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Question: I am struggling with the management of the compensation plan in our agency. We have had a complete turnover at the top of the organization over the last two or three years, and the new leadership team wants more authority to make pay decisions. They do not want to have the HR department review any pay decisions they want to make up to the midpoint of the pay grade. I am concerned about maintaining fairness, consistency and pay compression (as stated in our compensation plan) if human resources is not providing agency leaders data to help them understand the potential consequence of the pay decision they want to make. The compensation plan requires that human resources be consulted and provide professional advice prior to the making of a final pay decision. For the most part, administrators are not following that policy, and human resources does not have the authority to block or overturn actions made by the leadership team, however. Can you provide any guidance on how to help the leadership team understand the potential impacts of their acting autonomously?

CompDoctor: Wow!

Managers actually making decisions without input for the HR department? How can that happen?

Actually, this is not unusual, and you should also know that you are not alone. Also from what you have described, we think you have a couple of options.

Before presenting those options, though, 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 midpoint of the applicable salary range or grade. In systems that use the market rate as the midpoint or control point of a salary range, accountability is transferred from human resources to the appointing authority since the basis for control is the budget rather than the personnel system. However, human resources 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 your HR department does not have the authority to override decisions made by your agency's senior managers, we think that you have the obligation as an HR professional to give the managers as much information as you possibly can so that they make the best decisions they can. That means, in simple terms, that you have a professional duty to give the managers information on market salary ranges, the agency's overall pay structure and the jobs that are assigned to each range or grade, as well as the reasons why the classifications are in place. If you know which pay grade the managers are thinking of for any particular job, you can give them a list of employees currently in that pay grade along with those employees' job titles, tenure and performance data.

In other words, since you cannot review the leadership team's actions, then you have to give senior managers access to the information that you would use to make a recommendation regarding compensation if you had that authority to do so. This may need to include a history of the job or the incumbents that may influence the decision. After you provide this information to your agency's leaders, you have to hope they make the right choice. The managers clearly retain the right to ignore the information and make any decision they feel appropriate, however. HR purists have no option, then, but to accept the fact that uninformed decisions are not, in and of themselves, illegal.

If you have the opportunity to voice an opinion before the decision is made, you need to explain why you hold your particular opinion and be prepared to objectively describe the downsides of their chosen course of action. You will also need to advise managers against violating any applicable personnel laws and to lay out potential outcomes if illegal actions are taken. Last, you will need to make and retain a written record of your recommendations and advice so that in the event the managers' decision goes sour, you have evidence that you fulfilled your role as an expert and

ethical advisor. While uninformed decisions are not necessarily illegal, they can have unwelcome consequences for those in an agency who can be made to take the blame for them.

If it appears that managers want to ignore you altogether and that their decisions violate state or federal law, then you have a whole new set of problems. You may have to become a whistleblower. We, of course hope 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. You operate in a very public environment where every action is visible and most every employee knows what every other employee is paid. When pay compression does occur, agency managers, if they are at all concerned about their credibility, need to communicate very clearly and often to the current employees why they are doing what they are doing.

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 with greater experience who may be paid less than a newcomer. In fact, current employees may have to train newcomers, which can exacerbate morale problems, lower productivity and, in general, create a sour working environment. In some cases, adverse impact on current employees may result.

What often happens with new employees is that they are not as good as hiring authorities think they will be. Buyer's remorse is not uncommon when it comes to recent hires, and it may seem that an agency has overpaid for unrealized talent and lower-than-expected performance. If that is a fear, you might suggest that your agency's managers typically hire new employees at a lower rate and then quickly increase high-performing employees' pay up to the level where they initially wanted to hire the employees. Fortunately, you are not managing a professional sports fran-

chise where the norm is to overpay for unproven talent.

Pay compression can be severe, and it is nothing to be cavalier about. We had one college client with 2,000 employees where pay compression was particularly severe because no one was following the pay policies. As a result, employee morale was terrible. The chancellor was receiving complaints daily, and the board was hearing the same things. When the college's leaders finally got around to fixing their new employee compensation problem, it cost them nearly \$10 million. To put it another way, while the administrators thought they were doing the right thing by hiring new employees at higher rates than what current employees were receiving, all the administrators were actually doing was increasing the college's overall payroll without improving organizational performance. To be more precise, the administrators' actions resulted in every employee receiving an average raise of \$5,000, as a result of hiring at rates that were not warranted.

It might be instructive to understand how your agency has gotten into the situation you describe 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 that are, in their purest sense, simply limits for controlling pay. The minimums and maximums of any salary range are hiring guidelines at the minimum and cost control guidelines at the maximum. Some consider pay systems to be proxies for finance department policies, but that is another story.

The problem is that once you have employees classified within salary ranges, the governing board adjusts the salary structure each year, usually by a fixed amount. Some use the annual increase in the cost of living as a guideline, and some use other measures. Where an organization gets into problems, however, is when it increases the salary structure by the same amount that it increases employees' pay. Thus, unless your agency has a step plan under which employees who are not receiving the maximum compensation

within their pay grade receive step increases in addition to any structure increases, 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, your agency might as well have a fixed salary rate for each job rather than a salary range.

If hiring authorities follow the guidelines of the salary structure when hiring new employees (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 agency managers should do to avoid this situation is to advance employee pay at a different rate than they advance the salary structure. For example, if they want to raise individual employee pay by three percent, they should increase the salary structure by only two percent. Over time, employees will advance in the range, and new employees can still be hired competitively without causing pay compression with every new hire. As long as sound salary management practices are in place, the two percent salary structure increase will not cost anything or affect any employee unless the agency happens to have an employee who is paid below the newly adjusted range minimum.

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

- Use of hiring and retention bonuses rather than increasing base pay. Use of bonuses does not impact base pay, and it is generally produces less strain on relationships among employees.
- Hiring at a lower level with a commitment to raise base pay following a fixed period of evaluation, thereby allowing managers to determine what a new employee is actually worth relative to longer-tenured employees.
- Adjusting other employee's compensation so that existing employees can be compensated appropriately relative to a new employee. This works particularly well when all positions have been budgeted at the market rate or salary grade midpoint, 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.

- Ensuring 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 agency's new leadership team. We hope you are successful in educating managers and that the flexibility they are exercising in setting compensation for new hires results in the benefits they envision.

The CompDoctor 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.

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