

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 execu-

utive 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 organizational uniqueness of your own organization.

You say, what does all that academic mumbo jumbo mean? It means simply this: You are looking at the market data and judging how that makes sense in your organization. Your organization likely has a different organization 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, 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’ 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 have 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!

*The Comp Doctor™ is the team of Jim Fox and Bruce Lawson of Fox Lawson & Associates LLC, a compensation and human resources consulting firm that specializes in assisting governments in fixing their compensation and classification systems. They are seriously irreverent about their specialty. You may find them on the Web at www.foxlawson.com. If you have a question you would like to have them answer, please write to them at jfox@foxlawson.com or blawson@foxlawson.com. They will try to include it in the next issue of Comp Doctor™. —*N**

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