

# FIA

# SOLUTIONS

Compensation Consulting Since 1995

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Philosophy and supporting strategies guide your classification and pay systems.

Employees who understand how and why they are paid accept their level of pay more readily.

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Fox Lawson & Associates  
a Division of Gallagher Benefit Services, Inc.  
*Compensation and Human Resources Specialists*

## **Auditing Your Classification and Compensation Plan**

Over the past months, we have conducted diagnostic reviews of the classification and compensation programs for 34 government organizations. It may be instructive to outline the diagnostic review process and study some common findings among the programs we reviewed.

The diagnostic review process looks at three major areas: 1. The Classification/Compensation Philosophy and Strategies, 2. The Classification System, and 3. The Compensation System.

We follow this process because we believe that a well thought out Philosophy and supporting strategies are critical elements of any classification and compensation system in which the majority of dollars is spent on personnel costs. In the remainder of this newsletter, we will discuss each of the three components along with criteria that we consider crucial in determining the health of a compensation program.

### **Philosophy and Strategy**

Philosophy and supporting strategies guide the management both of classification and of compensation within your organization. Typical issues addressed include whether the organization seeks to have a broad or narrow job classification system (this relates to the degree of flexibility needed or wanted in terms of job responsibilities in each job), whether the system should emphasize market parity (44% do) over internal equity (56% do) or whether the system is designed to reflect a balance of both, and how the organization views itself relative to the labor market (how the labor market is defined) and how the organization views itself relative to its competitors in the labor market(s). Sixty-two percent (62%) of organizations target the average of their labor market.

Philosophy and strategies then become a viable communications tool by which your employees and other stakeholders can

clearly see how you view compensation and how you try to manage it. It is also something tangible to apply whenever you need to make programmatic decisions to determine whether the action will help you achieve your stated goals and objectives. In simpler terms, when you ask, "Will this action help us achieve our objectives or will it hinder our ability to achieve our objectives?", this tool guides your response. Further, we have found that if employees understand how and why they are paid (which should be articulated in the Philosophy), they more readily accept their level of pay.

About 83% of the public sector organizations we studied state that they have a pay philosophy and strategy (although we found no consistency in the Philosophy articulated). If you are one who does not have a defined compensation philosophy, you might want to look at some guidelines regarding what should be included. You can access that information at the following web address: <http://www.foxlawson.com/compDoctor/pdf/CompDoc04-05.pdf>. Then, you may facilitate a process in your organization to finalize a process that the Board or Council can ultimately adopt.

### **The Classification System**

Classification is formal documentation of the body of work performed by employees of your organization. The Classification Plan should reflect types and levels of work performed, be organized by occupational group and job family, and be presented so as to clearly define basic information about each job, including:

- The appropriate FLSA status designation
- The physical attributes required to perform the essential duties of the job as defined by the Americans With Disabilities Act
- The natural career path of most jobs

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Fox Lawson & Associates solves strategic compensation and human resources issues of organizations experiencing significant change.

We assist organizations to align their compensation, benefits and human resources systems to their organization objectives.

We have solutions for people who pay people.



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In addition, job classification descriptions should be up-to-date and be written in a consistent style and format. We have provided on our website a format you might find helpful: [http://www.foxlawson.com/newsletter/pdfs/volume12\\_2.pdf](http://www.foxlawson.com/newsletter/pdfs/volume12_2.pdf). Our research showed that only about half the organizations we studied reported job descriptions which were current, and reflecting the requisite information such as FLSA status and career path options. Obviously, for those lacking current and accurate descriptions, numerous ramifications need to be addressed.

### The Compensation System

We believe that no organization exists for the sole purpose and pleasure of paying people. We pay people in order to realize some purpose, whether to recognize the accomplishment of certain goals and objectives, to provide a defined service, or simply to acknowledge continued service to the organization. The purpose should have been defined in the organization's Philosophy statement.

Once that philosophy is defined, one may look at how the pay system is structured to determine if it supports the stated philosophy and strategies. For example, if the philosophy is based on recognizing and rewarding employees based on their individual contributions toward achievement of organizational goals, an open range pay structure with opportunities for various levels of pay adjustment may be appropriate. Conversely, if the philosophy is recruitment and retention within the organization where longevity is more the focus, then a more traditional step-type pay plan may be more appropriate.

Most organizations we have reviewed

employ several types of pay systems. For example, for exempt and executive jobs, an open range system is prevalent and raises are based on performance. For public safety and non-exempt jobs, a step plan is more typical with pay raises based on years of service.

A review of the compensation system will assess the number of different pay plans that exist, the type(s) of structures(s), the salary range width, and the number of ranges within each structure. For organizations having multiple labor contracts, the various pay structures may or may not be consistent depending on the organization's pay philosophy and whether a need exists for unique pay plans in each bargaining unit.

### How We Can Assist Your Organization:

If your organization has experienced changes relative to the work performed by your employees, you have recently downsized or reorganized, or you have experienced difficulties with your compensation program as a result of market pressures or recognition that the plan no longer meets current needs, we can assist you in restructuring both your classification and compensation programs to accommodate your organization's changes.

Should you desire our assistance in diagnosing your current classification and/or compensation programs, please access our diagnostic questionnaire (<http://www.surveymonkey.com/FLADiagnostic>). If you would like our assistance in updating or revising your current classification or compensation structure, give us a call. 651-635-0976 Ext. 12 for Jim or 602-840-1070 for Bruce.



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