Retaining Talent with Compensation Management: The Benefits of Moving to a Market Based Compensation Structure

Background

Senate Bill 330 "FACTS for Higher Education" required "sweeping cultural changes" to the human resources function within public higher education in West Virginia. The language of the law suggested two primary objectives, first, to foster a human resources environment at each school that promotes the core values of fairness, accountability, credibility, transparency and a systematic approach to progress; and second, to achieve certain goals with respect to the classification and compensation system affecting all higher education classified employees. Another goal of the legislation was to update the classified employee salary schedule utilized by both the Commission and Council systems that had not been updated since 2001.

As numerous problems with SB 330 were identified and explained, the Legislative Oversight Committee on Educational Accountability passed resolutions to assist the Higher Education Policy Commission in its quest to fulfill the requirements of SB 330 finally resulting in the passage of SB 439 during the 2014 legislative session.

SB 439 provided a major clean-up of the language of SB 330 without modifying the intent of the Legislature. This legislation required the Commission and Council to undertake a number of new studies in an effort to bring "best practices" to the human resource function at higher education institutions across the State and required that the Commission and Council complete the classified employee compensation market study identified in SB 330 by January 31, 2015.

The Commission and Council, with the help of Mercer, completed the market study meeting the Legislatures deadline of January 31, 2015 for completion. A more modern salary schedule has been developed that consists of 12 pay grades with a range spread of 60% from the range minimum to the range maximum, as opposed to the 25 pay grade structure that has been in place since 2001. Numerous issues have been identified with the current step salary structure and with the Point Factor Job Evaluation Methodology currently used to classify jobs. In order to address the many problems that have been identified by Mercer and have been known by Chief Human Resource Officers for many years, the Commission and Council has developed "Salary Administration Guidelines" that provide higher education institutions the flexibility to recognize differing market rates of pay based on performance, skill level, or market conditions, and a more reasonable level of control over salary costs and internal equity to go along with the new market based salary structure.

In today's business environment, a balance of flexibility and control over salary administration is important to an organization's compensation strategy. Market based pay structures can remove some of the restrictions surrounding pay levels, and meeting or exceeding market levels of pay for skills can be critical to an organization's effectiveness. The benefits of the new market based salary structure and corresponding "Salary Administration Guidelines", as well as problems with the current pay structure will be discussed in more detail throughout this document.

Problems with the Current Step Salary Structure and Point Factor Evaluation (PFE) Classification Methodology

Pay Structure:

The existing salary structure for classified employees contains many inconsistencies. It consists of 25 pay grades (many of which are no longer utilized due to the fact that the salary levels within those grades are below the current minimum wage in West Virginia) with 16 "steps" in each grade.

Each “step” correlates to years of service with <u>any</u> West Virginia State agency in any type of position. The differential between minimum and maximum steps of each grade varies widely ranging from 35%-55% depending on the pay grade. The midpoint differential (defined as the average difference between adjacent pay grades) is also inconsistent varying between 3%-7% between grades with no consistency between lower and higher grades. Jobs are assigned to the structure based on the total points assigned to the position after review under the current Point Factor Evaluation (PFE) system. Pay for a new hire is determined by the grade to which the job is assigned and the number of years of service with the State of West Virginia, regardless of the experience of the incumbent for the position. Once hired, employee pay increases automatically to subsequent steps for every year of service. The inflexibility of this system creates many challenges for Commission and Council institutions.

Firstly, the grade assignment of jobs using the PFE methodology does not align with the market for jobs in our region. Because Point Factor systems are essentially internal ranking systems, they do not take into account the realities of the marketplace. This means that jobs that are paid similarly in the job market may be placed in different pay grades within the current structure or jobs that are paid differently in the job market may be placed in the same pay grade in the structure. This makes it very difficult to offer competitive salaries. The pay grade assignments that result from using the current point factor methodology do not align with the value of the job in the market. In other words, the point system is not a reliable indicator of how jobs are valued in the market.

It is also virtually impossible to find a set of compensable factors that are consistently important across the wide spectrum of jobs that exist within a college and university system. Consider for example, a Fundraiser position and an IT developer position. The factors that are relevant to establishing a “value” for these jobs are very different and once again make it very difficult to offer competitive salaries.

Another challenge associated with the current structure is that the automatic step salary increase based on years of service can foster a sense of entitlement and discourage high levels of performance, since performance cannot be rewarded in these types of systems. This makes it extremely difficult to create a culture of constant improvement and makes it difficult to enhance employee engagement.

Yet another problem with the current pay structure lies within the way starting salaries are determined. The policy for determining starting salaries is likely to overpay some job candidates and underpay others since experience earned in the private sector outside of employment with the State of West Virginia cannot be considered in the salary offer regardless of how relevant that experience is to the job. For example:

- Assume Mary has 15 years of experience as an Accountant with a large private accounting firm. She applies for a job with Concord University for the identical position and is offered a salary at the “0” step because she has not worked within the public sector in West Virginia. This would be the same salary offered to an applicant with no experience and is considerably below the market salary for the job.

Yet, service with any entity or any job with the State of West Virginia is credited in the pay system even if that experience is irrelevant to the job.

- Assume that Bill worked as a Transportation Worker with the Division of Highways for 10 years before going back to Marshall and obtaining a degree in Accounting. He then applies for an Accounting job at Marshall and is offered a salary at the "10 years of service" step because of his previous employment with DOH even though this experience had nothing to do with accounting. This offer would be considerably more than the market salary for the job.

Point Factor Evaluation (PFE):

As mentioned previously, "Point Factor" is a method for assigning jobs to salary grades. In these systems, factors relating to various aspects of work are developed and points are assigned to each factor or degree within a factor. Jobs are reviewed in comparison to these factors and assigned a total point value, which is used to place the job in a pay grade.

Point Factor was the job evaluation method most common in the past, primarily because of the absence of market data. Employers needed a way to establish salary structures and a job worth hierarchy, and market data was either non-existent or very difficult to find. In the absence of this data, Point Factor programs were used to fill the void. However, these programs have started to fall out of favor and higher education institutions across the country have started to move away from these programs and toward market based systems for several reasons:

- Point Factor Evaluation methods are internal ranking systems and do not take into account the realities of the marketplace. The current point factor evaluation tool does not recognize changes in workforce and does not accurately value the contributions of various employees resulting in and creating misalignment in the pay structure.
- The rigidity of these programs creates artificial barriers to attracting and retaining qualified staff in key job functions or in jobs that are experiencing considerable market pressure.
- The programs are complex and time consuming to administer. Maintaining such systems properly requires regular review and modification of the factors and point values to reflect ongoing changes in the modern workplace. Without constant attention they become quickly outdated.
- The focus on granular, specific factors encourages the viewpoint that any small change to a position warrants a review of the position and reclassification. This is not a best practice and is no longer a reality in the modern workplace.
- The rigidity of the compensation program promotes manipulation of the classification program. With no other way to reward employees, attempts to justify assignment to higher pay grades become the norm, resulting to too many titles, poor title assignment to jobs and "classification creep" of jobs to higher and higher grades. The result is internal equity problems, compensation compression and overpaying for labor.

Many of the factors currently utilized by Commission and Council institutions are no longer relevant to the modern workplace due to changes in the way work is completed, technology and changes to organizational structures. For example:

- Jobs in higher education are more likely in today's workplace to have both internal and external contacts due to technology and changes in processes. Therefore, differentiating jobs by internal or external contacts is probably not a good indicator of job grade.

- Physical coordination is not relevant to many office based jobs in the modern workplace and thus not a good indicator of job grade.
- Scope and Effect, Complexity and Problem Solving, and Freedom of Action are very likely to overlap considerably and are no longer sufficient ways to differentiate jobs.

Recommendations and Advantages of a Market Based Approach to Compensation

Mercer used the results of the market pricing study to develop the new market based salary structure for classified staff. As was previously mentioned the new structure consists of 12 pay grades with a 60% range spread from range minimum to range maximum. The midpoints of the new structure are based on the market rates for jobs found in those grades within the market. The new structure removes the "steps" based on years of service, thus opening up the pay ranges in order to provide necessary flexibility to enable institutions to attract and retain highly qualified staff at all levels of experience. The pay ranges associated with the grades are wide enough to accommodate a variety of experience and performance levels, from novice to expert, as well as any market shifts in any given year. An important principle of the new program is **"Managing pay within the grade"** and pay will be positioned in the range based on factors such as: skills, competency, job knowledge, experience, performance and/or institutionally established market position based on available budget. In order to meet these needs, the classified staff compensation plan has the following objectives:

- Establish and maintain a competitive compensation structure based on comparisons to appropriate external labor markets while also considering internal job worth.
- Articulate the relationship between institutional strategy and employee performance, recognition and rewards.
- Ensure that the compensation plan is administered strategically, consistently, effectively, efficiently, fairly and equitably.
- Deliver transparent and practical communication of compensation components to all employees.
- Ensure that all policies and practices are legally compliant with all relevant federal and state statutes, and designed to ensure sound stewardship over available compensation funding.
- Establish the principles and process for regular review of market position and effectiveness of policies.

The compensation program has been benchmarked against the markets within which each Commission and Council institution competes for talent. The appropriate markets have been tailored to the nature of the role and the job family. The job market includes:

- Public degree granting universities cut by student enrollment within a custom geographic region consisting of Maryland, Virginia, Ohio, Kentucky, North Carolina, Pennsylvania, Tennessee, South Carolina and Georgia.
- National, regional, and West Virginia not-for-profit and for-profit employers

- Bureau of Labor Statistics information on the Charleston, WV; Morgantown, WV; Huntington, WV/Ashland, KY; Wheeling, WV/OH; Beckley, WV; and Cumberland, MD/WV/PA Metropolitan Statistical Areas.

The program is applicable to all classified employees at each Commission and Council institution, the WV HEPC/CTCS central office and WVNET.

- Pay grades are assigned using "master classification specifications" that act as general descriptions of the type of work performed by each job and articulate the distinguishing characteristics between jobs and job levels.
- Provide clear administrative guidelines to guide managers in making appropriate pay decisions in a variety of employment situations.
- Advancement to a job in a higher career level is not automatic and requires taking on the more complex responsibilities associated with the higher level job as well as a demonstration of performance and competence in the current level as well as preparedness for the next level.

The salary administration guidelines provide front line supervisors as well as Human Resources Officers guidance on many different types of employment situations such as:

- Setting starting salaries
- "Managing Pay within the Grade"
- Changes in Job Content such as: how to compensate for additional duties that have permanently been added to a position; and temporary assignments
- Pay changes resulting from position reclassification, promotion, demotion and lateral transfers
- Off-cycle salary adjustments such as: Market adjustments, Internal Equity adjustments, Recognition Adjustments and Counter Offers
- Pay for Performance adjustments and best practices
- Program Maintenance

Benefits of the new market pay structure and associated salary administration guidelines reflect a number of positive advancements for management of classified staff compensation including:

- A move away from automatic salary increase requirements included in a "years of service" step structure
- Greater flexibility for institutions to use salary dollars to recruit the best talent and pay for performance, thus rewarding high performers
- Opportunities to offer competitive salary levels based on prior directly related job experience rather than the artificially low entry rates currently available if the candidate does not have prior service with the State of West Virginia
- Fair pay based on job responsibilities and market rates, not years of service
- Fair market pay for employees who may be undercompensated in the current system
- More strategic use of limited salary dollars

Summary

The Commission and Council hopes that this flexibility in compensation management will provide each institution the ability to quickly respond to changing workforce dynamics. Managing and rewarding critical talent will be a top priority to prevent the outflow of talent. The ability to pay for performance will be readily available. Employee segmentation and differentiation will play a key role in these efforts. With limited salary budgets, institutions will no longer be able to dole out one size fits all increases. Instead, they will need to invest money where they will get the most return-on high performers who have the specific skills and competencies the institution can't afford to lose. Institutions will have the flexibility to establish their own compensation market position using the tools and structure provided. Institutions will be empowered to make strategic decisions that promote a high caliber of work while improving employee morale and satisfaction, thus keeping high performers motivated, driving business results and better controlling compensation costs.

Next Steps

It is recognized that much work has to be done to ensure appropriate title and grade assignments. Upon implementation of the salary structure, jobs will be assigned to the pay grades recommended by Mercer consultants. Job Family reviews will begin immediately with full day work sessions of the Job Classification Committee (JCC) every two weeks. The JCC will compare institutional job descriptions or position information questionnaires (PIQs) against master classification specifications to ensure master specification accurately describe the jobs, required skills and competency requirements; as well as ensure the fair and equitable assignment of titles and grades across the systems.

Recommendations or goals for institutions to bring salary levels to at least the minimum in the pay grade will be developed. Although the most desirable implementation method would include funding at least the minimum in grade immediately upon implementation, the salary structure can be put in place without a large influx of funding from the legislature. Salary dollars once flagged for step increases can be used toward bringing salaries to the minimum the grade. As pay decisions are made, the guidelines require internal equity analysis to help identify and consider pay levels across the classifications. This will assist the institution to identify and correct compensation issues incrementally, while working toward funding goals for equitable, market competitive pay.