

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 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 Fox Lawson 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 more than 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 hires 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.

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 irrevocable 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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