

## Classification and Pay Effects of Budget Reductions

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With the current budget crisis affecting almost all government sectors, organizations are looking for ways to trim their budgets. When controlling organizational budgets, the HR department is often called upon to make some tough decisions. HR professionals provide input on freezing salaries, layoffs, bumping rights, promotions, reorganizations, and related resolutions. While these actions are often necessary to balance the budget, they can have unforeseen impacts in the long run. It is important for organizations to be aware of the potential long-term impacts of these decisions.

Our firm has been in business for the past three economic downturns and we are well aware of the issues associated with these decisions. Based on our experience, we would like to share with you some long-term impacts of these decisions and what you might do to avoid them.

Probably the most significant impact is the affect on your classification system. When managers cannot reward their employees with pay increases they will try other methods, often using the classification system as a reward vehicle. This can lead to:

- \* A classification and pay system that becomes "out of whack."
- \* Unexpected increases in overall payroll costs.
- \* Increased numbers of titles to justify pay increases.
- \* Payroll costs that increase and force new or additional layoffs that

may not have occurred had there been classification changes.

If it has not already occurred, you will probably begin to see an increase in reclassification requests. With limited new money available, this will lead to an increased pressure to reward employees. Reclassification requests may begin to be approved without merit. This can start a chain-reaction of requests. The result is your classification system will be out of alignment. Payroll costs will no longer be as controllable, since pay is usually increased with each approved request. In the long run, you may spend most of the money you attempted to save.

While the best approach is to only approve requests with sufficient merit, HR professionals often bear the burden of intense pressure to approve job classification requests and pay adjustments. Our research in large government organizations shows that 60-70% of reclassification requests are approved, and with more salary attached.

What can you do? There are several actions you can take to ensure the integrity of your classification system is maintained during this process. One thing is to request a budget justification for any classification or pay change. This forces managers into finding the money within their own budgets to pay for any pay adjustments.

Second, instead of attaching a dollar figure to the classification requests, you can limit the number of

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reclassification requests to selected times of the year. This may not be as effective in controlling costs in the long run; however it can control the workload of HR. Furthermore, it "forces" employees and managers to verify that any classification request has merit, something the passage of time can have an impact on.

A third option is for the organization to use an external source to review reclassification requests. An external source can provide an objective opinion that is not influenced by political pressure. This will help eliminate the burden placed on the HR

department and force classification and pay changes only if the request has merit. We have found that when re-classification requests are outsourced, the burden of proof becomes more difficult. This option might cost a little more today, but it may be cheaper in the long run, because your system will retain its integrity for a longer period of time.

If you have any questions about how you might respond to the budget crunch, please feel free to contact us. We have the experience in handling the issues facing us in today's environment.