

# FIA

# SOLUTIONS

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## Changing Your Pay Program: Questions to Ask of Your Current Pay Program

### Group Programs

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This is a time when many employers, both public and private, are re-examining their compensation systems. This is not a new phenomenon. It goes back at least a decade when a prominent academic expert, Edward Lawler wrote about the inability of traditional pay systems to keep up with the changes in corporations due to TQM, reengineering, and forced layoffs.

Some of the new ideas are really not that new. Broad banding, for example, goes back at least to 1980 when a federal research lab near San Diego adopted it. Merit pay and market pricing are certainly not new, and the use of group incentives, under the umbrella phrase, gain sharing, goes back to the 1930s.

What is new is the shift in thinking behind the new pay systems. In corporations that are moving to the "new pay," the changes are part of a new work paradigm. The new pay reflects a shift in thinking about the management of compensation programs that involves the delegation of day-to-day responsibility to managers. In comparisons to traditional pay programs, new pay programs foster (1) increased flexibility, (2) an intent to use pay as an incentive to improve performance, and (3) line management's increased responsibility.

Changes to new pay are much more compatible with a corporate culture than in the typical government environment. In a corporate culture, there is a clear measure of financial

success. The importance of the "bottom line" affects every top management decision. Changes that benefit the organization and its competitive status are easy to justify.

Public employers make the same decisions in an open environment. Interested stakeholders like employees, often have enough influence to block proposed changes. That makes the decision process and the factors that drive the final decisions very different. Public employers typically find it much more difficult to gain agreement on major changes in a pay system.

This is compounded by the change in philosophy and beliefs that go into the new pay concepts. Traditional pay systems emphasize tight, centralized control; new pay systems emphasize looser local decision making by line managers. Traditional pay systems are predictable and designed for internal consistency; new pay systems are responsive to labor market differences and do not guarantee consistency. Traditional pay systems, particularly in the public sector, reward experience and tenure; new pay systems reward performance.

Public employees along with their managers are comfortable with traditional pay systems. They understand the "rules" and what they need to do to maintain their status. They are naturally suspicious of the new concepts - with the new pay everything is less certain. Fear of the unknown is inevitably an impediment to change.

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The differences suggest that public employers need to commit to considerably more time to set the stage for possible changes in their pay system. There is enough experience with new pay to say that effectively planned and implemented changes will benefit the organization. Charlotte is a widely acknowledged success story. However, the reasons for not making the change can be compelling and it would be a mistake to initiate major program changes until there is a good understanding of how the stakeholders are going to react.

Our experience suggests that one of the first hurdles is simply an inadequate understanding of compensation principles and the program alternatives. Ideas like gain sharing are mentioned frequently in management journals but most people have only a superficial understanding of what they can expect with a new policy or practice. To overcome this, we have found that it is useful to plan a day or half day workshop for the stakeholders who will play a role in decision-making. That helps everyone to get on the same page and facilitates more productive discussions. This is an investment to strengthen the decision process.

We have found that it is essential for the key decision makers to develop a consensus on the problems that affect the current program and what needs to be resolved. They need to fully understand why the problems arose and the anticipated reactions of stakeholders if the problem is addressed. This process should start by discussing these issues:

1. What are we trying to accomplish? What triggered the need to change the pay system? What problems does the pay system create for the organization? What are the benefits we expect to realize?

2. Can we isolate a specific policy or practice (e.g., the classification system) that's "broken"? Are the problems attributable to poor program administration or to program design?

3. Can we specify goals in changing the pay system? Who has to agree with the goals? Do we need to convince employees that the goals justify the anxiety that changing the pay system will create?

4. Who needs to be involved in developing the policy or practice? What will they expect? Can we accommodate their concerns?

5. Will the possible program changes require changes in other HR systems (e.g., performance appraisal)? Will it require additional training (e.g., expanded supervisory responsibility)?

6. Are we ready to make these investments? What is a reasonable time frame to accomplish everything?

If the program changes were as straightforward as switching from one point factor job evaluation system to another, these discussions would not be necessary. Everyone understands the change and probably has a good sense of what they can expect and what actions they need to take to protect their interests. That makes it easier to accept change.

The new pay is the unknown. It introduces a new way of thinking about pay and rewards and new rules. The program design questions are not technical, they relate to softer people management questions (e.g., managerial accountability). Not every organization is ready. If we were to extrapolate recent trends into the future, it is clear that the new pay model will replace traditional programs. Public employers who are becoming the "employers of choice" will invest in these new pay models.