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Separating Market Adjustments from Merit Movement

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Each year, most governmental organizations struggle with the question of how they are going to balance the need to update their salary structure in order to maintain their relative position in the overall labor market while also trying to reward employees for meeting or exceeding their performance objectives for the past year. At the same time, employees would like to see their compensation increase within their established salary range. Unfortunately, many government employers simply grant a fixed percentage market or Cost of Living (COLA) adjustment that results in employees receiving a salary increase that is equal to the adjustment in the salary range. The result is that while employee salaries are increasing, they don't feel like they are getting ahead.

Private sector employers long ago recognized that they needed to separate structure adjustments from pay increases. Thus, year after year, their salary structures are adjusted at about 1/2 to 1/3 of the amount allocated for employee pay increases. During some periods, salary structures did not increase.

This separation is all very logical if you realize that a salary structure is designed to bring salaries (at the minimum) to market levels and to control maximum salaries at the top of the structure. Employees already have a job so the structure adjustments do nothing for them.

Adjustments to pay, therefore, are designed to recognize your current employees.

The only viable option to the above scenario is for organizations to determine how much money they are going to add to their total compensation package and then determine how they can use those dollars most effectively. In most cases, the answer is fairly simply - allocate a portion of the money to a structural adjustment in order to keep the salary ranges competitive with the labor market. Structural adjustments in the 2% to 3% have been common over the past few years. The remainder of the money that is available for compensation increases can then be put into the organization's merit pool for distribution to employees whose work meets or exceeds performance expectations. For those organizations using a step type system, those dollars can offset some or all of the cost of step increases. For those organizations having an open-range model, the dollars would become the basis for merit adjustments.

You may ask why this is significant or important. Very simply, most workers (something in the area of 85% of the American workforce) do not receive automatic pay increases every year. Given the public's concern about public sector pay levels, it is often easier to sell a more modest market adjustment with the balance of the

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money being used to reward those employees who add value to their organization. Unfortunately, that is not the culture that we have established. While this should not be news to public sector human resources professionals, we have an entitlement mentality that must be changed if government is to manage more effectively its ever-decreasing resources.

In a prior newsletter, we talked about the need to define a compensation philosophy and related strategies. The key point was that you should be using

your resources to accomplish strategic and organizational objectives rather than simply continuing to do business as you have always done. Maintaining a competitive salary structure is important, but so is having the resources to recognize employees for their performance through increases in base pay within their established salary range. As resources for salary increases become more limited, the need to separate structure adjustments from merit increases will become more significant.