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Volume 7, Number 3

Paying IT Workers

The IT Labor Market

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Technology and the need to "do more with less" are prompting government agencies to rely heavily on computers to manage information and to better serve the public. The need for new and more powerful technology to handle government's recordkeeping and information transmittal appears to have no end. Unfortunately the increasing dependence on technology also means that the public sector needs an ever-growing workforce of IT specialists. Since the government is competing directly with private industries, whom generally have more flexibility in pay decisions, public employers have been forced to rethink their pay programs in order to attract qualified candidates.

The problem for public employers is two-fold. The most obvious problem, of course, is the progressively higher pay levels in a labor market that promises to be tight for years to come. That means higher costs but it also means perceived inequities in a government employment culture where everyone expects equal treatment. The second part of the problem is the inability of traditional classification approaches to accommodate and respond in a timely way to the changes in jobs and in demand triggered by the introduction of new technology. The old pay systems simply do not mesh with the ever-changing IT people requirements.

The IT Labor Market

There are not enough IT professionals

to satisfy the demand. In 2000, the Information Technology Association of America projected a 12-month demand of 1.6 million IT specialists and a short fall in filling jobs of approximately 850,000. Even though the market has experienced a slow down this year with private employers laying off hundreds of thousands of employees, the demand is still significantly higher than the supply. That imbalance could affect the IT work force for a decade or more.

Within the overall picture, the demand for specialized expertise runs in waves - last year's hot skills may be a glut on the market in a year or two. This is by no means a monolithic workforce. Nor does it make sense to continue one-size-fits-all HR systems. Increasingly, IT projects are bigger, more complex, more costly and dependent on more complex skill sets.

For government, the problem is even more complicated because the large, legacy systems that are expensive to replace, are often based on older computer languages, e.g. COBOL, or older operating systems. That means the workforce is effectively bifurcated - the portion working on leading edge technologies is ripe for pirating by other employers, and at the same time the employees working on the legacy system may face extinction. The younger workers are often hungry for pay-for-performance policies that reward them for their contribution while the others may be content with automatic

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increases. The HR policies that make sense for one group may be meaningless for the other.

Trends in Compensation Policies and Practices

The dynamic IT world and the intense competition has forced employers to adopt new practices. Recruiting, referral and retention bonuses are almost mandatory. Hot skill bonuses are common. Salary increase budgets are often twice the amounts set aside for other work groups. Pay increases are sometimes granted two or more times a year. All of this is to stay competitive.

The framework for salary management is now broad banding rather than the traditional multi-tier grade system. Pay increases are based either on contribution or an assessment of individual competence. The contrast between the old and the new is dramatic. In fact, it is difficult to imagine any employer competing successfully in this market with the once standard narrow ranges and step increases.

The basis for managing salaries in a number of technical fields has been the so-called maturity curve - salaries progress higher over time with added years of experience. The focus was on individual value rather than job value. The new concept, competency-based pay, explicitly links pay increases to individual value based on the added contribution of an individual's knowledge, skills and abilities. The concept is well suited to the way people are managed in the IT fields.

Broad Banding as an Alternative Model

Broad banding by this point is well established in the private sector and public employers. Even though research indicates that only about 18% of public employers have shifted their pay programs to a banded structure (47% of public employers have studied it in the past year), it is now recognized as a viable alternative for IT operations.

Recently the National Academy of Public Administration (NAPA) released a report recommending that the federal government shift all of its IT specialists, roughly 60,000 employees, to a banded salary

program. Their recommendations were based in part on an assessment of banded salary programs covering the IT workforce in state and local government as well as higher education.

The NAPA salary model is typical of many now in use for IT specialists. It is based on four levels in the IT career ladder - entry, developmental, full performance, and senior expert. People will progress within their band and between bands based on an assessment of their competence and performance. It also incorporates a dual career ladder concept that will enable high level specialists to be paid the same or more than managers and supervisors.

The plan with the NAPA model is to delegate much of the responsibility for salary management to supervisors. The recommendations recognize the essential need for supervisors to be able to assign work to individuals based on their expertise and to have greater control over employee pay to recognize individual market value.

Recognizing Market Value

One of the most important changes in the new model is the recognition that pay systems have to be responsive to labor market trends and to competitive pay practices. The IT labor market is obviously dynamic and salaries are going up appreciably faster than in most other fields. The traditional general increases along with step increases are clearly not a viable option in that market. Those practices mean some employees will be underpaid - and possibly look for jobs that recognize their market value - and others will be overpaid.

There are those who argue "internal equity is dead." In the corporate world, job evaluation systems have been eliminated in a number of prominent companies and replaced

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with a market-based philosophy. That shift in thinking has been driven by the reality of competing in a tight labor market and the need to pay people with scarce skills competitively.

In a true market-based pay system, salary survey data is used in conjunction with virtually all salary (or lump sum pay) decisions. For example, employees no longer start at the bottom of a salary range or band; starting salary offers are dictated by the market.

The tight labor market will be a reality for years to come. It is driven by demand for knowledge workers in a number of technical fields as well as by the demographics of an aging workforce. Pay levels in high demand fields will continue to escalate faster than the average. In that environment, pay practices will have to be both flexible and responsive to labor market trends.

Added Cash Payments

Added lump sum payments are now common in the IT labor market to facilitate recruiting, to reduce turnover, to reward employees who demonstrate scarce skills, to encourage referrals, and to encourage people to relocate. In some situations, merit or performance awards are paid in a lump sum in addition to a market adjustment.

The bottom-line is that the payments are necessitated by the need to be competitive. This is a new and much more aggressive use of pay as a management tool. It is clearly out of sync with traditional thinking in the public sector. But when there are not

enough workers to fill all of the jobs, the reluctance to adopt competitive policies may mean long standing vacancies or the need to outsource, with the contractor maintaining a competitive program.

Importance of Non-Pay Policies

Lest we forget, any change in pay practices should also be associated with changes in the work environment. It is agreed that employees who choose to work for public employers seek different types of rewards, such as stable work environment, the ability to work "reasonable" hours, and a predictable work schedule. However, evidence is growing that they also seek recognition, training in their field and challenging projects. Even some of the younger, aggressive IT specialists are coming to the realization after employment in the dot-com world, that a chaotic and unpredictable environment can take a heavy toll.

It is with this recognition that employers need to look at the whole work experience including pay, benefits and work environment. A change in one, requires a serious look at the entire picture. A recent study illustrates this point. In this study, organizations who were experiencing high turnover were separated into those that raised pay and changed the work environment, from those that raised pay only. Over time, the organizations that raised pay only, experienced an increase in turnover, whereas those that raised pay and changed the employees' work experiences, actually reduced turnover.