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The Value of a Pay Strategy

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Public sector organizations usually spend more than 50%, and sometimes as much as 80% of their total operating budget on employee compensation including base salaries, employee benefits, and any variable compensation that may be applicable. When one spends that percentage of their total resources on a single item, it only makes sense that the money be spent in a way that achieves some defined goal.

While public sector organizations have had established salary plans for many years, the sole issue that has been addressed by many organizations is that the plan be related to some defined labor market and allows the agency to be competitive within that market. The plans have not addressed how the money was allocated or spent. By this, we mean rewarding employees for achieving organizational goals and objectives rather than simply paying them for service as an employee.

Historically, compensation philosophy has focused on recruitment, retention, and then, if resources allowed, motivation. While recruitment is always an issue, one needs to question whether retention, merely for the sake of retention, is an appropriate philosophy. We now see many organizations that are taking the view that they only want to retain those employees who contribute to achievement of organizational goals. With that in mind, strategy becomes critical.

For example, rather than traditional step type pay plans, organizations

are moving to broadband pay structures that facilitate use of alternative pay delivery mechanisms such as skill-based pay, competency based pay, and individual or group performance based pay. Under these models, a job rate (the market value of a position or job) is defined and employees who perform to established job standards can get to that point in the salary range or grade. However, any compensation above the job rate must relate to the organization's strategic objectives. The result of this change is that compensation dollars are more closely tied to achievement of organizational goals and objectives, and less to longevity or entitlement of individual employees. Unfortunately, some other parts of the pay plan may conflict with these goals including longevity pay or the vesting schedules of defined benefit retirement plans.

Another advantage of addressing compensation philosophy and strategies is how you define your labor market. Many organizations simply look at neighboring jurisdictions regardless of their size, character, ability to pay or organizational similarity. As a result, many organizations that have been used to help define market pay rates are not really part of your direct labor market even though they may have physical proximity. This is the equivalent of trying to keep up with the Jones' even though your family situation may have nothing in common with theirs. At the same time, you may be ignoring

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organizations that are more relevant competitors. A review of your philosophy and strategies would allow your organization to bring these issues into alignment.

Finally, there is the issue of internal equity versus market parity. Back in the 1980's, internal equity was a major issue for many organizations. Today, market parity seems to be equally, if not more, important. Unless these issues are reviewed, you may very well be paying people based on concepts and a philosophy that is no longer relevant resulting in your spending limited resources without tangible benefit to your organization.

Having said all of this, we believe the prudent organization strives to articulate a pay philosophy and strategy. Such a strategy should answer the following questions:

1. Why do you have a compensation system?
2. What behavior do you expect to receive from your compensation dollars?
3. How do you view your organization relative to other organizations with whom you compete?
4. Which organizations are competing with you for the same talent?
5. What message are you trying to send to your employees relative to compensation within the overall context of organization management?

If you can articulate answers to each of the above questions, then you are well on your way to defining a compensation philosophy and strategies