Comp Doctor™

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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 just did a market study and found out that these jobs are so drastically overpaid relative to the market; 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.

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.

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.

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.

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.

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.

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