market. In this way, you would have a pay structure that is anchored to the market at the upper end but to the established minimum rate at the bottom. The result is that you will end up paying your employees more than market rates at most levels until you reach the top areas of the structure although the differential will decrease as you go up the scale.

Like we said, this is not an easy issue. If you stay with the market focus that many organizations are moving towards, you create compression at the bottom. To eliminate the compression, you end up paying over-market for many jobs. Each organization needs to decide which is the least objectionable.

This article was published in June 2014. It was updated in December 2016.

PAY COMPRESSION

Question: Now that the big recession is largely behind us, our organization is beginning to address deferred maintenance on its compensation program. One of the biggest issues we are now starting to face is that employees see little difference between the levels of compensation for the work they are doing and others within the organization that they perceive are doing work that is substantially lower level. Consequently, there is a noticeable uptick in the number of requests for reclassification and/or re-grading of the position to a higher salary grade. I know you have talked about this in prior columns but now it affects us directly so it is no longer an academic issue. What do you suggest we do?

CompDoctor™: You have posed a question that we are hearing a lot these days. You are also correct that this is a subject that has led us to the "soap box" on numerous occasions. Unfortunately for you (but most fortunate for people like us), this issue, relative to the public sector, is not going to go away in the near-term, let alone the long-term future. At this point, you are no doubt asking yourself why something this simple cannot be easy to fix. Well, we will tell you why.

The first reason that this problem will not be easy to fix is that for years, public agencies increased lower level salaries at a more rapid rate than they increased upper level salaries. While there are many reasons for this, the net result is that the spread between the lowest and the highest paid public employees has generally dropped from a ratio of 1:10 to closer to 1:5. Yes, we know, there are some examples in the public sector where the highest paid employee makes significantly more than the "worker bees" but we are not talking about football and basketball coaches, Deans of medical schools, and Presidents at the larger universities.

The second reason minimal differences have evolved in pay for higher-level work is that "Joe Six-Pack" looks at public employment from a different perspective than those who work in the public sector. The average citizen, if there is such a thing, works in the private sector and sees public employees getting benefits not available to them but for which they are paying. If there is any question of this being an issue, just look at the number of column inches of media coverage nationally about public sector pensions over the past four or five years.

A third reason is the direct linkage of diminished pay differentiation associated with public agency evolution to clogged up job classification structures with too numerous undifferentiated classes. Some agencies appear to be "hoarding" empty classifications in the hopes that it at least identifies work that you are "better than" even if there are no longer any incumbents. Trying to maintain separate job classifications for nearly every position because one person does one or two things not done by others typically should not warrant a separate job classification. The same holds true for someone doing "more complex" work than someone else when there is no definition of what that means and the general body of work is the same.

One of the fallouts of rising entry-level salaries is that entry-level jobs, as many of us think of them, are simply going away and being replaced by broader work expectations that really require broader class definitions. If you need to pay more for something, most employers want to get more for their money. Consequently, entry-level jobs (at least in the public sector) are starting to look more like semi-skilled or skilled jobs since a lot of the work done by unskilled workers can be outsourced or automated. The same holds true for paraprofessional jobs versus entry-level professional jobs. If you need to pay the same amount, why would you not hire the professional and consolidate the classes of work instead of the paraprofessional (unless there is a shortage of the professionals such that you simply cannot find them.)

Let us now fall back on our favorite question related to declining differences in the levels of work and pay. How much difference makes a difference? In this era of flatter organizations, we remember the good old days when Al Gore was "Reinventing Government" and even before that when the buzzword was "Rightsizing". Even in those agencies that refuse to recognize the realities and still try to have a heavily layered organization, the simple reality is that while people do different stuff, the level of the work may not be significantly or measurably greater. What we find fascinating is that even organizations as complex and large as the Army, the Navy, the Air Force, and the Marine Corps still have managed to function with a maximum of 26 levels or ranks. Regardless of how you view the armed services, broad classes and fewer levels have worked very well for a long time. And yet, we constantly hear from employees that my job is special and I deserve my own job class and my job should be rated higher than others. This brings us back to the earlier issues of what is the job and what are you paying for?

The only way you are going to reduce the number of requests for upgrade will be to combine positions that perform similar types and levels of work into broader job classes so that the distinctions are much more defensible. Then you can reduce the number of salary ranges/grades so that there are no more than 20-25 levels and that there is at least 5-10% between each salary grade midpoint or whatever point you use to anchor your pay structure. This is going to become a particularly sensitive issue in those communities that have been raising minimum wages to the point that the new minimum is equal to or greater than rates currently paid to more skilled positions. In those cases, you may decide you simply no longer need the lower level positions since there are other ways of getting that work done, recognizing that this is a budget and management issue and NOT a job classification issue. However, the classification and compensation systems should facilitate the organization's management strategies and not impede them. In these situations, you will need to decide whether internal alignment is more important than market parity since these actions will clearly impact pay relationships both within an occupational group and the external labor market until the market itself figures out how to deal with these situations.

Once you have reformed your system, it will much easier for you to respond to employees (or managers) who argue that what they do is just as complex or important or meaningful or hard or whatever other criteria they assert about someone else's job. We believe this situation will ease as the demographics of your workforce change but then that could simply be wishful thinking on our part. In the meantime, the biggest challenge is simply educating your managers and employees as to the realities of the world in which we live. Not always a pleasant or easy task but an essential one if you are to get control over the issue of reclassification and re-evaluation requests.

This article was published in February 2015. It was updated in December 2016.

POSITION QUESTIONNAIRES FOR ALL EE'S VS. SAMPLING

Question: Our organization would be considered large (more than 10,000 employees) and will be starting a complete restructuring of our job classification and compensation system this year. One of the issues that we are trying to assess is whether we want to require that all of our employees complete a detailed position description questionnaire or whether we could just have a representative sample of employees do the questionnaire. Can you offer any insight as to the pro's and con's of the options to help us determine the best approach for our organization?

CompDoctor™: This is a really good question and one that has come up in most of the large-scale projects that we have been involved with over the past 30 years. You are smart to begin thinking about this now rather than after the project is already underway. First of all, the following factors need to be considered as you make your decision, and we will discuss each of these:

- Degree of employee and manager involvement desired in the project;
- Amount of time the organization is willing to commit to investing in the project;
- Project budget; and
- Your overall objectives for the project.

Let's take these in reverse order although each one has a bearing on the others. To begin with, what is your overall goal for the project? If all you are trying to do is come up with a new job classification structure, there is probably no need to have every employee complete a detailed (and often time-consuming) questionnaire. All you really need is to get information about the various types and levels of work performed so that you can develop a new classification structure that covers the full spectrum of work performed by employees in your organization. This approach will work if you are comfortable that all employees are currently classified appropriately so that you can simply move all incumbents in a given classification into the new classification that encompasses the old job classification. However, if you have concerns that individual positions are currently misclassified (either over or under), then this approach will not address those issues.

Budget can be a big issue for many organizations. If you are trying to undertake a project of this magnitude on a shoestring budget, you will need to make compromises as to the overall goal of the project, as well as what you can tactically accomplish. Designing a new structure will cost substantially less than having to assess the duties and responsibilities of thousands of employees (or even hundreds of employees, for that matter.)

Project completion target is another big issue that needs to be addressed. We often see RFP's where the client organization wants an entire system restructured, individual employee involvement is required, multiple levels of internal review are expected, and then they want the entire project completed in 30-60-90 days from the date of contract execution. In our judgment, these organizations are, at a minimum, delusional and at worst, incapable of understanding what is involved in such a major initiative. If you absolutely must have a new structure in place in a very short period of time, the only viable trade-off is to minimize the degree of employee involvement. That means that you won't be able to have all employees participate but the trade-offs outlined above will have to be accepted. In addition, expect significant employee push-back if you don't involve them in the process of describing their job.

We believe that for projects such as these to be successfully completed and implemented, employee, supervisor and manager involvement is critical. That does not mean that you strive for 100% employee and manager concurrence and approval but there needs to be sufficient involvement to ensure that the various perspectives are understood and that all parties understand why you are doing what you are doing.

The major concern we have with organizations that want to have only limited input in terms of a sample of employees relates to the ultimate implementation of the new system. A number of years ago, we were involved with a very large urban school district that wanted no more than a 10% sample of employees involved in the position description questionnaire process. We pointed out to them that the other 90% were not likely to be very supportive of the outcome since their "unique" positions were not included. The organization said not to worry and that they had it covered so that is what we did. Unfortunately, once the new structure was developed and rolled out, the proverbial fudge hit the fan. After all of the hue and cry, the District had to back-track and get the other 90% included resulting in the project taking substantially longer and at a much higher cost than if they had done the project correctly from the beginning.

Change does not come easy. You are taking on a subject that everyone has an opinion about. Clearly, my job is much more important, complicated, and/or sensitive than yours, and everyone else's or the labor market for my job is such that the work I do is substantially more valuable. Therefore, I should get paid more than everyone else. As we have often said, this topic affects the two most delicate parts of the human anatomy – our egos and our wallets. It doesn't take much for people to turn a straightforward issue into a full-blown turf battle. Consequently, figuring out the scope of what you are trying to do ahead of time, and being realistic about what is involved, will go a long way to ensuring a successful project.

In our experience, we have found that the most successful and longest lasting systems include plenty of employee involvement and thus take plenty of time. It is probably better to do it right that to do it quick. Your employees and your Board will ultimately be better served.

This article was published in October 2015. It was updated in December 2016.

IMPLEMENTING A NEW CLASSIFICATION STRUCTURE

Question: We have just completed a comprehensive restructuring of our job classification and compensation program resulting in substantial reduction in the number of job classifications and salary grades. While the leadership, as well as the Council, fully supports the new direction, certain employee groupings are not as supportive. The result is that we have received appeals from about 25% of the workforce asking for reconsideration and placement in a different job classification (and not one that is at the same or lower salary grade). The question we are trying to answer for our employees is whether the new system is diminishing the opportunity for legitimate promotions or whether employees will continue to have the same opportunities for growth that they had under the old narrower job classification system. Any suggestions or guidance you might be able to provide will be appreciated.

CompDoctor™: So, you are surprised that your employees did not request reallocation to jobs with lower salary ranges than the one that they had been allocated to? We had to double check and make sure that you were not from a state that has recently legalized recreational use of certain substances and now that we know that you are not, we can share our infinite wisdom regarding this situation.

What we are really talking about here is "change management." Unfortunately, we of the human species do not always adapt to change in a calm and rational manner, nor do we simply accept change because those above us in the proverbial food chain tell us that it is in our collective best interest to do so. It is also typically the case that change does not always benefit everyone – sometimes someone's ox is actually gored. That is why most organizations, when they undertake substantial change initiatives relative to job classification and compensation, make it clear from the beginning that no employee will see any immediate reduction in their compensation although future increases may not be consistent with prior expectations. Even in those few instances over the years where we have seen employers say that implementation is a zero-sum game, the employers have, in virtually all cases, changed their position so that no employee actually incurs a reduction in their base compensation for at least a defined period of time.

While entire courses are taught in managing change, we will offer a couple of tactics that you might employ to at least get people to understand why you are doing what you are doing. From our perspective, the goal for any change management process should not be universal acceptance but should be understanding why you are doing what you are doing. It should also be made clear that you as the employer understand that the changes made may not be acceptable to everyone and that if such is the case, then the organization is prepared to work with the individual to find a situation that may be more to their satisfaction even if it means employment elsewhere.

An interesting example of this recommendation occurred in late 2014 when the on-line shoe store Zappos announced that it was moving to a flat organizational structure and eliminating several organizational layers and job titles. (Please note that we are not advocating for such an approach. We are only citing this as an example of new or different approaches undertaken by employers to deal with changes in the overall business environment.) The company was very clear that the new structure was non-traditional and that some employees may not be comfortable working in that environment. As a result, they offered a severance package to anyone who felt they would be happier in a different environment. The company has since reported that a small number of employees (about 14% as of May 2015) did elect to take the severance offering. It was also made clear that their objective was to have a workforce consisting of those who feel comfortable in the work environment while not trying to force people to work in situations where they are uncomfortable. The positive spin that was put on this initiative is that 86% of employees chose to walk away from the "easy money" severance and stay with the company. What is significant is that the work did not change all that much but the manner in which it was managed did. That is, effectively, what happens with a restructuring of job classification systems and the elimination of classes and, in some cases, job levels. One thing Zappos emphasized is that the transition takes anywhere from two to five years. As the President of the company stated, "It is a gradual process, it is not a light switch." Changing how job classifications are structured and managed in the public sector is no different.

Job classification systems are not (or at least they should not) be used to dictate how work is done or how organizations are structured. They are designed to help organizations figure out how employees should be compensated based on the type and the level of work they are asked to perform. The broader job classification structures are typically designed to accommodate changing work assignments but the type and the level of the work do not necessarily change. Class levels are designed to reflect clear and meaningful differences in the level of the work so that as employees take on greater levels of responsibility, not simply more work (in terms of volume), there are opportunities for career advancement. However, in organizations with compressed pay structures, the number of levels becomes problematic particularly where hierarchies have been established using somewhat arbitrary criteria including simply giving an employee one or two subordinates in order to create an artificial pay range.

In prior discussions, we have talked extensively about alternative means of pay delivery to recognize contributions made by individuals through attainment of higher levels of skill or proficiency, as well as broader scopes of work that do not necessarily change the type and level of the work performed. We would be happy to revisit that topic separately if you would like.

Fundamentally, the use of the job classification system as a means of giving salary increases to people will largely cease with the broader job classification system that you are implementing. However, your pay system may need to be modified to appropriately address compensation issues. Having the courage of your convictions as you proceed with the implementation is difficult since you will need to help your employees understand the underlying need for change and work with them to either adapt or find the best alternate situation in another organization. What employees also need to understand is that you are not the only employer going in this direction and that if they truly believe the grass is greener in another pasture (don't you just love our mixed metaphors,) then you will help them find that greener pasture. Ultimately, acceptance usually occurs. Unfortunately, it may simply take time.

We hope that these thoughts are helpful but are always happy to respond to further questions.

This article was published in August 2015. It was updated in December 2016.

MORE ON IMPLEMENTING A NEW CLASSIFICATION AND COMPENSATION PLAN

Question: We are beginning to conduct employee and other stakeholder education sessions regarding a new and substantially broader classification and compensation system that we will are currently developing and plan to implement for FY 2017/2018. The new system will eliminate longevity-based steps and, using an open range structure, will focus on compensating individuals for performance, skill, contributions, or other means, yet to be determined. While this may seem a long way away, we believe that we need to start managing employee expectations regarding pay increases once the new plan goes into effect. Our concern relates to how we handle issues such as reclassification requests, as well as requests for pay adjustments between now and the time the new plan is implemented. We are already getting some pressure to make changes and we don't yet know what the final product is going to look like, even though we have a strategic direction that has been formally adopted by our Board. Can you offer any guidance as to what we should do as we go forward?

CompDoctor™: Developing and implementing a new job classification and/or compensation can be quite traumatic for many within the organization. After all, they have had years to figure out how to manipulate the system(s). (We were originally going to say "game" the system but that would have been insensitive and we are, if anything, exceptionally sensitive individuals). A simple reality is that the older and more traditional systems were based on finite distinctions related to factors other than work often resulting in minute differences between job classifications and levels of pay for incumbents. You have no doubt read our prior discussions that have addressed concern that job classification systems have often been used as a means of rewarding pay increases when other methods such as performance, skill, knowledge or competency could not be recognized appropriately. The result, like withdrawal from any controlled substance, can be painful.

We human beings are fascinating specimens. As a species, change does not come easily. When faced with the need for change, we often look for reasons why the cure is worse than the underlying illness. Have you ever noticed on all the ads for new and wonderful pharmaceuticals that we see on television that, when they go through the potential side effects of the new miracle cure, it is hard to image anyone wanting to take the new drug? Nevertheless, some of them probably work exceptionally well under certain circumstances and new job classification and compensation programs are no different. The key is making sure that the underlying illness is fully understood and that the patient (in this case your organization) understands the problems with the current system, why change is necessary and the consequences for not taking action which results in the necessity for the approach that is now taken to improve the patient's condition.

So, based on the assumption that you have gone through the appropriate analytics to get you to the point that you are at, let's talk about your options from this point forward. First of all, the fact that you are already starting to conduct employee and other stakeholder education sessions this far in advance of implementation is encouraging. While your stakeholders may be concerned about the changes that are coming, we believe you, and they, are better served by knowing what is coming. The potential impacts of not communicating creates a fear of the unknown. When people don't know what to expect, things like rumors start which are then difficult, if not impossible, to control. There are numerous strategies that you can use, as follows:

1. An intra-net based FAQ site that employees, and others within the organization, can access to find information about issues of common concern. The site should be updated regularly and, if possible, information should be categorized such as why the new systems are needed, status of the project, reclassifications, how pay will be managed going forward, and how employees will be treated if their position is found to be over or under classified or compensated.
2. Regularly schedule employee/stakeholder briefings. Having the opportunity to hear from those directly involved can only help build credibility (assuming, of course, that the information provided is timely, accurate, and relevant.)
3. Written newsletters, if the opportunity exists. Such newsletters don't need to be lengthy but can be simple and included in pay envelopes or other media that is accessible to all employees (especially those who may not have access to electronic systems or are unable to attend briefings.)

There are other tools that can be used but given the limitations of a column such as this, we need to move along to another aspect of the question; specifically, what should you do in the interim.

If we were King for the day, we would simply cease all reclassification actions until such time as the project has been completed since the position(s) in question are already under review as part of the study. If you proceed with reclassification efforts, you will likely be dealing with the position or job to be review under the old system that you have already said is not working. Consequently, you end up taking an action that will most likely be changed again as part of the overall project. This can sometimes be very awkward if you have changed a position for a relatively minor reason and then in the new system you undo the action. We do recognize that the wheels of progress cannot always come to a screeching halt. Organizations occasionally need to reorganize and budgets do change. Reorganizations, of course, are essential to changing institutional requirements and are not intended as a means to manipulate the classification and compensation system in order to justify an increase in pay for a selected position or two. Nevertheless, hitting a moving target is much more difficult than dealing with a fixed point in time. You can always go back and deal with new information after the fact and make appropriate adjustments.

We trust that this discussion is responsive to your question and hope your project is a success!

This article was published in April 2016. It was updated in December 2016.

FLSA EVALUATIONS THE EASY WAY

Question: As you know, due to the recent changes in the DOL regulations on FLSA, we need to re-examine all of our jobs to make sure they have the correct designation. My department is charged with doing this correctly but I am short staffed so I don't have a lot of spare time. Do you have any guidelines to make this job easier for us, so that I can get on with what I was hired to do?

CompDoctor™: Oh, to do what we were hired to do. We are not quite sure what the hiring authority told you when you were hired to do HR work but we remember like it was yesterday what we were told. Our bosses told us our job was to deal with whatever crisis happened to arise on any particular day and, oh by the way, don't let that stand in the way of getting all of the more routine stuff done that nobody wants to do anyway. Then, years later, when we went from the operational side of things to the consulting side, we just got the same guidance but with a little twist (so that we don't get our column cancelled by the editors, we will leave it to your imagination as to what that little twist might be).

Nevertheless, we think of the new regulation as a gift and, as award recipients always say, we definitely want to thank our friends at the Department of Labor for thinking of all of the employers throughout the country as they go about their daily toil. They have made our collective lives so much more interesting and keep us from perpetual boredom addressing mundane tasks that we really don't want to do anyway. Now that we have acknowledged those who have made our lives fulfilling, we can get on to the question at hand.

By the faintest of chances that you, the reader, have been living in a cave with no exposure to outside communications for the past several months (consider yourselves lucky if you have given all of the election stuff that has been consuming massive amounts of media time), the Department of Labor (DOL) finally decided to adopt new rules governing eligibility for exemption under the Fair Labor Standards Act. Most of us in our august profession knew that something was coming but we waited several months since the DOL first announced the proposed rules. Although most of us knew that the final rule would generally follow the theme of the proposed rule released several months ago, nobody knew (obviously) exactly what would happen. In an earlier discussion, we did point out that since this is a legacy issue for the Obama administration in Washington, it is a virtual certainty that the final rule would be issued and go into effect prior to the end of the 2016 calendar year. Guess what? We nailed that one. The new rule was slated to go into on December 1, 2016. At the same time, a Federal Judge, in December 2016, issued an order suspending the implementation. However, many organizations have already implemented the changes required by the new rule. Should Congress decide that they want to override the new rule, Congress could conceivably enact legislation to block implementation. In today's political climate, who knows whether that could happen. Until such time as the matter is resolved, either by the Courts, Congress, or the new the new President after he takes office in January 2017, there is no clear resolution to this issue.

The biggest change in the rule relates to the salary test. This test will now become significantly more important in determining whether a job can be considered exempt or non-exempt. The new magic number is $47,476 on an annualized basis but that amount will increase every three years. In 2020, the new number is estimated to be $51,168 per year. For jobs, such as public safety first-responders, the current $100,000 cap for consideration as highly compensated will increase to $134,004.

Given the limitation of space, we will focus our discussion on general governments rather than institutions of higher education but hopefully we will cover the key points for your consideration. The important thing we have been telling all of our clients is that DOL did not propose any changes to the duties test. As a result, identifying those jobs that are impacted by the new rule should be relatively straightforward. Since jobs that were previously rated as non-exempt will still remain non-exempt unless you had designated them as non-exempt for some reason that is not consistent with the existing duties test. You probably are safe not spending any time worrying about such positions. For jobs that were previously considered exempt and receive compensation that exceeds $47,476 per year, it is reasonable to assume that these positions would continue to be exempt. By eliminating those jobs that clearly would not be affected, you should be able to narrow the scope of your assessment to a manageable number. In developing the list of potentially impacted jobs, you may want to include those positions and jobs where some employees in a class would be non-exempt and others exempt if the compensation levels fall within a single salary range or band. Now, what should you do (besides finding the nearest watering hole and drowning your sorrows regretting that you ever put yourself in the position of having to deal with this stuff?) Well, it really is pretty simple, especially from where we sit.

First, list the positions that are affected and determine which job classifications these positions are in. Then you can review that list with the managers and directors who oversee the positions affected. You actually do have some options some of which are easier to deal with than others, but the solutions will vary for each organization and for each situation.

Second, identify the options that exist. For currently exempt jobs that are very close to the new salary threshold, it may be fairly easy to just increase the compensation level so that the positions would be paid a minimum of $47,476 per year. Keep in mind that the base number will increase again in three years so you might want to make certain that any increase in base pay or changes to your pay structure will not become obsolete in 2020. Please note, though, that such an action can have an impact on jobs that are above these in the pay structure. One of our favorite adages is that for every complex problem, there is a simple solution – usually wrong. In this case, an easy solution will work but it has ramifications.

A third option that you may want to consider is to restructure the job so that the employee not meeting the salary threshold is no longer doing work that would have made it exempt in the first place. While not necessarily a great option in terms of employee morale, it may be the most viable option if you are going to manage that employee as an hourly position anyway. This approach could apply to positions that are considered first line supervisors but who spend a considerable portion of their time doing non-supervisory and otherwise non-exempt work. Essentially, you would be taking away the exempt work from these employees and reassigning it to other employees who are already exempt.

A fourth option would be to reclassify those individuals into a lower level job classification regardless of whether the individuals have credentials that may have qualified them for higher level, exempt job classifications thereby ensuring that they only do non-exempt work.

A fifth option you may wish to consider is sort of the opposite of the first option – instead of increasing base pay for impacted positions, base pay is reduced. Rather than raising compensation, some private sector employers have indicated that they will likely estimate the amount of overtime pay that they will now have to incur for a position formerly treated as exempt and then reduce the base compensation level to an amount that, when combined with the projected overtime, results in essentially pay equal to current compensation. Please note this IS NOT our recommended solution but it has been publicized as an option and at least needs to be on the table. In the public sector, this is probably not a viable approach but it may be a useful tool to help employees understand why the option you ultimately elect is the best of the available options.

In future discussions, we will take this a step further and talk about the need to separate exempt from non-exempt positions in the same job classification.

We hope that we have identified some options for your consideration and that you will be able to get this issue resolved without undue burden on you or your employer. If not, isn't this why you got into HR in the first place!

This article was published in October 2016. It was updated in December 2016.

FLSA STATUS AND JOB CLASSIFICATION

Question: You mentioned in your last column about the need to have employees doing non-exempt work in a class that is separate from those who are doing exempt work. Since we currently manage both exempt and non-exempt Fire Battalion Chief's in one class, why is this important?

CompDoctor™: Well, that is a really good question and one that we will try to answer but you will need to understand that Fire and Police (well, really all public safety first responders) are "special" in the eyes of the Department of Labor, City Council's, the voting public, and just about everyone else that has any say in the matter so once we get past that point, let's address why this does not make sense for non-public safety jobs.

Let us first explain how public safety jobs are evaluated. For public safety first responder classes, the salary threshold is different than for mere mortals (non-public safety personnel) and the implications are substantially different. The following explanation only applies to the non-public safety jobs. As you may know, under the new rules issued by the Department of Labor that go into effect on December 1, the new salary threshold for exemption is $47,476 per year ($913 per week.) For highly compensated employees, the new threshold is $134,004 per year. Since public safety first responders are required to be treated as non-exempt unless they meet the highly compensated employee threshold, those positions simply get treated as non-exempt. The only exception to that rule relates to personnel who are not considered to be "first responders" and would otherwise meet the duties test for exemption. As a result, certain individual assignments or positions in the sworn services may be classified as exempt but other positions that are considered "first responders" are non-exempt. These same rules do NOT apply to civilian positions.

Now let's talk about all of the other jobs within the organization. How would you feel if you are designated as "exempt" based upon the FLSA duties test and the bloke sitting next to you doing the same work is a newer hire with a salary beneath the new FLSA threshold designated as non-exempt and you both are required to put in over-time? The other bloke gets time and half and you get nothing!

To make matters worse, you value your evenings as much as the next guy but every time there is a need for someone to stay late or put in extra hours, you are selected because the organization does not need to pay you overtime!

Besides the requirement for payment of overtime, in some organizations, vacation and other leave benefits are differently allocated based on the FLSA designation. Is it "fair" that you get to take an extra week over your co-worker in the same job assuming you both have the same tenure on the job simply because one of you makes more than the threshold specified by the DOL?

Documenting over-time requests, approvals, and management when class incumbents have differing FLSA designations creates the need for complex processes and systems to assure proper employee treatment. While such processes may be easier to manage in classes with a small number of incumbents, classes with large populations may present real challenges.

To address perceived issues of "fairness" and "morale", it seems appropriate to attempt to segregate job classes based on the conduct of non-exempt versus exempt work taking into account both the salary threshold as well as the duties test. In addition, maintaining separate classes based on FLSA designation improves ease of HR administration and documentation.

However, this approach may raise cries such as:

- "I am a professional and was hired as an exempt salaried employee!"
- "Why did I go to the trouble of earning a college degree if you are going to treat me as an hourly employee?"
- "If you relegate me to the non-exempt class, then I will have to do all the lower-level support work that was previously distributed among us all!
- The exempt-designated workers will get to do all the higher level 'fun' stuff!"

GET OVER IT! In truth, it was likely never the most efficient approach to have everyone doing everything so that everyone got to do some of the analysis work along with the more mundane data gathering work!

Response to this change in FLSA regulation gives you the opportunity to group all the work that truly meets the FLSA duties test in an upper level "exempt" classification. Recruitment for the lower level analysis support work should address the non-exempt expectation.

For those who are still unhappy about being segregated into the lower-level non-exempt class when employees see themselves as a college-educated professional, the organization can adopt the term "professional hourly" to make employees feel good about all those hours sitting in college classrooms!

Alternatively, employees can "lobby" management and the governing board to simply raise the salary of your current job above the new FLSA threshold and then the problem is solved (at least for the next three years until the salary threshold goes up again!) If successful, such employees will once again be among the anointed that can be called upon to work overtime without FLSA-demanded time and half compensation.

This article was published in December 2015. It was updated in December 2016.

DESIGNING COMPENSATION SYSTEMS FOR THE CHANGE THAT IS COMING

There are several forces that will be affecting the management of your classification and compensation systems in the next few years. Some of these changes are evolutionary and some of them are (we hope) temporary. While we can probably weather the storm of temporary changes, the evolutionary changes combined with temporary shocks will make it critical that public managers take a serious inventory of the structure and architecture of their classification and compensation systems.

In our opinion, these are the evolutionary changes:

Demographic changes. Essentially, there will be fewer workers to replace the current workers. You all know this by now, but we will explain why this will affect your classification and compensation systems.

Changing employee work behavior. Younger workers, Gen X or Y, learn differently and work differently than the boomers who will be leaving the workforce within the next few years. Unfortunately, the boomer's grandfathers designed our classification and compensation systems. They were designed to accommodate the environment that existed in the 1930's and 1940's. As a result, the systems are out of touch with the work being performed and the worker of today. We have a square peg and a round hole, and we know how well that works out. We will need to round off the edges if we are to have systems that "attract, motivate and retain" quality workers.

Changing job requirements. Jobs in the public sector have changed since the current classification model was developed. Many of you will recall that the computer was going to eliminate tons of jobs. We are not sure it did that so much as it redefined the types of jobs that we do have. It also allowed workers to become more productive.

Fewer people do routine work. Back when the current classification systems were developed, most jobs were defined around "routine" work. We even had job evaluation systems that measured the degree of routine-ness of the work and awarded points accordingly. (Now we have computers that will search through resumes to find "qualified" candidates! So much for people!). Utility meter reading can be done by automated systems. Utility billing and collection can be outsourced in much the same way that the private sector has outsourced their billing and collection functions. Instead of people who do the routine work, we now need people who can interact with outside organizations and have technical skills to manage the automated systems that do the routine work for us.

Another big change is that public agencies are now competing, in many occupational areas, for skills that are needed in other economic sectors.

Government work is becoming substantially more knowledge-based. As a result, competition for the shrinking workforce is coming from the private sector as well as other public agencies. We have a tendency to forget that approximately 84% of the workforce is in the private sector. Ignoring that reality will continue to cause public agencies difficulty in fulfilling their mission.

While there are probably other evolutionary changes, these are three significant ones that will challenge our human resource infrastructure.

Now, for the temporary changes.

The economy. Think of 2008 and regardless of how you think we got into the economic mess or what solutions would get us out, the stock market took a serious hit (down about 25%) from just the prior 6 months. The housing market was in the dumps, there were increasing layoffs, and each day seems to bring new shocks to the economic system. For government, this meant less revenue from property tax, sales tax, usage tax, income tax and every other tax or revenue source. Layoffs were occurring in both the public and the private sectors. We saw major cities reducing their staffing levels by substantial numbers. Governments at all levels were imposing hiring freezes. While there may have been more people available in the marketplace, they may or may not possess the skills that are required by the public sector. So, while we always talk about having to "do more with less", at this point, it really was less, a lot less. Something had to give.

The performance imperative. You have heard it before. Your Board wants to pay for performance. But you don't have a mechanism in place to do this or you have a mechanism, but it is not working well enough to justify linking it to pay. Or the ultimate challenge, you have unions that are philosophically opposed to the concept of tying pay to performance. Is this a temporary shock? We are not sure, but it usually causes a knee-jerk reaction and you can see it. Evolutionary changes are sneakier, and hit you later when you least expect it. Unfortunately, by the time you do get hit, it is too late to do much about it. Managing change is never easy.

A new President. Like it or not, a new President comes to office with a desire to change the current policies and practices. And even though this happens according to plan every 4 to 8 years, it usually means that priorities will change. There may be new programs or old ones will go away or change direction. You have employees that have served the prior needs. What do we do with them now? Fire current workers and hire new ones? Probably not. At least that is normally not the right solution.

When the republican administration took office in 2001, there was a major push to revise the rules governing the Fair Labor Standards Act regarding eligibility for overtime. In 2009, we fully expected to see the democratic administration push for greater employee favorable policies including eligibility for extended leaves, unionization, minimum wage increases, and increased health care coverage for employees (often at employer expense.) This, in fact, also happened along with revisions proposed to the Fair Labor Standards Act. We also see pushes to limit or curtail compensation levels in the private sector for people earning more than a certain amount of money. While the levels under discussion may have little impact on the public sector, they could impact certain positions such as University Presidents, health care executives and others that are critical but in very short supply.

All of these issues, and others, have already affected your classification and compensation systems. To us, they required that your systems become more flexible and adaptive to the changes. Are your classification and compensation systems capable of handling new stresses and forces that will be placed on them in the future?

Homebuilders in the Gulf States learned after years of hurricane destruction that they can build homes that are more flexible and capable of withstanding high winds and changes in air pressure, although they are more expensive. **Your classification and compensation systems should be flexible too. Now would be a good time to consider what you can do**.

Let's us go back to the evolutionary changes and how these will impact your classification and compensation systems.

Demographics. Obviously, we cannot change the realities of the shift in population. As current workers reach retirement age and elect to exit the workforce, our only option is to adapt our environment to the fewer workers that will be available. In essence, 80 million current employees will leave the work force and 50 million will replace them. No matter how you do the math, if you have, say, 8,000,000 titles used in all the organizations that are filled with 80 million workers, when you take away 30 million workers, some of those 8,000,000 slots cannot be filled. There simply will not be any workers to fill them, unless you change the definition of what a job is. Simple math.

This means we will need to develop a system of job titles and responsibilities that is responsive to the needs and expectations of the newer workers. While young people have historically felt the need to reach the top quickly, we do know that younger workers today have substantially different priorities than their parents and grandparents. Most studies indicate that younger workers are focused on personal, rather than career, goals. Classification and compensation systems that facilitate structured career growth and longevity are inconsistent with their value system. While this creates an inherent conflict when you have a mix of generations in the workforce, the evolutionary shift will soon force this issue as the younger workers begin to dominate the workforce. Unless the organization takes the initiative to adapt their systems in advance, the result will be increased difficulty in recruiting and rewarding employees. In addition, the rigid systems that were built for a former time and place will be unable to meet the current needs, thereby creating operational difficulties for organizations as they struggle with how to manipulate a rigid system. Quite frankly, most organizations will not have the staff or other resources to do this. We believe that organizations will spend more time manipulating the current rigid system than managing the people that do the work. When you have less revenue to spend on serving your constituents' needs, this appears to be a losing strategy. The result will be that the organization becomes less and less productive, further exacerbating the problem.

With fewer workers available to fill the slots that are available, we need to redesign the slots. If there are going to be 30 million fewer workers available than there are today, how can we find the people to fill all the job titles that we have. One way is to redefine the job itself. So, rather than have a Budget Specialist and a Fiscal Specialist, we will likely have to have a more broadly defined Finance job. The title is less important than how the job is defined. The new job will now be one title where those with the skills needed (accounting, finance and math skills) will be required to manage financial and accounting affairs. If before we had two people available to fill each job, and in the future we have only one person, which job should go unfilled? How about neither? Why shouldn't we redefine the job from the <u>tasks and duties</u> performed (as we do now) to the <u>role</u> of the job, such as "keeping the financial house in order?" The latter is more outcome oriented; the former is more focused on activities and less so on the outcome.

Work behavior. Current systems were designed to encourage and reward specialization. In today's world, flexibility is needed to allow employees the freedom to do different things in order to maintain their interest and achieve the desired outcome. In addition, commitment to the job and the organization are viewed differently than in the past. Organizations are also beginning to realize that there is both a need and value in cross discipline work groups where individuals are expected to work in different areas and disciplines than they may have originally trained for. We have seen incredible resistance to change from many employees and managers in organizations that have not recognized and adapted to these realities. Historically, organizations have gone out of their way to make employees feel good about their jobs. Classification systems were designed to give everyone the sense that their work was special and unique. Minimal differences in work warranted a new or special job classification. While this may have been acceptable and workable when we had pay structures with ratios of 10 to 1 relative to rates of pay for the highest level versus the lowest level employee, this simply does not work when the ratios drop to 4 or 5 to 1. The idea that every difference is meaningful no longer can be supported by a new job description.

Changing job requirements. Jobs have become substantially more technical requiring skill sets that were not needed in the past. Personal interactions have taken a different form with the advent of the Internet and e-mail. Communications that historically took place on a face-to-face basis are now accomplished through text messaging, e-mail, and video-conferencing. The skills to communicate in this manner were never envisioned when the current systems were developed. Other skills, like project-management, time management and self-management have become a requirement for most jobs rather than being reserved for only selected positions or levels within a job family. Being more versatile is now a requirement and not a luxury or option. Organizations are demanding that their employees be flexible in terms of work assignments given the rapidly changing workload. The classification plan must accommodate this flexibility or the organization will spend unnecessary time and expense continually dealing with classification issues. Having employees with multiple skill sets also puts a burden on the compensation program since it is becoming necessary to compensate people for what they bring to the job, and not just the core value of the job itself. This gets to the heart of the matter – what are we paying for? When the current systems were developed, we wanted to pay for countable, measurable tasks. Now, and in the future, we will want to pay for outcomes, not activities, regardless of how many hours or tasks it takes to get it done.

Current systems also reward longevity, not outcomes. Consequently, we have pay schedules that reward the employee for one more year of service (our current step plans) even if the employee has not improved, provided greater value or learned any new skill of value. We have vacation schedules that increase with seniority. We have defined benefit plans that literally chain workers to the same employers (after about 5 years) because of the vesting requirements that rest on seniority. While we don't necessarily think that these are bad, if we are going to keep and reward employees for the outcomes and the value they deliver to the taxpayers, then we ought to design jobs that recognize and use their talents. The newer employees are expecting to be compensated for doing the job (producing outcomes) regardless of how much "seat" time they have.

A solution. So, are there any solutions? What have others done? Is there light at the end of the tunnel, or should we just accept the inevitable and claim the solution is too difficult, and the forces of the status quo are too strong to change?

As we have said before, change does not come easily. It takes a certain degree of organizational will to make things happen. When resistance to change occurs, it is easy to step back and say, oh well, we tried but it just won't work here. When the change is essential for survival, you do not have that option. We believe this is where we are today or if not there, close enough.

Recently, a City with a population of under 100,000, restructured its classification and compensation program by consolidating more than 100 non-represented job classes into fewer than 20 titles and adopting a substantially more flexible pay plan. While that organization is not yet ready to move to performance-based pay, they have established a structure that will accommodate the flexible work requirements and expectations with alternative pay delivery mechanisms.

One of the most significant changes we have seen is the effort by a southeastern state. They had over 6,000 job titles for a work force of about 90,000 employees. Their system was like many in the public sector. It was organized around job families and in each job family there were multiple levels of highly defined, specialist job descriptions. Some families had 6 different levels. Some job families looked like other job families, but for a variety of reasons, there were job families for just about every minute and distinct activity that could be cataloged and described. In fact, there were three job families, each with several levels that were different only in the <u>location</u> in which employees performed their work! (Actually, we have found that this situation is not uncommon).

Further, their system rewarded time on the job rather than capability to get the work done. Promotions to the next level were based on seniority rather than competence and, as a result, there was confusion over the value of the job and its comparison to the competitive market. From time to time, the labor market shifted, and private organizations scooped up their best employees. The only way they could respond was to upgrade or reclassify the person to a higher paid job, or create a new job title that was built around the incumbent's skills and knowledge. So, each time there was a jolt to the system, they created more job descriptions. It was beginning to become a never-ending cycle.

Recognizing that they could not continue with such a system (many job titles simply could not be filled), they approached the problem years ago and decided to define jobs based on the competencies that they needed rather than the titles that they had. This required a concerted effort on the part of the management, human resources and the employees in the occupations. They designed a system that asked the departments two simple questions: What skills and competencies do you need to get the work done in your agency? How many of these units of skills and competencies do you need?

Then working with the employees, they designed a system of 10 occupational groups, (such as information technology, engineering and architecture, natural resources and scientific, administrative and management, etc.) Within the ten occupational groups, there were job families. Each job family had three and only three levels. These levels were defined by skills and competencies. At the basic entry level, they had contributing skills and competencies. At the fully performing level they had journey level skills and competencies. And finally, at the advanced level they had advanced level skills and competencies.

You will notice that they did not have four levels or five levels or more. There was not a Super Advanced, "Walks on Water" level or anything else. They had three, and three only. They were able to reduce the number of job families by 92%!

The result was that what makes up each level is based on the needs of the department. They defined what the skills and competencies were. The key here is that to get from contributing to journey or journey to advanced, the employee could get there though a variety and mixture of skills and knowledges that were <u>needed</u> by the department to accomplish their mission.

This is an example of the flexibility that we believe is needed for the future. Multiple skills, multiple ways for employees to apply those skills to achieve the outcomes desired and fulfill the <u>role</u> needed. It is a far more flexible definition of the job; it is more appealing to the younger workers and simplifies administration. There are no more games, or manipulation of the system.

The description of the <u>role</u> of the job was broad and defined by the skills and knowledge needed rather than by the amount of time in prior jobs, the duties and activities performed or the amount of time spent on those duties. They were defined by the simple question, what adds value?

Now, we could go on and on about this, but here is the point. On all measures of performance, this program works. For example:

1. Turnover is down.
2. Better qualified candidates are hired.
3. Grievances are reduced or eliminated.
4. Reclassification requests are substantially reduced.
5. Pay is more competitive with the market.
6. Payroll costs are less than under former systems (less manipulation).
7. Employee morale is higher and job satisfaction is improved.

Is this a panacea to all of the evolutionary and temporary changes? Of course not. But, the evidence suggests that this organization worked to meet the challenges. By doing so, it also attempted to protect itself from temporary shocks with a system designed to weather the storm and absorb the stress.

If you are not assessing your system now to make it more flexible to meet the challenges, you should be. You will be better prepared to manage the unexpected when it occurs. And, your limited resources will require you to adapt to the change that is coming.

In this era of economic uncertainty and shrinking public revenue sources, moving toward a broader classification structure and/or utilizing broadband pay strategies provides the flexibility necessary to manage with more limited resources.

This article was published in January 2009. It was updated in December 2016.

THE NEW NORMAL – THE SEQUEL: IMPACT ON JOBS AND EMPLOYEES

In February 2009, we wrote an article on what we thought the "New Normal" would be for classification and compensation management in 2011 and beyond. We have subsequently received numerous comments from HR professionals that read the article. Virtually all of the comments were positive in the sense that people felt that we were accurately predicting the future (now if we just had a crystal ball that would tell us which stocks were going to go up, we could make some serious bucks out of this.) In this article, we will focus on changes to jobs and employees in general; but these changes will directly impact the classification and compensation systems that have previously discussed.

And, while you may think that 2009 was decades ago, we have found that this topic still resonates among many audiences who are trying to make their pay systems reflective of the new order, whatever that is. Read on.

One of the comments we received in response to prior articles was even more direct and to the point. Basically, this person stated: "A tidal wave of change is coming much faster than most realize and I'm afraid many of them are going to get sucked away by the force. City managers and HR professionals need to be on top of the issues and begin to lead in their own organizations. My sense is that the HR folks have not fully embraced the change that's coming. Yet their employees are looking for leadership. It seems the city management leaders are getting it, but if the HR professionals don't jump into the conversation, they are going to be left behind." In fact, they went on to say, they might be viewed as stalwarts – unwilling to accommodate the "New Normal."

We are starting to see improvement in the overall economic climate around the country. Surveys are showing that private sector employers were anticipating pay increases of about 3% for 2011 (and this is still true for 2017); yet we know that not all employers or all segments of the workforce are seeing the same level of improvement. While the private sector has made slow but steady improvement, cash strapped cities, counties and states really felt the pain. And those companies that serve the public sector also struggled along with their clients. Until property values rebounded in the 2015-2016 time frame from the economic downturn (we predicted to start occurring in 2013), many areas of the country experienced property tax revenues waning. Sales tax revenues are improving, albeit slowly. We saw and are seeing very difficult times ahead for the public sector as evidenced by major budgetary shortfalls in states like Wisconsin, Arizona, Michigan, Ohio, Texas, New Jersey, Florida, Illinois and California. In addition, because salaries make up a proportionately larger segment of local government budgets than state and federal government budgets, the odds are that any economic hit will be proportionately greater.

The labor department recently reported that in January 2011, local governments shed about 10,000 jobs bringing the total to 236,000 since December 2007. Since about 64% of the country's 22 million public sector workers are employed by local government agencies, things will change dramatically. For example, in Arizona, the Legislature was seriously discussing eliminating substantial amounts of funding for education at all levels including community colleges and the universities in order to balance their budget. Talk about kicking the can downhill!

Of course, the federal government imposes unfunded mandates on states and the states have never been shy about imposing similar unfunded mandates on local governments. Now, in addition to the mandates, they are simply pulling the economic lifeline that local governments have relied upon to provide both essential and mandated services. As a result, local governments must decide whether to continue providing the same type and level of services that they have been providing or whether they need to increase taxes and fees to pay for these services. In most cases, it will be a combination of things. Local governments will continue to provide most of the services but the way the services are provided will change. We see substantial change in the way the work will be performed. Jobs, out of necessity, are being combined and positions will be performing work that was previously performed by others but not necessarily those who were in the same job classification or who have the same skill sets.

One large city combined the jobs of the Police Chief and the Fire Chief to oversee and manage all of the public safety functions in that city. Years ago, any city manager that tried to do that would have been fired (although that might have also been the result of trying to combine the two functions into one.) If the leadership of the two most essential government services can be combined, every other job in the organization is up for grabs.

Most of us have heard the expression "the perfect storm." Well, that may very well be applicable to what has brought the public sector to the New Normal. Simply stated, the recession caused government revenues to plummet. The recession caused the value of assets held by pension funds to drop significantly resulting is substantial unfunded liabilities to fulfill the pension obligations. Unemployment in the overall labor market surged but the cost of goods and services purchased by the public sector did not drop to the same degree that the price of consumer goods decreased. Add it all up and we are where we are. Public agencies that do not deal with the realities of the New Normal are, in our opinion, doing themselves, their employees and their constituencies a grave disservice as the problems will not cure themselves and, in reality, will likely get worse. We do not believe that anyone wants to see individuals lose their jobs or benefits that they have acquired over time. Unfortunately, the New Normal says that we cannot always have what we want.

Positions are going to be eliminated, regardless of whether they are filled or vacant. Jobs are going to be combined. The organizational hierarchy is in for another round of flattening all because we simply cannot continue to operate as we have in the past. If you thought a normal span of control should be about 7 subordinates, watch what is coming. The body politic is demanding that public agencies change the way they operate. The general public is saying that they cannot afford to pay for the organizational structures or the benefits for public employees that they themselves do not enjoy. Regardless of the political rhetoric that is being expended by elected officials on both sides of the political aisles, jobs are going to change since there will be fewer employees to do the work. Salary levels may increase to some degree, because the survivors will be exceptionally talented at managing the change and increasingly combined functions, but the overall ratio of pay within public agencies (the relationship of the highest paid employees to the lowest paid employees) will not increase substantially. The only conclusion that we can draw is that work will change. This means that organizations that fail to adapt their compensation philosophy and strategies to the New Normal will continue to struggle as the changes are literally forced upon them. They will be trying to force the proverbial square peg into that ever-obstinate round hole. It can only be done when you adjust the hole, because the peg isn't likely to accommodate any time soon.

What all this means in clear language is this: if your classification and compensation system hasn't been remodeled in the last 30 years (heck, even 10!) then your system probably is not flexible enough to handle fewer and fewer jobs that are defined by a single function, (i.e., planning, engineering, finance, human resources, IT, etc.) Just like those in HR struggled to figure out how to classify those individuals that worked in HRIS, the future will offer up jobs that combine diverse functions, like HR and finance, inspections with fire, planning with recreation, and others we can only imagine. Functional job descriptions combined with a classification and compensation system that supported narrowly defined jobs may have worked 10, 20 or 30 years ago, but we believe that such systems will not be able to keep up with the variety of hybrid jobs, the change in supervisory layers and fewer distinct, single purpose jobs. So, again, if Police and Fire Chief positions can be combined successfully, then every job in the organization is an eligible candidate for combination. Sure, in smaller governments this sort of system may already exist because a full-time function cannot be supported. Some employees wear many hats. (Oddly enough, these organizations seem to have the best connections with their communities). But, can you imagine in your organization of 500 + employees how you will handle these sorts of combinations, if your classification system currently struggles with the minute changes that employees and supervisors bring to your desk everyday looking for a new title or a reclassification because the job has "grown?" Our guess is that it can't, or if does, you will have shoehorned every job sideways to get it to work. But you know that in the end, the old system that was put in place by your predecessor simply is not working in the New Normal.

In short, it is time to fix the system that doesn't work and will not work with the change that is coming. Make it simpler, more flexible and adaptable so that it can support the changes in jobs and organizational structures that we will be forced to operate in.

The New Normal IS here. Now is the time to seize the opportunity to do the things that are necessary for public agencies to thrive in the months and years ahead. It is both possible and doable.

This article was updated in December 2016.