

Designing Classification and Compensation Systems for the Change that is Coming

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There are several forces that will be affecting the management of your classification and compensation systems in the next few years. Some of these changes are evolutionary and some of them are (we hope) temporary. While we can probably weather the storm of temporary changes, the evolutionary changes combined with temporary shocks will make it critical that public managers take a serious inventory of the structure and architecture of their classification and compensation systems.

In our opinion, these are the evolutionary changes:

Demographic changes. Essentially, there will be fewer workers to replace the current workers. You all know this by now, but we will explain why this will affect your classification and compensation systems.

Changing employee work behavior. Younger workers, Gen X or Y, learn differently and work differently than the boomers who will be leaving the workforce within the next few years. Unfortunately, the boomer's grandfathers designed our classification and compensation systems. They were designed to accommodate the environment that existed in the 1930s and 1940s. As a result, the systems are out of touch with the work being performed and the worker of today. We have a square peg and a round hole, and we know how well that works out. We will need to round off the edges if we are to have

systems that "attract, motivate and retain" quality workers.

Changing job requirements. Jobs in the public sector have changed since the current classification model was developed. Many of you will recall that the computer was going to eliminate tons of jobs. We are not sure it did that, so much as it redefined the types of jobs that we do have. It also allowed workers to become more productive.

Fewer people do routine work. Back when the current classification systems were developed, most jobs were defined around "routine" work. We even had job evaluation systems that measured the degree of routine-ness of the work and awarded points accordingly. (Now we have computers that will search through resumes to find "qualified" candidates! So much for people!) Utility meter reading can be done by automated systems. Utility billing and collection can be outsourced in much the same way that the private sector has outsourced their billing and collection functions. Instead of people who do the routine work, we now need people who can interact with outside organizations and have technical skills to manage the automated systems that do the routine work for us.

Another big change is that public agencies are now competing, in many occupational areas, for skills that are needed in other economic sectors. Government work is becoming substantially more knowledge based. As a result, competition for the shrinking workforce is coming

from the private sector as well as other public agencies. We have a tendency to forget that approximately 84 percent of the workforce is in the private sector. Ignoring that reality will continue to cause public agencies difficulty in fulfilling their missions.

While there are probably other evolutionary changes, these are three significant ones that will challenge our human resource infrastructure.

Now for the temporary changes.

The economy. Regardless of how you think we got into the current mess, or what solutions may get us out, the stock market has taken a serious hit (down about 25 percent) from just six months ago. The housing market is in the dumps, there are increasing layoffs, and each day seems to bring new shocks to the economic system. For government, this means less revenue from property tax, sales tax, usage tax, income tax and every other tax or revenue source. Layoffs have been occurring in both the public and the private sectors. We are seeing major cities reducing their staffing levels by substantial numbers. Governments at all levels are imposing hiring freezes. While there may be more people available in the marketplace, they may or may not have the skills that are required by the public sector. So, while we have been talking about having to “do more with less” for many years, now it really is less, a lot less. Something will have to give.

The performance imperative. You have heard it before. Your board wants to pay for performance. But you don't have a mechanism in place to do this or you have a mechanism, but it is not working well enough to justify linking it to pay. Or, the ultimate challenge, you have unions that are philosophically opposed to the concept of tying pay to performance. Is this a temporary shock? We are not sure, but it usually causes a knee jerk reaction and you can see it. Evolutionary changes are sneakier, and hit you later when you least expect it. Unfortunately, by the time you do get hit, it is too late to do much about it. Managing change is never easy.

A new president. Like it or not, a new president comes to office with a desire to change the current policies and practices. And even though this happens according to plan every four to eight years, it usually means that priorities will change. There may be new programs, or old ones will go away or change direction. You have employees that have served the prior needs. What do we do with them now? Fire current workers and hire new ones? Probably not. At least that is normally not the right solution.

When the Republican administration took office in 2001, there was a major push to revise the rules governing the Fair Labor Standards Act regarding eligibility for overtime. In 2009, we fully expect to see the Democratic administration push for greater employee favorable policies including eligibility for extended leaves, unionization, minimum wage increases, and increased health care coverage for employees (often at employer expense). We are also seeing a real push to limit or curtail compensation levels in the private sector for people earning more than a certain amount of money. While the levels under discus-

sion will likely have little impact on the public sector, they could impact certain positions such as university presidents, health care executives and others that are critical but in very short supply.

All of these issues, and others, will affect your classification and compensation systems. To us, they require that your systems be flexible and adaptive to the changes. Are your classification and compensation systems capable of handling these stresses and forces on them?

Homebuilders in the Gulf States learned after years of hurricane destruction that they can build homes that are more flexible and capable of withstanding high winds and changes in air pressure, although they are more expensive. Your classification and compensation systems should be flexible too. Now would be a good time to consider what you can do.

Lets us go back to the evolutionary changes and how these will impact your classification and compensation systems.

Demographics. Obviously, we cannot change the realities of the shift in population. As current workers reach retirement age and elect to exit the workforce, our only option is to adapt our environment to the fewer workers that will be available. In essence, 80 million current employees will leave the workforce and 50 million will replace them. No matter how you do the math, if you have, say, eight million titles used in all the organizations that are filled with 80 million workers, when you take away 30 million workers, some of those eight million slots cannot be filled. There simply will not be any workers to fill them, unless you change the definition of what a job is. It is a matter of simple math.

This means we will have to develop a system of job titles and responsibilities that is responsive to the needs and expectations of the newer workers. While young people have historically felt the need to reach the top quickly, we do know that younger workers today have substantially different priorities than their parents and grandparents.

Most studies indicate that younger workers are focused on personal, rather than career, goals. Classification and compensation systems that facilitate structured career growth and longevity are inconsistent with their value system. While this creates an inherent conflict when you have a mix of generations in the workforce, the evolutionary shift will soon force this issue as the younger workers begin to dominate the workforce. Unless the organization takes the initiative to adapt their systems in advance, the result will be increased difficulty in recruiting and rewarding employees. In addition, the rigid systems that were built for a former

time and place will be unable to meet the current needs, thereby creating operational difficulties for organizations as they struggle with how to manipulate a rigid system. Quite frankly, most organizations will not have the staff or other resources to do this. We believe that organizations will spend more time manipulating the current rigid system than managing the people who do the work. When you have

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CONTINUED ON PAGE 12

Change

CONTINUED FROM PAGE 9

less revenue to spend on serving your constituents' needs, this appears to be a losing strategy. The result will be that the organization becomes less and less productive, further exacerbating the problem.

With fewer workers available to fill the slots that are available, we need to redesign the slots. If there are going to be 30 million fewer workers available than there are today, how can we find the people to fill all the job titles that we have? One way is to redefine the job itself. So, rather than have a "budget specialist" and a "fiscal specialist," we will likely have to have a more broadly defined finance job. The title is less important than how the job is defined. The new job will now be one title where those with the skills needed (accounting, finance and math skills) will be required to manage financial and accounting affairs. If before we had two people available to fill each job, and in the future we have only one person, which job should go unfilled? How about neither? Why shouldn't we redefine the job from the tasks and duties performed (as we do now) to the role of the job, such as "keeping the financial house in order?" The latter is more outcome oriented, the former is more focused on activities and less so on the outcome.

Work behavior. Current systems were designed to encourage and reward specialization. In today's world, flexibility is needed to allow employees the freedom to do different things in order to maintain their interest and achieve the desired outcome. In addition, commitment to the job and the organization are viewed differently than in the past. Organizations are also beginning to realize that there is both a need and value in cross discipline work groups where individuals are expected to work in different areas and disciplines than they may have originally trained for. We have seen incredible resistance to change from many employees and managers in organizations that have not recognized and adapted to these realities. Historically, organizations have gone out of their way to make employees feel good about their jobs. Classification systems were designed to give everyone the sense that their work was special and unique. Minimal differences in work warranted a new or special job classification. While this may have been acceptable and workable when we had pay structures with ratios of 10 to 1 relative to rates of pay for the highest level versus the lowest level employee, this simply does not work when the ratios drop to 4 or 5 to 1. The idea that every difference is meaningful no longer can be supported by a new job description.

Changing job requirements. Jobs have become substantially more technical requiring skill sets that were not needed in the past. Personal interactions have taken a different form with the advent of the Internet and e-mail. Communications that historically took place face-to-face are now accomplished through text messaging, e-mail, and video-conferencing. The skills to communicate in this manner were never envisioned when the current systems were developed. Other skills, like project management, time management and self-management have become a requirement for most jobs rather than being reserved for only selected positions or levels within a job family. Being more versatile is now a requirement and not a luxury or option. Organizations are demanding that their employees be flexible in terms of work assignments given the rapidly changing workload. The

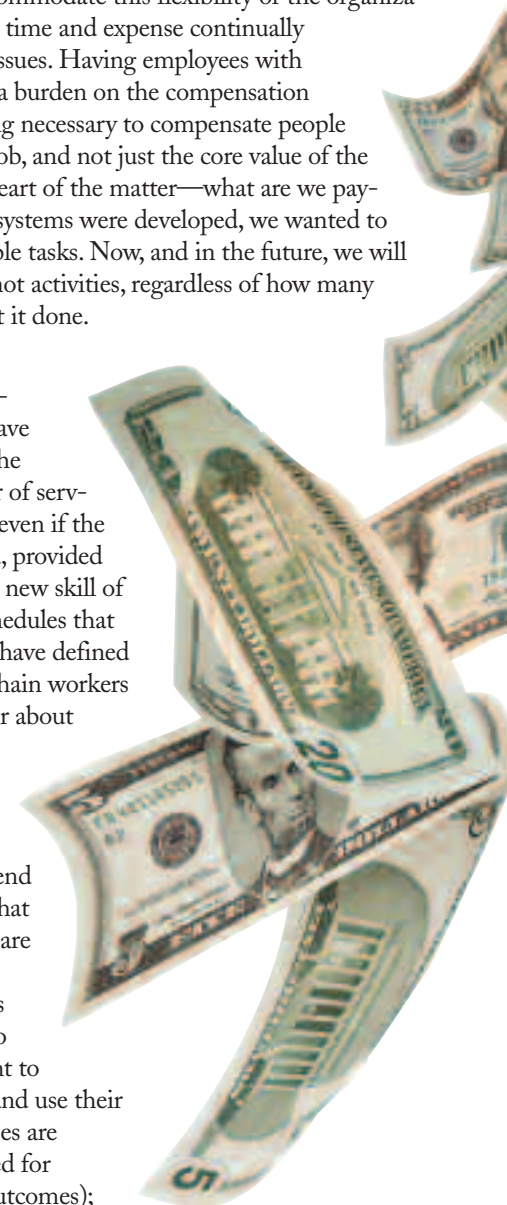
classification plan must accommodate this flexibility or the organization will spend unnecessary time and expense continually dealing with classification issues. Having employees with multiple skill sets also puts a burden on the compensation program since it is becoming necessary to compensate people for what they bring to the job, and not just the core value of the job itself. This gets to the heart of the matter—what are we paying for? When the current systems were developed, we wanted to pay for countable, measurable tasks. Now, and in the future, we will want to pay for outcomes, not activities, regardless of how many hours or tasks it takes to get it done.

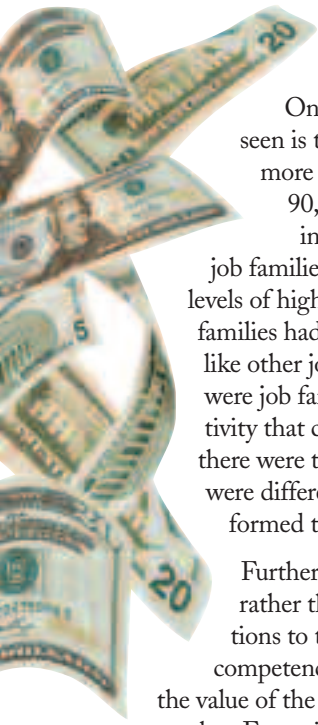
The current system also rewarded longevity, not outcomes. Consequently, we have pay schedules that reward the employee for one more year of service (our current step plans) even if the employee has not improved, provided greater value or learned any new skill of value. We have vacation schedules that increase with seniority. We have defined benefit plans that literally chain workers to the same employers (after about five years) because of the vesting requirements that rest on seniority. While we don't necessarily think that these are bad, it does send the message to employees that seniority is rewarded. If we are going to keep and reward employees for the outcomes and the value they deliver to the taxpayers, then we ought to design jobs that recognize and use their talents. The newer employees are expecting to be compensated for doing the job (producing outcomes); regardless of how much "seat" time they have.

A solution. So, are there any solutions? What have others done? Is there light at the end of the tunnel, or should we just accept the inevitable and claim the solution is too difficult, and the forces of the status quo are too strong to change?

As we have said before, change does not come easily. It takes a certain degree of organizational will to make things happen. When resistance to change occurs, it is easy to step back and say, oh well, we tried but it just won't work here. When the change is essential for survival, you do not have that option. We believe this is where we are today; if we are not there, we are close enough.

Recently, a city with a population of less than 100,000, restructured its classification and compensation program by consolidating more than 100 non-represented job classes into fewer than 20 titles and adopted a substantially more flexible pay plan. While that organization is not yet ready to move to performance based pay, they have established a structure that will accommodate the flexible work requirements and





expectations with alternative pay delivery mechanisms.

One of the most significant changes we have seen is the effort by a southeastern state. They had more than 6,000 job titles for a workforce of about 90,000 employees. Their system was like many in the public sector. It was organized around job families and in each job family there were multiple levels of highly defined, specialist job descriptions. Some families had six different levels. Some job families looked like other job families, but for a variety of reasons, there were job families for just about every minute, distinct activity that could be cataloged and described. In fact, there were three job families, each with several levels that were different only in the *location* in which they performed their work!

Furthermore, their system rewarded time in the job rather than capability to get the work done. Promotions to the next level were based on seniority, not competence, and as a result, there was confusion over the value of the job and its comparison to the competitive market. From time to time, the labor market shifted, and private organizations scooped up their best employees. The only

way they could respond was to upgrade or reclassify the person to a higher paid job, or create a new job title that was built around the incumbent's skills and knowledge. So, each time there was a jolt to the system, they created more job descriptions. It was beginning to become a never-ending cycle.

Recognizing that they could not continue with such a system (many job titles simply could not be filled), they approached the problem years ago and decided to define jobs based on the competencies that they needed, rather than the titles that they had. This required a concerted effort on the part of the management, human resources and the employees in the occupations. They designed (actually, they are still completing the design process) a system that asked the departments two simple questions: What skills and competencies do you need to get the work done in your agency, and how many of these units of skills and competencies do you need?

Then, working with the employees, they designed a system of 10 occupational groups (such as information technology, engineering and architecture, natural resources and scientific, administrative and management, etc.). Within the 10 occupational groups, there were job families. Each job family had three, and only three, levels. These levels were defined by skills and competencies. At the basic entry level they had contributing skills and competencies; employees who had the basic knowledges and skills to perform the job but may not have demonstrated it in a variety of situations. At the fully performing level they had journey-level skills and competencies. And finally, at the advanced level they had advanced-level skills and competencies.

You will notice that they did not have four levels or five levels or more. There was not a "super advanced," "walks on water" level or anything else. They had three, and three levels only. They were able to reduce the number of job families by 92 percent!

Now, what makes up each level is based on the needs of the department. They defined what the skills and competencies were. The key

here is that to get from contributing to journey or journey to advanced, the employee could get there through a variety and mixture of skills and knowledges that were needed by the department to accomplish their mission.

This is the flexibility that we believe is needed for the future—multiple skills, multiple ways for employees to apply those skills to achieve the outcomes desired, and to fulfill the role needed. It is a far more flexible definition of the job; it is more appealing to the younger workers and simplifies administration. There are no more games, or manipulation of the system.

The description of the *role* of the job was broad and defined by the skills and knowledges needed; not by the amount of time in prior jobs, the duties and activities performed or the amount of time spent on those duties. They were defined by the simple question, what adds value?

We could go on and on about this, but here is the point. On all objective measures of performance, this program works. For example:

1. Turnover is down.
2. Better qualified candidates are hired.
3. Grievances have been reduced or eliminated.
4. Reclassification requests are substantially reduced.
5. Pay is more competitive with the market.
6. Payroll costs are less than under the former system (less manipulation).
7. Employee morale is higher and job satisfaction is improved.
8. There has been no adverse impact.

Is this a panacea to all of the evolutionary and temporary changes? Of course not, but the evidence suggests that the state has prepared itself to meet the challenges. By doing so, it has also protected itself from the temporary shocks, because now it has a system that will weather the storm and absorb the stress.

If you are not assessing your system now to make it more flexible to meet the challenges, you should be. You will be better prepared to manage them when they come. And, your limited resources will require you to adapt to the change that is coming.

In this era of economic uncertainty and shrinking public revenue sources, moving toward a broader classification structure and/or utilizing broadband pay strategies provides the flexibility necessary to manage with more limited resources.

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