CHAPTER 16

TRADITIONAL PAY IN PUBLIC ORGANIZATIONS

Should We Try Something Else or Try Doing It Right?

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Around the beginning of the new millennium there was a plethora of articles, papers, case studies, and success stories about what is called the "New Pay." This was a welcome development because traditional job-based classification and pay systems had been written off as inadequate and dysfunctional. Job evaluation, pay structures with grades, ranges, midpoints and other control mechanisms, bureaucratic rules and approval processes, and entitlements such as COLAs and step increases were seen as relics of the industrial-age organizations of the past. Practices such as broad-banding, performance-based pay, skill and competency-based pay, individual and group incentives were said to be more compatible with modern, delayered, strategically focused customer centered organizations. It seemed that the New Pay offered cities, counties, state and local agencies, and other public sector organizations a way to efficiently and effectively manage the one human resource activity that never seemed to accomplish its purpose and was generally viewed with disdain by the executive leadership, line manag-

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ers, and the employees themselves. Unfortunately many things proved not to be what they seem and the New Pay was no exception.

NEW IS NOT NECESSARILY BETTER

In the first place, among all the techniques, methods, and approaches that were identified with the New Pay, the only thing "new" was broad-banding. As the term suggests, all grades in a structure are collapsed into three or four bands. Typically individual pay administration is decentralized to line managers so they will have more flexibility in responding to market pressures and in implementing techniques such as job-sharing, self directed work teams, and job rotation necessary to increase efficiency and satisfy customers. In practice, however, broad-banding was certainly no panacea and in many cases the unintended consequences outweighed the benefits, especially when organizations replaced traditional pay structures with broad bands without regard to the work flow, culture, and objectives of the organization. The approach is best suited for agile, entrepreneurial, delayered organizations that must constantly innovate and adapt to external conditions. Undoubtedly some government and public sector organizations have successfully implemented this model and while others say they have, it would likely come as a surprise to their employees, lower level managers, and customers who don't see things being done any differently. The fact is, most public organizations are hierarchical, job-based and departmentalized and the nature of the work remains rather stable over time. In other words, even when the leadership talks a good game they retain most features of the industrial-age model. Discarding a traditional pay system along with the techniques that have become associated with these systems in favor of an approach that is new and different can cause more problems than it cures. As an illustrative example, let's say a patient was diagnosed with a disease and referred to a surgeon for a procedure (a "technique"). Unfortunately the surgeon was not skilled in performing the procedure and botched the operation. The only alternative was (as they say in the OR) to "go in again" and do the procedure over. The patient might then abandon traditional medicine in favor of a radical new therapy but a better idea might be to locate another surgeon, preferably one who has performed the procedure many times with few complications.

IN PRAISE OF TECHNIQUES

During recent years the term "technique" has fallen from favor in HR circles and is now used mainly as a pejorative, especially in regard to pay. The technique-based approach is associated with pay systems from the bad old days before the advent of strategic management. Many were bureaucratic and reactive and functioned in such a way that following procedures was more important than facilitating the accomplishment of objectives. But techniques have been over vilified in this regard, because they are no more than methods used to achieve some end. All techniques work in an "if-then" fashion. For example, Expectancy Theory supports the idea that *if* an organization offers its employees a merit raise of up to five percent for above-standard job performance, *then* its employees (electricians, for example) are more likely to strive harder to exceed standards than they would be if everyone receives an annual pay increase (e.g., "step raise") regardless of performance. However, other behavioral theories point out that the level of job satisfaction also influences behavior. Employees who are dissatisfied because of low pay are likely to be absent, be late, quit, etc. If Mary Jones, a journey-level electrician for the city, is earning $15.50 per hour and electricians with the same qualifications are being paid $17.00 per hour (10% more) by other employers in the relevant labor market, she is probably more inclined to look for another job than to work harder for a 5% raise. If pay across all jobs seriously lags the market, the technique of making an across-the-board adjustment would be in order.

It follows that for an organization to administer pay to electricians according to these (and other) theories, pay grades for the various levels of electricians (e.g., helper, apprentice, skilled, journeyman) must be connected to the pay for electricians in the relevant labor market. This, of course, is accomplished with pay policy lines, pay grades, ranges, and midpoints, which taken together, make up the pay structure. But it would not be practical to develop a pay structure just for electricians, so the pay grade will also contain other jobs in which the nature of the work and skills required follow similar progressions, such as occupations in the building trades. Since, all these jobs are affected by the same market forces, determining the average market pay of what are known as "key jobs" provides a reasonable estimate of the market pay of all other jobs. Thus the pay structure is more than a means of grouping jobs for pay; it is a framework for making informed decisions in choosing techniques that accomplish our purpose. This will involve selecting techniques of job analysis and documentation, techniques of job evaluation, techniques of obtaining and analyzing labor market data, techniques of statistics, techniques of determining number of grades, and techniques of constructing midpoints and grade ranges.

A SOUND AND LOGICAL PAY STRUCTURE: THE FOUNDATION

The executive leadership should be clear regarding policy issues such as what type of workplace culture should be reinforced, how compensation dollars are allocated between pay and benefits, what factors are to be rewarded in individual pay systems, etc. These are guiding principles for the design of a pay structure. But regardless of what these guiding principles are, a pay structure is still the result of a process that includes establishing an internal hierarchy of job worth by analyzing jobs and conducting job evaluation, determining the pay of similar jobs in the relevant labor market through the use of sampling techniques or secondary data, and constructing a pay structure of grades and ranges. Each of these steps involves techniques that must be carried out correctly if the resulting pay structure is to facilitate the administration of pay in accordance with policies. The following sections discuss how the process should work and how errors caused by incorrect assumptions, unreliable data, improper selection, and application of techniques are cumulative and will result in misalignment, excessive variability, built-in obsolescence, and often all three.

Job Analysis

Technically, job analysis has no direct connection to the pay structure but we would argue that this is where it all begins. For both jobs and work structured in other formats, we should have accurate information on tasks performed and worker requirements. This is why many job analysis projects are conducted as part of a pay study. Because less information is required to document jobs for pay than is needed to support other HR activities such as selection, performance appraisal, and training there is a tendency to use questionnaires to collect information. This is especially true of consultants, who have questionnaires that are the ultimate in effectiveness, but are actually knock-offs of the Position Analysis Questionnaire (PAQ). The quality of information from this method is suspect at best, even with the well-respected PAQ. Office and administrative employees will often overstate the importance of their work, the education/experience requirements or both. One reason people take jobs in labor and trades is because they would rather work with their hands than write and many purely hate to fill out questionnaires. Accordingly they are inclined to provide incomplete information or throw them in the trash. Going on site, observing work being performed and interviewing experienced job incumbents and supervisors is still the only effective way to determine what employees actually do.

Job Evaluation

There are a number of procedures used in job evaluation of which the most common are various point factor plans that purport to measure the value of a job by rating the degree of the "universal factors" of skill, effort, responsibility, and working conditions contained in the job. The validity of such ratings is a matter of opinion and varies widely. To some writers and consultants they are the gold standard, while other authorities contend they are useless. All point factor plans will produce a continuum of jobs from "most valuable" to "least valuable;" however, the number of points assigned to a job is at best a reasonable approximation of its value. Point plans are not "scientific" because they are based on the factors selected and weights assigned by the designer of the plan. No plan can really be ascribed as "best," (despite the claims of consultants), nor even better than another because this implies there is some standard of job value against which to measure the validity of the ratings. If such a standard existed, we would not need to evaluate jobs in the first place. Still, job evaluation is a useful technique for establishing an internal hierarchy of jobs, determining the number of grades needed in a structure, and especially "slotting" nonbenchmark jobs into the appropriate grade.

An acceptable job hierarchy should satisfy two criteria: Jobs should be properly aligned both from most to least valuable and in relation to each other. Where the work content of the jobs is similar, such as a group of clerical jobs, the process is quite straightforward and satisfying both criteria, is accomplished by carefully selecting and weighting compensable factors. Many job evaluation plans now in use were developed years ago and have not been updated to account for changes in jobs. This is particularly true for "high end" clerical and administrative support jobs. The advent of the electronic office has greatly enhanced the content of these jobs through both horizontal and vertical loading. In fact in many jobs with titles such as executive secretary and administrative assistant more content has been added than existed when the jobs were created. It is not unusual to find incumbents managing large databases, performing sophisticated statistical and financial analyses, developing advanced spreadsheets, making major decisions and the like. When the content of such jobs are undervalued, this carries through to the market analysis (below) and creates a systemic inequity in the resulting pay structure. The fact that most of these jobs are held by women undoubtedly contributes to the unexplained pay gap between the pay of women relative to the pay of men.

As the work content of jobs becomes more varied, the greater is the difficulty in comparing them. Although some plans claim to measure all types of work on the same set of factors, for example, compare library technicians to electricians, ratings from these plans do not represent the best estimate, or even a good estimate of internal job value for either library technicians or electricians, and neither criteria is satisfied. This is because the factors that distinguish among levels of library technicians include educational level (typically expressed as H.S., one year of college, associate's degree), skills in organizing and managing information, computer skills, interpersonal communications skills, and accountability for library resources. These factors are not important at all for electricians; rather such factors as training (typically on-the-job and/or apprenticeship), manual dexterity, hazards, working conditions, and responsibility for equipment, materials, and safety are more relevant. It is a basic principle of measurement that when items are evaluated, classified or graded on a set of attributes, the more the scale points of the instrument of measurement are operationally defined in terms of these attributes, the more accurate will be the results. The old saying that you can't compare apples to oranges holds true for any group of things that are arranged in a scale of ranks, and yes, that includes jobs. This idea, however, receives little support in the public sector in favor of comparable worth, an appealing concept, but one that neither its advocates, nor compensation professionals, nor the courts can either define or measure.

Market Analysis

Accurate market information is necessary to ensure that pay levels are competitive with those offered by other employers who use the same skills in the relevant labor market. Reliability is increased, by collecting pay data on jobs that have a well-known content. Journeyman electricians, police patrol officers, and entry-level accountants are jobs likely to have a close match in the relevant labor market. On the other hand, the content of jobs such as financial assistant, event coordinator, and building maintenance technician differs greatly from one employer to another. The variability in data on these jobs would depress the actual relationship (expressed by the statistics r and r-square) between market pay and ratings from job evaluation and we would be better off not having it at all. A related issue is that jobs with well-known titles do not always facilitate labor market matching, particularly in certain clerical and administrative support titles (administrative assistant, executive secretary, etc) discussed above. This is because many employers use these titles for jobs that mainly involve answering the phone, entering data, producing documents and performing similar routine clerical services, causing market pay to be underestimated for jobs with much more substantive content. While matching an undervalued job with underestimated market pay makes for a good "fit," it creates another "glass ceiling" that can be as pernicious as the better known version that impedes upward mobility.

The next task is to estimate the pay for these jobs in the relevant labor market. Some markets are more relevant than others. For example, the market for the job of police chief in Montgomery, Alabama consists of cities the size of Montgomery in the Southeast. The market for city engineer would also be the Southeast, but would include consulting engineering firms, state transportation departments, and many other organizations that employee senior civil engineers. The market for police patrol officers would be all cities in Alabama and border cities in neighboring states. For the job of master mechanic, the market would be all automotive repair shops within commuting distance of Montgomery. Yet in analyzing the market for jobs in local governments and public organizations the focus is more on pay in similar public organizations in a geographic region with little regard whether or not the data represent matching jobs in the appropriate labor market. For example, a municipal utility that was experiencing excessive turnover among journeyman line repairers, service technicians, and related titles adjusted its pay rates based on data obtained from other municipal utilities in the state, although the employers that competed with them for these types of jobs included both an electric cooperative and an investor owned power company that operated in the same area. The Director was surprised that the better employees continued to leave for higher pay in these organizations even though their pay rates were set at "market levels."

But even carefully selected benchmark jobs and correct identification of the various labor markets are no guarantee of a good estimate of the "true" market pay. While common practice is to design and conduct a pay survey of selected employers, this seemingly simple process is much more complex than it seems except where it is possible to collect information on the total population. For example, the average pay for the job of water filtration plant operator could be accurately determined by contacting each of the relatively small number of water systems that would typically be found in a local labor market. However electricians, are employed by many types of organizations, and we have to rely on a sample in order to estimate the average pay of all organizations that employ electricians, likely in the hundreds or even thousands. Whatever confidence we can have in the estimate depends on how the sample is drawn. A proper or random sample is one in which, all individual measurements in the population are equally likely to be included. Any other sample, such as one in which employers are pre-selected, is biased and we can have little confidence in our estimate of average market pay. A discussion of statistical theory is beyond the scope of this chapter; moreover there are many other factors involved such as determining the relevant market, ensuring the quality of data collected, and analyzing and interpreting the results. In most cases an organization would be much better off using government data (for example, state counterparts of the U.S. Department of Labor conduct pay surveys using the statistical methodology of the Bureau of Labor Statistics), and/or retaining reputable firms who provide this service for a fee.

Pay Structure Development

Ideally a pay structure should balance a pay hierarchy based on internal job worth with one that is derived from the pay of key jobs in the relevant labor market. The technique used in most cases is to let Y represent market pay of key jobs and let X represent internal value expressed in job evaluation points and determine through the statistical technique of regression a “line of best fit” and an estimating equation. As was discussed above, evaluation plans designed for specific job categories produce the most accurate ratings. When the plan purports to measure the value of unlike jobs, the data points will be widely dispersed around the regression line because for some jobs the points are “too high,” while for others they are “too low.” Thus while the line will trend upward, it will estimate market pay for a “blend” of occupational groups rather than for any one group. As an illustrative example, a regression equation would reveal that blood pressure is strongly correlated with age. Therefore we can obtain a rough estimate of the blood pressure of an individual by entering his or her age in the equation. However, the average blood pressure of males is higher than for females at any age (In this case the “blood pressure gap” favors women). It follows that our estimate would be much more accurate if separate equations were developed for males and females. This is, of course, why charts that indicate “normal” blood pressure are based on age and sex. When unlike jobs are allocated to a single grade structure we can expect to find jobs in which the range minimum is at or near market level while others in the same grade that will become “topped out” well short of reaching the market pay for the skills required.

Different occupational groups are affected by different market forces. A slowdown in construction, for example, will tend to dampen or even stall increases in market pay for jobs in the building trades. As we know, the events of 9/11 resulted in an increased demand for air marshals, security guards, explosives experts, etc., which caused upward pressure on pay for jobs in law enforcement. Even if grade ranges initially capture a "blended" market line the actual lines for different occupational groups will immediately begin to diverge. Within a short period of time, the grade midpoints, which are the control measures for maintaining market alignment, will become meaningless. Moreover, grade assignments determine which jobs are deemed approximately equal in skill, effort, and responsibility can be assigned to the same grade. These are the factors set forth in the Equal Pay Act that define equal work and all such jobs must receive equal pay unless justified by seniority, merit, etc. When unlike jobs are grouped in the same grade the organization no longer has a market defense against charges of paying males and females differently for performing "equal work," and creates for itself legal liability where none existed before.

The grade structure may be correctly aligned internally and with the market, but not designed to reinforce the desired workplace culture. A pay structure with many narrow grades promotes specialization and upward mobility. But suppose the organization wishes instead to expand job boundaries and encourage team performance. Narrow pay grades actually impede accomplishment of this objective, that is, "I don't get paid to perform that task," or "It's not in my job description." A pay structure with fewer and wider grades would be more appropriate in the situation described. Finally, a pay structure that is compatible with one occupational group is not likely to work as well with another occupational group. For example, the range of pay covered by the correct number of grades in a clerical series may not fit a progression of equipment operators.

SO WHAT DOES ALL THIS MEAN?

All this doesn't mean very much if pay in public organizations facilitates the accomplishment of strategic objectives, decisions made, and actions taken are logical and consistent, transparent, and legally defensible (distributive justice), and employees perceive that classification of jobs and administration of pay to individuals are fair (procedural justice). Both observation and informed opinion suggests that this is not how things are. Then, why are things not done this way? There is little evidence that traditional pay systems are the problem. These systems can be quite effective when they have logical grade structures, unambiguous classification plans, accurately track labor markets, have pay ranges appropriate to the type of work, etc. They facilitate implementation of pay-for-performance, incentives (at-risk pay) and other innovative approaches in many kinds of organizations including government and related entities, although this is the exception. It is also the exception in the private sector, where pay administration in general is no better, and often worse, than in counterpart public organizations; in any case no model of effectiveness. This suggests that the problem is that pay systems are poorly designed and managed, rather than flaws in techniques that have been available for many years. Possible explanations for this sad state of affairs and suggested means of improvement are presented below:

Disconnect Between Strategic Objectives and Pay Programs

Public organizations are now engaging in strategic planning and establish strategic objectives in such areas as service quality, customer satisfaction, cost effectiveness, and so on. However, in many cases the compensation philosophy is "business as usual" with little regard to how the pay system might contribute to what the organization wants to accomplish. These organizations are not rewarding employees for doing what they want them to do and may be rewarding them to do what they don't want them to do.

The involvement of the HR manager in deciding appropriate strategies to facilitate the organization's mission and goals is important in all activity areas of the HR function (recruiting, selection, training, etc.) but arguably the most critical area is compensation. Because of this the HR manager should report to the chief executive officer of the organization; that is, "have a seat at the table." Although it is not unusual for the HR manager to report to another executive (such as the finance director) this tends to relegate the function to a secondary role in support of another staff function rather than the total organization. For example, the finance director might focus on the need for financial metrics such as actual pay versus pay in the relevant labor market or return on investment in a skill-based pay program. While such metrics are needed to justify the HR budget they do not address what the policy should be regarding whether to lead, lag, or match the market or whether skill-based pay is appropriate, given certain strategic objectives. At best the objectives are filtered through another level of management; in the worst case they may not be communicated at all.

Poor Foundation in Compensation Theory and Practice by HR Practitioners

A pay system that facilitates strategic objectives still requires carrying out a set of techniques; however, some compensation managers see little need to learn their nature, function, and application when they can hire a consultant. Not knowing the basics of design and development of pay systems (i.e., techniques) means not knowing what to require in the consultant's proposal and not being able to evaluate the quality of the product. Not insignificantly, it also means that the compensation or HR manager manages what he or she does not understand. In contrast, a city engineer is likely to have a degree in civil engineering, a curriculum with two courses in land surveying along with certification as a professional engineer (PE). While said engineer is not likely to be seen carrying a transit, climbing hills and walking through swamps to lay out a street, he or she is perfectly able to accomplish that task or to look at a route map derived from GPS data and understand where the numbers come from and what they mean.

Addressing this issue is more difficult than it might seem. It is intuitive that an individual who manages the activity should possess substantial knowledge in compensation theory and practice. The question is: Where is this knowledge available? It is probably not in a public administration curriculum. Most such programs require one course in "public personnel administration," which is strong on history and philosophy and weak on the basics of most activity including compensation, which in many cases would be better left alone entirely. One will not do much better in the business college, either. While there will be a listing for a principles course in compensation, areas that have applications in the real world are not attractive to faculty who need to publish arcane articles in prestigious journals to earn tenure and get promoted and the person who gets assigned to teach it is often one chapter ahead of the students.

The best approach is likely an individualized professional development program involving academic courses, self-study and experiential learning. In regard to coursework, there are many options including local colleges and universities, many of which offer evening division programs, correspondence courses and distance learning. The qualifications of the instructor are more important than the institution he or she represents. In general, any faculty member who possesses the needed expertise in compensation has a record of publications in both scholarly and applied journals. Such faculty members are much more likely to teach at the graduate level. Self study is also a very useful beginning by carefully reading a text by an author with unquestioned standing in the field. George T. Milkovich is a name that comes to mind, but there are others, of course. There are a number of journals in the field of compensation but in order to separate the 20% of articles with useful content from the 80% that have no application in the real world, one should have comprehensive knowledge of the field. Attending seminars and workshops offered by professional societies and universities is a good way to build and update knowledge. Finally, a background in college mathematics and statistical methods is necessary to understand and apply various quantitative tools and techniques.

The Consultant Mystique

Pay consultants come in many shapes and sizes with one thing in common: They usually advise replacing the organization's broken-down, obsolete pay system with their model that incorporates strategic compensation, total rewards, employer of choice, best practices and other terms in vogue along with a slide show complete with three dimensional charts, impressive graphs, and flow charts with arrows presented to members of the executive leadership who don't have the slightest idea what any of it means. But all too often what hides behind the curtain of PowerPoint presentations and four-color brochures are smoke, mirrors, and boilerplate. The consultants' study will show that 80% of jobs are paid below the market and/or are misclassified. At the end of the project the organization will receive (along with a large bill) a new system that increases the pay of virtually all employees (the 20% who got overlooked will be taken care of in the appeals process). The new system will contain the same design flaws that plagued the broken-down, obsolete system it replaced: flaws, which will become apparent when the pay increase wears off.

The above observations should not be construed to suggest that compensation-consulting firms in general are not competent to design and develop pay systems that both employ sound methodology and contribute to strategic objectives. However, the consultant must first understand exactly what kind of pay system best meets the needs of the organization. The key to this is the request for proposal (RFP). The document should be very specific, for example, as to number of structures, factors that will be used in evaluating jobs in various occupational groups, how the organization wants to position itself with regard to the labor market, the minimum acceptable level of "fit" between internal evaluation and pay in the labor market, considerations in determining numbers of grades or bands and grade ranges and what level of grade documentation is required (e.g. overall definitions or within series of classes?). The consultant should also be required to submit names of organizations for which similar work has been performed and work products. At a minimum this will be a useful tool because firms without the necessary expertise will not submit proposals.

The point here is that the consultant is not hired to decide what the organization needs, but rather to determine what the organization requires and deliver precisely that. The old saying that "war is far too important to be left to generals" applies here as well: Organizational pay is far too important to be left to consultants.

CONCLUSION

Many writers and compensation authorities will disagree with both the premise and conclusions of what the authors have presented. Some may go even farther and suggest that we have unfairly blamed the executive leadership of public organizations, compensation managers, colleges and universities and consultants for the problems involved in pay administration, even though we fit in several of those categories. Well, in our own defense we didn't say all of the problems, because we didn't even cover how things go wrong in the administration of pay to individuals. Also, in placing blame we used qualifiers such as "some," "typical," and "often," (and included ourselves). And finally, we can all contribute to the solution, which is a great deal more rewarding than being part of the problem. But be that as it may. We have said enough to offend practically everybody in the field and should save anything else for another time.

But let us make one final point. Possibly we can all agree that in the final analysis what matters is that employees are paid fairly. Since perception is as important as reality they must also perceive that they are paid fairly or at least understand why their pay is what it is. To learn if this is the case we need only to ask Mary Jones, the journey level electrician who was looking for another job when we last heard from her. Since that time a new pay plan has been implemented and Mary got a pay increase, which closed enough of the gap between her pay and the market that she decided to stay (although she wonders why library classifications, which already had the highest pay in the area, received a similar increase). But now Mary believes that the pay of electricians has again fallen below the market because she heard that a construction company recently hired an electrician with her qualifications at several thousand dollars more than she is earning. This is unconfirmed information based on a sample of one, but it is very real to Mary. Explain and illustrate to Mary how the pay of electricians in the organization compares with the pay of electricians in the relevant labor market. Then explain how her pay was determined, given her position in range, length of service, job performance and related factors. Since she is a female in a male dominated occupation you might want to show her the result of the recent pay audit that shows there is no disparity between males and females in her grade that is not accounted for by seniority, merit or other factors not based on sex. If Mary leaves with a clear understanding that all things considered, she is being paid fairly, please let us know as soon as possible, so we can make necessary revisions to this essay. If not, then we rest our case.

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