

# **STATE OF ALASKA PAY PLAN AND CLASSIFICATION STUDY**

*Final Report*

Revised July 23, 2013

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# Executive Summary

## Introduction

In September 2012, the State of Alaska's Department of Administration (DOA) engaged The Segal Company (Segal) to identify, plan, and initiate modifications to the State's classification and pay plans for the purpose of improving their transparency and effectiveness. Specifically, this report offers recommendations to improve the transparency and effectiveness of the classification and pay plans, and:

- Identifies strengths and weaknesses of current plans;
- Identifies strategic goals of the classification and pay plans;
- Develops a business case analysis for changes or alternatives to current plans that addresses effectiveness in meeting strategic goals, effect on administrative processes and implementation and ongoing maintenance costs; and
- Recommends job evaluation methods and pay plan structures that will meet the State's strategic goals.

## Background

The current State personnel system dates back to 1960-70. The Division of Personnel assumes responsibility for maintenance and creation of class specifications. The State has twice attempted implementing revisions to the Classification Plan, once in the early 1980's and once in the mid 1990's. Neither of these efforts resulted in permanent changes to the classification system.

The State's pay plan was developed concurrently with the Classification Plan and resembles a range and step structure with 26 overlapping ranges. The original schedule had six merit steps (A-F) that had approximately 3.5% increments. Since 1972, there have been modifications to the structure including adding ranges at the top and removing the pay range maximum. Currently, statutory provision provide a 3.75% increase for employees who have been at the top step (Step F) for two (2) years, and every two years thereafter if the employee receives a performance rating of good or better. The State's largest union, the General Government Unit, negotiated an additional merit step in 2000. Other unions representing positions in the Classified Service had negotiated variation on the six-merit step structure, but returned to it following the adoption of pay increments in statute.

There are currently 15 base salary schedules based on bargaining unit, overtime eligibility and strike class. The State maintains additional salary schedules that account for geographic differences and workweek differences.

## Methodology and Approach

To accomplish the goals and objectives of this project, Segal sought input from key stakeholders and examined the current classification and pay plans regulations, policies, practices, and procedures. The diagnostic review of the current classification and pay plans informed the development of both the strategic goals of the classification and pay plans and recommendations of changes and alternatives to these plans.

Our project plan included the following steps:

- Step 1. Conduct Initial Meeting and Develop Project Plan
- Step 2. Conduct Stakeholder Interviews
- Step 3. Review Current State Classification and Pay Plans
- Step 4. Develop Report and Business Case Analysis

Each of the steps is described in more detail below.

### **Step 1 – Initial Meeting and Project Plan**

Segal met with the State of Alaska's Project Team to:

- Gather input on the strategic goals, concerns, and issues regarding the State's classification and pay plans
- Gain consensus on the approach and desired goals of the study
- Clarify the roles and responsibilities of the Segal team and the State staff
- Establish parameters and protocols for communication between Segal and the State
- Review and discuss the preliminary project plan and timeline

### **Step 2 – Conduct Stakeholder Interviews**

Segal conducted interviews with the department Commissioner and/or senior leaders from each of the 14 Executive branch agencies as well as senior leaders from the Office of Management and Budget and the Division of Personnel and Labor Relations (DOP) to solicit their input, concerns and issues regarding the effectiveness of the current compensation and classification policies and how those systems meet (or do not meet) their operational needs.

We also interviewed union representatives to get labor's perspective on the strengths and weaknesses of the current classification and pay plans. The list of representatives interviewed follows:

#### *Agency Directors and Senior Leaders*

- Department of Administration
- Department of Commerce, Community and Economic Development
- Department of Corrections
- Department of Education and Early Development

- Department of Environmental Conservation
- Department of Fish and Game
- Department of Health and Social Services
- Department of Labor and Workforce Development
- Department of Law
- Department of Military and Veterans Affairs
- Department of Natural Resources
- Department of Public Safety
- Department of Revenue
- Department of Transportation and Public Facilities
- Division of Personnel and Labor Relations
- Office of Management and Budget

#### *Union Leaders*

- Alaska State Employees Association, AFSCME Local 52 representing the General Government Bargaining Unit
- Alaska Public Employees Association representing the Supervisory Unit and the Confidential Unit
- Alaska Correctional Officers Association representing the Correctional Officers
- Public Employees Local 71 representing the Labor, Trades and Crafts Unit
- Public Safety Employees Association representing the Public Safety Officers Unit

#### **Step 3 – Review Current State Classification and Pay Plans**

Segal reviewed the State's current regulations, policies, practices, and procedures, including:

- Applicable governing statutes and regulations
- Relevant personnel policy documents and manuals
- Relevant language from current collective bargaining agreements
- Current salary schedules and information on pay ranges and compensation policies
- Manuals or documents related to the current job evaluation system
- A description of how positions are classified and evaluated
- Organization charts, class specifications, statistics on distribution of employees by title and agency
- Prior consultants reports, including the Fox Lawson & Associates 2009 Salary Survey Report and the McDowell Group 2008 Alaska Geographic Differential Study

- Similar data, documents, and materials that will help us understand the current state of the State's classification and pay plans

### *Compensation*

We reviewed the State's pay structures, pay ranges, pay policies, supplemental pay practices, and other aspects of direct compensation. This analysis included an evaluation of the State's:

- Salary structures (number, type, design)
- Pay ranges (width, intervals between pay ranges, etc.)
- Policies related to step increases
- Supplemental pay policies and rules
- Other policies and practices that affect the State's ability to recruit, retain, and compensate and reward employees with pay

### *Job Classification*

Our review of the State's job classification policies included:

- The overall structure and design of the classification titling architecture (including number of titles, whether titles are appropriately specific or general, and similar issues)
- How the State categorizes and organizes titles in occupational groups, job families, and job series, including the number and type of levels within a series
- Whether the nomenclature of titles is modern and effective
- Whether the structure facilitates understanding and communication of potential career paths
- The titling guidelines and protocols
- Policies and rules regarding individual classification assignments
- The processes for classification reviews (who can request a review, how often, the process for evaluation, etc.)
- Whether and how the class specifications document the differences between jobs in a series, whether those differences are appropriate and helpful
- The structure, format, and types of information contained in class specifications

### *Job Evaluation*

The State has gone through several reviews of job evaluation approaches to maintain internal pay equity throughout the State. We assessed the current job evaluation approach and the strengths and weaknesses of potential alternative systems.

## Step 4 – Develop Report and Business Case Analysis

This report of our findings and recommendations:

- Identifies and describes the **strengths and weaknesses** of the current Pay and Classification plans. This section includes a summary of the perspectives and thoughts shared by the State's internal stakeholders, as well as our assessments and opinions.
- Identifies and describes the **strategic goals** of the classification and pay plans. Again, this will include a summary of the strategic goals articulated by the stakeholders, as well as our advice and guidance.
- Provides a **business case analysis** for changes or alternatives to the current plans and policies. This analysis addresses effectiveness in meeting the State's strategic goals, the potential effect on administrative processes, and the potential relative costs associated with implementation and ongoing maintenance.
- Identifies **job evaluation methods and pay structures** that we think will meet the State's strategic goals.

### Summary of Findings

Through our review of the State's current regulations, policies, practices, and procedures, and stakeholder input, we identified the following issues:

#### Pay Plan Issues

- Lack of a formal compensation philosophy to support pay design strategic focus
- Open ended salary schedules
- Complex structure of salary schedules
- Initial step placement policy that may hinder the State's ability to recruit experienced hires
- Poor integration of performance management with pay progression
- Pay compression between supervisors and subordinates
- Lack of retention tools
- Lack of skill base pay supplements
- Complexity and implementation of the geographic differentials
- External market competitiveness

## **Classification Plan and Job Evaluation Issues**

Based primarily on our stakeholder interviews, the following are a summary of concerns regarding the classification and job evaluation system the State currently maintains/utilizes.

### **Classification System:**

- Overly complicated and burdensome to use
- Too many job classes, not properly defined
- There is no clear, understandable, and defensible system regarding how jobs are evaluated from an internal equity perspective
- Current system is heavily subjective and not based on well-defined objective factors
- Certain class specifications are out-of-date and may not accurately describe work being performed
- Levels within a class series are not always clearly differentiated
- Class system emphasizes supervisory duties and does not account for project management duties that do not include direct staff supervision
- Is too heavily weighted on education and certifications
- System does not emphasize or value specialty skill sets or competencies
- Variance in quality and lack of consistency in language, format, etc. of position descriptions because there is no central review by DOP
- Sufficient consideration is not given to the “consequence of error” factor
- Lack of effective classification appeal process

### **Re-Classification Process:**

- Lack of consistency in position allocation outcomes (different classifiers yield different results)
- Mistrust in how the process is conducted
- Classifiers lack subject matter expertise
- Study process takes too long
- Direct supervisors have minimal role in process
- Study process is used as a potential pay delivery system

In summary, our concerns fall into two (2) broad categories:

1. Classification system is too cumbersome and complicated
2. The State’s Whole Job Evaluation Method is not providing adequate justification for how job classification/range assignment decisions are made

We provide a more thorough discussion on these findings and options for the State’s consideration in the **Classification System and Job Evaluation Issues** section of the report.

## Summary of Recommendations

### Pay Plan Recommendations

- Develop and adopt a formal compensation philosophy
- Develop new salary schedules with:
  - Market competitive years to maximum
  - Market competitive pay range maximum
  - Consistent range widths, range intervals, and, if applicable, step intervals
- Reduce the number of salary schedules
- Adopt salary structure design that aligns pay with the State's compensation philosophy; recommended options include:
  - Revised range and step structure- *longevity based*
  - Occupationally based pay structures- *longevity and/or performance based*
  - Range and step structure with mini steps- *performance based*
  - Open range salary structure- *performance based*
  - Hybrid salary structure- *combination of longevity and performance based*
- Consider implementing performance based pay in the form of variable base pay increases or bonuses
- Implement a more comprehensive performance management system that require annual performance reviews
- Revise the initial step placement policy to give hiring managers the ability to compensate candidates based on their prior job related knowledge and experience
- Identify and correct any pay compression issues between subordinates and supervisors
- Revise salary schedules to ensure a sufficient premium for supervisory responsibilities
- Consider implementing retention bonuses for long-term project completion
- Consider implementing skill based pay supplements
- Implement geographic differentials that are consistent across all employee groups and reflect the true cost-of-living differences based on the 2008 McDowell Group Alaska Geographic Differential Study or another reputable source
- Conduct a market study once every three years using best practice market study methodology, including:
  - Defining the job summaries based on current job duties and responsibilities
  - Defining labor market for each occupational group in which the State competes
  - Selecting jobs as benchmarks where the State is having difficulty recruiting and/or retaining employees

## Classification Plan Recommendations

### Classification Structure

We recommend the State consider conducting a Job Analysis study to accomplish the following:

- Ensure there is adequate, justifiable, and clearly communicated differences between job series levels (e.g. Accountant I, II, etc.)
- Create up-to-date class specifications reflective of work actually being performed and reflective of required minimum job requirements (education and experience)

We stress that a comprehensive job analysis study should be conducted **prior** to any development of a job evaluation system and the description of jobs contained in the class specifications will materially affect how jobs are evaluated.

If the State's class specifications do not accurately reflect work being performed, applying any job evaluation system to inaccurate class specifications will create a perverse and inaccurate job worth hierarchy.

### Job Evaluation

The State's current whole job evaluation method is not providing adequate justification for how job classification/pay range decisions are made. We recommend the State consider implementing a formal job evaluation system that would result in the following:

- Minimize subjectivity of reviewers and classifiers
- Predicate job range determinations on objective and understandable criteria
- Establish defensible range assignments
- Demonstrate linkage between job duties and job worth to the organization
- Ensure that jobs of equal value to the organization are compensated equally
- Consideration is given to “Consequence of Error” job factor – stakeholders want more emphasis on this factor

We have provided the State with a “menu” of job evaluation choices and discussed the pros and cons associated with each. We stress that effective job evaluation systems should be customized to the State's specific circumstances, such as organizational culture, staff and financial resources, and alignment with strategic goals and objectives.

# Pay Plan Findings and Recommendations

## Current State

Pay and pay administration decisions, policies and practices are governed by Alaska Statute (AS 39.25.150). According to the statute, the personnel rules must provide for:

- (1) the preparation, maintenance, and revision, by the Director of Personnel, subject to approval of the Commissioner of Administration and the Personnel Board, of a position classification plan for all positions in the classified and partially exempt services; the position classification plan must include
  - (A) a grouping together of all positions into classes on the basis of duties and responsibilities;
  - (B) an appropriate title, a description of the duties and responsibilities, training and experience qualifications, and other necessary specifications for each class of positions;
- (2) the preparation, maintenance, revision, and administration by the director of personnel of a pay plan for all positions in the classified and partially exempt services; **the pay plan**
  - (A) shall be based upon the position classification plan;
  - (B) must provide for fair and reasonable compensation for services rendered, and reflect the principle of like pay for like work;
  - (C) may be amended, approved, or disapproved by the legislature in regular or special session; after the pay plan is in effect, a salary or wage payment may not be made to a state employee covered by the plan unless the payment is in accordance with this chapter and the rules adopted under this chapter or unless the payment is in accordance with a valid agreement entered into in accordance with AS 23.40.

In addition to the statute, the State has some other elements of an informal compensation philosophy, including:

- Roles and responsibilities for administering and maintaining the pay plan
- Desired balance of external and internal valuation
- Desired market position and labor market definition
- Pay delivery approaches

The State legislature may amend, approve, or disapprove the pay plan in regular or special session. Division of Personnel and Labor Relations is responsible for implementing program

changes through effective training and communications, serving in an advisory capacity during implementation and ongoing administration, and evaluating the program against objectives.

Currently, the valuation of jobs is internally focused based on a set of eight factors that differentiate jobs. Salary studies are conducted periodically to ensure that jobs are externally competitive. The State targets 65<sup>th</sup> percentile of the market at entry. The 2009 Fox Lawson & Associates Study defined a local labor market and expanded labor market. Pay delivery is based on tenure in job. Although “acceptable” performance is required to receive pay increases, there is a weak link between pay and performance.

## **Salary Schedules**

The State’s current pay system is quite complex. It includes 15 unique salary schedules based on bargaining unit, overtime eligibility and strike class. These base schedules, by bargaining unit, are:

- ACOA Correctional Officers Unit
- APEA Supervisory (Class 1 and 2/3 Overtime Ineligible)
- APEA Supervisory (Class 1 and 2/3 Overtime Eligible)
- ASEA General Government (Class 1)
- ASEA General Government (Class 2/3)
- CEA Confidential Employees
- Executive Branch Employees Excluded from Existing Units and Partially Exempt & Exempt Executive Branch Employees
- Inland Boatman's Union (Southeast region)
- Inland Boatman's Union (Southwest region)
- LTC Labor, Trades & Crafts (Class 1 and Class 2/3)
- Masters, Mates & Pilots
- National Marine Engineers' Beneficial Association
- PSEA Airport Police & Fire Officers
- PSEA Public Safety Officers
- Teachers' Education Association of Mt. Edgecumbe

In addition to the 15 base schedules, the State maintains many additional salary schedules that account for geographic differentials and workweek differences. If the State has interest in having an occupationally based pay system, similar skill sets should be on the same pay scale.

For those schedules maintained by DOP, the majority of schedules are collectively bargained; however, schedules for non-covered classified Executive Branch Employees and those in the Partially Exempt service are set by State Statute. DOP negotiates and administers the contracts

for Inland Boatman's Union, Masters, Mates & Pilots, National Marine Engineers' Beneficial Association, and Teachers' Education Association of Mt. Edgecumbe, but these employees are not covered by the State classification or pay plans.

The salary structures vary in design across bargaining units and have inconsistent step and pay range intervals within individual salary schedules. **Table 1** shows the salary schedule design, interval between steps, and interval between pay ranges for all of the salary schedules. The pay range intervals are inconsistent and there is no formal pay range maximum to each pay range.

Most of the schedules are open-ended, pay range and step structures. Movement beyond Step F or G (as applicable) of the pay plan, which occurs biennially, is based on a satisfactory performance review.

**Tables 2 and 3** provide an analysis of the step and pay range intervals of General Government (GG) Class 1- 37.5 Hrs Salary Schedule in greater detail. For General Government (GG) Class 1- 37.5 Hrs Salary Schedule, the step intervals range from 2.4% to 4.2%. There is no discernible trend as to why the step increases vary, although for all pay ranges the largest step interval is between Step G (as applicable) and Pay Increment J, which is the first time employees have to wait two years to receive a pay increase. Other State pay schedules do not reflect this anomaly. The intervals between pay increments are all approximately 3.75%. Similarly, the range intervals vary from 3.4% to 7.6%. Again, there is no clear pattern in the variance of range intervals.

Typically, intervals between steps are a consistent percentage of pay or a fixed dollar amount that results in declining rewards on a percentage basis as an employee matures through a pay range. The structure of step intervals reflects increased "value" an employee brings as a result of added years of service. The design of the step structure both in terms of pay rate progression and the periods between steps should be aligned with the compensation philosophy.

This interval between ranges is usually formed to be consistent and reflective of market differences in pay ranges for job viewed as comparable from a job evaluation perspective. Inconsistent alignment both on an internal and/or external equity basis can result in jobs inappropriately compensated relative to market.

**TABLE 1**  
**SALARY SCHEDULE DESIGN**

Salary Schedule	Salary Schedule Structure	Interval Between Steps	Interval Between Ranges
ACOA Correctional Officers Unit	Range and step structure with no maximum	Inconsistent, intervals range from approximately 3%-3.8%	Inconsistent, intervals range from approximately 3.5%-7.5%
APEA Supervisory Class 1 Overtime Ineligible and Class 2/3 Overtime Ineligible	Range and step structure with no maximum	Inconsistent, intervals range from approximately 2.7%-3.8%	Inconsistent, intervals range from approximately 3.4%-7.5%
APEA Supervisory Class 1 Overtime Eligible and Class 2/3 Overtime Eligible	Range and step structure with no maximum	Inconsistent, intervals range from approximately 3.1%-3.8%	Inconsistent, intervals range from approximately 3.6%-7.1%
ASEA General Government Class 1 and Class 2/3	Range and step structure with no maximum	Inconsistent, intervals range from approximately 2.4%-4.2%	Inconsistent, intervals range from approximately 3.7%-7.6%
CEA Confidential Employees	Range and step structure with no maximum	Inconsistent, intervals range from approximately 2.8%-3.8%	Inconsistent, intervals range from approximately 3.4%-6.2%
Executive Branch Employees Excluded from Existing Units and Partially Exempt & Exempt Executive Branch Employees	Range and step structure with no maximum	Inconsistent, intervals range from approximately 2.6%-3.8%	Inconsistent, intervals range from approximately 3.7%-7.4%
Inland Boatman's Union (Southwest region and Southeast region)	Flat rate	Not Applicable	Not Applicable
LTC Labor, Trades & Crafts Class 1 and Class 2/3	Range and step structure with no maximum	Inconsistent, intervals range from approximately 3.5%-3.8%	Inconsistent, intervals range from approximately 4.5%-18.6%
Masters, Mates & Pilots	Flat rate	Not Applicable	Not Applicable
National Marine Engineers' Beneficial Association	Flat rate	Not Applicable	Not Applicable
PSEA Airport Police & Fire Officers and Public Safety Officers	Range and step structure with maximum	Approximately 3.7%	Approximately 7.6%
Teachers' Education Association of Mt. Edgecumbe	Range and step structure (3-6 steps depending on range)	Inconsistent, intervals range from approximately 2.9%-4.2%	Inconsistent, intervals range from approximately 2.9%-5%

**TABLE 2**  
**GENERAL GOVERNMENT (GG) CLASS 1- 37.5 HRS SALARY SCHEDULE**  
**STEP INTERVALS**

Pay Range	Step Interval (%)								
	Step A to B	Step B to C	Step C to D	Step D to E	Step E to F	Step F to G	Step G to Pay Increment J	Pay Increment J to K	Pay Increment K to L
5	2.6%	2.8%	3.1%	3.1%	2.4%	2.8%	4.2%	3.75%	3.75%
6	3.1%	3.1%	2.4%	2.8%	3.0%	3.1%	4.2%	3.75%	3.75%
7	2.4%	2.8%	3.0%	3.1%	3.2%	2.8%	4.2%	3.75%	3.75%
8	3.0%	3.1%	3.2%	2.8%	3.2%	3.3%	4.2%	3.75%	3.75%
9	3.2%	2.8%	3.2%	3.3%	2.7%	3.2%	4.1%	3.75%	3.75%
10	3.2%	3.3%	2.7%	3.2%	3.0%	3.3%	4.2%	3.75%	3.75%
11	2.7%	3.2%	3.0%	3.3%	3.1%	3.5%	4.1%	3.75%	3.75%
12	3.0%	3.3%	3.1%	3.5%	3.4%	3.5%	4.2%	3.75%	3.75%
13	3.1%	3.5%	3.4%	3.5%	3.6%	3.6%	4.2%	3.75%	3.75%
14	3.4%	3.5%	3.6%	3.6%	3.8%	3.2%	4.2%	3.75%	3.75%
15	3.6%	3.6%	3.8%	3.2%	3.8%	3.6%	4.1%	3.75%	3.75%
16	3.8%	3.2%	3.8%	3.6%	3.6%	3.4%	4.1%	3.75%	3.75%
17	3.8%	3.6%	3.6%	3.4%	3.5%	3.2%	4.2%	3.75%	3.75%
18	3.6%	3.4%	3.5%	3.2%	3.8%	3.1%	4.1%	3.75%	3.75%
19	3.5%	3.2%	3.8%	3.1%	3.7%	3.0%	4.2%	3.75%	3.75%
20	3.8%	3.1%	3.7%	3.0%	3.7%	3.1%	4.2%	3.75%	3.75%
21	3.7%	3.0%	3.7%	3.1%	3.6%	3.3%	4.2%	3.75%	3.75%
22	3.7%	3.1%	3.6%	3.3%	3.7%	3.3%	4.2%	3.75%	3.75%
23	3.6%	3.3%	3.7%	3.3%	3.8%	3.4%	4.1%	3.75%	3.75%
24	3.7%	3.3%	3.8%	3.4%	3.4%	3.6%	4.2%	3.75%	3.75%
25	3.8%	3.4%	3.4%	3.6%	3.8%	3.6%	4.2%	3.75%	3.75%
26	3.4%	3.4%	3.6%	3.8%	3.6%	3.8%	4.2%	3.75%	3.75%
27	3.4%	3.6%	3.8%	3.6%	3.8%	3.5%	4.2%	3.75%	3.75%

**TABLE 3**  
**GENERAL GOVERNMENT (GG) CLASS 1- 37.5 HRS SALARY SCHEDULE**  
**RANGE INTERVALS**

Pay Range Interval	Pay Range Interval (%)									
	Step A	Step B	Step C	Step D	Step E	Step F	Step G	Pay Increment J	Pay Increment K	Pay Increment L
<b>5 to 6</b>	5.5%	6.0%	6.3%	5.6%	5.3%	5.9%	6.1%	6.1%	6.1%	6.1%
<b>6 to 7</b>	6.3%	5.6%	5.3%	5.9%	6.1%	6.3%	6.1%	6.1%	6.1%	6.1%
<b>7 to 8</b>	5.3%	5.9%	6.1%	6.3%	6.1%	6.1%	6.6%	6.6%	6.6%	6.6%
<b>8 to 9</b>	6.1%	6.3%	6.1%	6.1%	6.6%	6.1%	6.0%	5.9%	6.0%	6.0%
<b>9 to 10</b>	6.1%	6.1%	6.6%	6.1%	6.0%	6.3%	6.4%	6.5%	6.4%	6.4%
<b>10 to 11</b>	6.6%	6.1%	6.0%	6.3%	6.4%	6.5%	6.7%	6.6%	6.7%	6.7%
<b>11 to 12</b>	6.0%	6.3%	6.4%	6.5%	6.7%	6.9%	6.9%	7.1%	7.1%	7.1%
<b>12 to 13</b>	6.4%	6.5%	6.7%	6.9%	6.9%	7.2%	7.3%	7.3%	7.3%	7.3%
<b>13 to 14</b>	6.7%	6.9%	6.9%	7.2%	7.3%	7.5%	7.1%	7.1%	7.1%	7.1%
<b>14 to 15</b>	6.9%	7.2%	7.3%	7.5%	7.1%	7.2%	7.5%	7.5%	7.5%	7.5%
<b>15 to 16</b>	7.3%	7.5%	7.1%	7.2%	7.5%	7.4%	7.2%	7.2%	7.1%	7.1%
<b>16 to 17</b>	7.1%	7.2%	7.5%	7.4%	7.2%	7.0%	6.8%	6.9%	6.9%	6.9%
<b>17 to 18</b>	7.5%	7.4%	7.2%	7.0%	6.8%	7.2%	7.1%	6.9%	7.0%	7.0%
<b>18 to 19</b>	7.2%	7.0%	6.8%	7.2%	7.1%	6.9%	6.8%	6.9%	6.9%	6.9%
<b>19 to 20</b>	6.8%	7.2%	7.1%	6.9%	6.8%	6.8%	7.0%	6.9%	6.9%	6.9%
<b>20 to 21</b>	7.1%	6.9%	6.8%	6.8%	7.0%	6.9%	7.0%	7.0%	7.1%	7.1%
<b>21 to 22</b>	6.8%	6.8%	7.0%	6.9%	7.0%	7.1%	7.1%	7.1%	7.1%	7.1%
<b>22 to 23</b>	7.0%	6.9%	7.0%	7.1%	7.1%	7.2%	7.3%	7.3%	7.3%	7.3%
<b>23 to 24</b>	7.0%	7.1%	7.1%	7.2%	7.3%	6.9%	7.1%	7.2%	7.2%	7.2%
<b>24 to 25</b>	7.1%	7.2%	7.3%	6.9%	7.1%	7.6%	7.5%	7.5%	7.5%	7.5%
<b>25 to 26</b>	3.8%	3.4%	3.4%	3.6%	3.8%	3.6%	3.8%	3.8%	3.8%	3.8%
<b>26 to 27</b>	3.4%	3.4%	3.6%	3.8%	3.6%	3.8%	3.5%	3.5%	3.5%	3.5%
<b>27 to 28</b>	5.5%	6.0%	6.3%	5.6%	5.3%	5.9%	6.1%	6.1%	6.1%	6.1%

The State has a number of compensation policies and practices that are guided by collective bargaining agreement and state regulations. This report examines the following and their implications:

- Initial Step Placement
- Pay Progression
- Promotion Pay Increases
- Pay Compression

This report reviews the State's practices for paying geographic differentials and ensuring base pay is market competitive.

### **Initial Step Placement**

In general, initial step placement in the Classified or Partially Exempt service can be granted up to Step F or G on the pay scale if the candidate is “exceptionally qualified” or recruitment is “extremely difficult.” Initial step placement policies vary somewhat by bargaining unit. Placement of new hires above the entry rate may be symptomatic of non-competitive pay rates for certain jobs for which the State recruits. The State needs to offer a market competitive initial salary to be able to recruit qualified and experienced employees.

### **Pay Progression**

Currently, employees progress through the pay scale based on tenure. For the first five (5) or six (6) years of service, a merit increase of one step in the pay range is automatically granted on the merit anniversary date to an employee whose performance is considered “acceptable” or better and of progressively greater value to the State. Only employees in the CEA bargaining unit and the Partially Exempt Service with “outstanding” performance are eligible for two step increases. Employees can be denied a step increase if their performance is documented as less than “acceptable” and the appointing authority takes proactive action to deny an increase. However, in practice employees with poor performance often receive increases because performance reviews are not conducted on-time and supervisors do not take appropriate action to prevent increases among other reasons.

After an employee has remained in the final step (Step F or G as applicable) within a given range for two years, and every two (2) years thereafter, employees are granted a pay increment if their annual rating is documented through a performance evaluation and is designated as “good” or better. A performance review is mandatory for employees to receive a pay increment.

The State lacks an effective performance management system that identifies performance issues early in a work career. Employees enjoy step increases and potentially go five (5) or six (6) years without a performance review. After five (5) or six (6) years, it would be much more difficult to correct any performance issues. Furthermore, even though performance reviews are mandatory after Step F or G (as applicable), many employees and supervisors view them as required paperwork, not as a tool for discussing and managing performance.

## Promotion Pay Increase

In general, upon promotion, an employees' new salary is the step at the higher pay range that equals at least a two-step increase in salary. It is important that employees receive a substantial increase for a promotion to provide a sufficient incentive to take on supervisory responsibilities and to prevent pay compression between supervisors and subordinates.

## Pay Compression

The State has been addressing pay compression between high-level professionals and middle management on an ad hoc basis. However, the State does not have a formal policy regarding preventing and correcting pay compression between supervisors and subordinates.

This is significant because pay compression creates equity concerns and may hurt employee morale.

## Geographic Differentials

Geographic differentials are mandated by State Statute (AS 39.27.020) for non-covered employees, Executive Branch Employees Excluded from Existing Units and those in the Partially Exempt service. The bargaining units negotiate geographic differentials.

Geographic differentials are designed to compensate State employees for variances in the cost-of-living. Geographic differentials and workweek differences are overlaid on base salary schedules resulting in the 20 base pay schedules expanding to more than 100 schedules that incorporate geographic differentials.

The State periodically conducts geographic differential studies to determine the cost-of-living in different regions and communities. The State has conducted geographic differential studies in 1970, 1972, 1976, 1985, 1995, and 2008. McDowell Group (McDowell) conducted the most recent geographic differential study in 2008.

## External Market Competitiveness

The State periodically conducts market studies to determine the State's market position. In 2009, Fox Lawson & Associates (Fox Lawson) conducted a salary survey of 179 benchmark titles. The purpose of the study was to determine if, overall, the State's base pay was market competitive.

Fox Lawson worked with the Department of Personnel alongside 14 agencies to select benchmarks that were highly populated, likely to have several matches in the surveyed labor market, and representative of their respective job family. The survey also included questions on health benefits, paid time off, and longevity pay.

Sixty-five peer employers participated including the Federal government, other states, municipal governments, healthcare organizations, universities, school districts, utilities, native corporations, engineering firms, airports, and ferry systems. The study categorized benchmarks into one of two labor markets:

- The local labor market (all in-state organizations) plus surveyed state governments
- An expanded market that included private and public sector organizations outside the state for professional/management level jobs

Fox Lawson also referenced 11 published data sources to supplement the custom survey data.

Fox Lawson prepared job summaries based on the State's class specifications and summaries prepared by the State to aid peer employers in making matches.

The Fox Lawson survey found that "the State's entry salaries were competitive to highly competitive, depending on which percentile compared with the market (11.2% above median, 7.2% above 60<sup>th</sup> percentile, and 5.0% above 65<sup>th</sup> percentile)." The survey focused on pay at entry because the State does not maintain pay range maximums.

## Pay Plan Issues

Through our review of the State's current regulations, policies, practices, and procedures, and stakeholder input, we identified the following issues:

- Lack of a formal compensation philosophy to support pay design strategic focus
- Open ended salary schedules
- Complex structure of salary schedules
- Initial step placement policy that may hinder the State's ability to recruit experienced hires
- Poor integration of performance management with pay progression
- Pay compression between supervisors and subordinates
- Lack of retention tools
- Lack of skill base pay supplements
- Complexity and implementation of the geographic differentials
- External market competitiveness

## Pay Plan Recommendations

For each of these issues, we recommend changes and alternatives to current pay plan elements. Our recommendations include the strengths and weakness of each alternative, including the potential effect on administrative processes and the cost implications associated with implementation of these recommendations.

We note that some of these recommendations will have to be negotiated in collective bargaining.

### Lack of a Formal Compensation Philosophy

A formal compensation philosophy would define:

- The goal of the pay plan and how it aligns with the organizational goals

- The desired market position, including the labor markets the State should compare itself to
- The desired mix of total compensation elements
- The degree to which pay increases are determined by performance ratings
- How the State values jobs (internal vs. external focus)
- The role of the State Legislature, Division of Personnel and others in governing and administering the pay plan
- How the plan will be communicated to employees

However, the State lacks a formal compensation philosophy to support its human resources strategy, including its ability to recruit and retain qualified employees.

### *Stakeholder Feedback*

Many stakeholders said the current pay plan lacks a strategic focus. As a result, the State is unable to react quickly to organizational needs.

Some stakeholders said that employees enjoy the generous work/life balance that the State provides and have a desire for telecommuting. Stakeholders believe these benefits can, to a certain extent, offset lower compensation. The State should continue to value work/life balance as an important element in the total compensation package.

### *Segal Observations*

The State has some elements of an informal or de facto compensation philosophy:

- Governing statute (AS 39.25.150) which defines the purpose of the pay plan and the roles and responsibilities of the Division of Personnel and the State Legislature in administering and maintaining the pay plan
- Target market position of pay range minimum at 65th percentile
- Labor market as defined by the 2009 Fox Lawson & Associates Study
- Job evaluation system that considers internal equity based on eight factors
- Pay delivery is primarily based on tenure in job and after five or six years of service performance is also a determinant of pay progression

The purpose of a formal compensation philosophy is to link the compensation strategy to the organization's mission and strategic plan, provide tactical direction for total compensation policies and practices, and improve transparency of pay and pay administration.

Additionally, there are flaws with the elements of the State's de facto compensation philosophy:

- The State is targeting the pay range minimum at the market 65<sup>th</sup> percentile but there is no target to anchor the maximum of the pay ranges.

- Labor markets surveyed may not accurately reflect where the State competes for talent for certain occupational groups.
- The job alignment approach does not produce consistent results for the same or similar jobs and does not give weight to important responsibilities such as managing large projects.
- Performance management is a determinant of pay progression. However, the State lacks an effective performance management system.

We will discuss these issues in greater detail in the Open Ended Salary Structures, External Market Competitiveness, Classification Recommendations, and Integration of Performance Management with Pay Progression sections of the report.

### *Recommendations*

We recommend the State adopt a formal compensation philosophy. The philosophy should support the State's human resources strategy and organizational mission and vision, articulate the State's goals and intentions with regard to compensation plan design, and provide a strategic direction for future compensation decisions.

We have provided the State with two (2) compensation philosophy options, as shown in **Table 4**.

#### **Option 1**

Option 1 is similar to the State's current approach that rewards tenure in job based on satisfactory performance. Annual step movement is predicated on a satisfactory, annual performance review. Step progression is limited by a market competitive pay range width. Because all employees receive automatic pay increases, the State may wish to pay at market.

For Option 1, the desired market position is the 50<sup>th</sup> percentile of the market midpoint. Organizations target pay at market when they need to offer market competitive salaries and benefits in order to attract and retain staff.

The valuation of jobs considers internal equity across the State. In other words, the valuation of jobs would consider the comparative internal value of Budget Analyst I & II and Budget Analyst I & Labor Relations Analyst I. This approach ensures there is internal equity throughout the State.

Option 1 corrects the State's current approach by:

- Requiring annual performance reviews
- Limiting the maximum number of steps in the range and anchoring the top of the pay scale
- Defining the labor market for benchmarks based on the occupational group and employee category (non-exempt, professional, exempt jobs and executive management team)
- Recalibrating the job evaluation system to produce consistent results and value the desired competencies

## **Option 2**

Option 2 rewards performance; tenure in job does not affect pay. If the State chooses to reward employees based on performance, employees' actual base pay increases will vary based on their performance rating. High performers may progress quickly through the pay range while it will take average performers longer to reach the pay range maximum. The pay range width will be consistent with the market.

For Option 2, the desired market position is the 65<sup>th</sup> percentile of the market midpoint. This is consistent with the State's current informal compensation philosophy to lead the market. Organizations choose to lead the market when they require highly skilled, experienced employees and want to retain highly qualified staff. Organizations may also choose to lead the market when they place a higher value on base pay than other total compensation elements. However, leading the market may be unpopular with the public who may perceive public sector workers as overcompensated compared to the private sector.

The valuation is based on internal equity within each job family and does not consider pay equity across the State. Using the example above, Option 2 would consider the internal equity of Budget Analyst I and II and would not take into account the internal equity of Budget Analyst I and Labor Relations Analyst I. This allows the State the flexibility to respond to market fluctuations for the more market sensitive occupational groups. The other occupational groups may be more internally focused.

**TABLE 4**  
**COMPENSATION PHILOSOPHY OPTIONS**

Compensation Philosophy Element	Description
Purpose / Organizational Alignment	<p>Total compensation, including pay and benefits, shall be aligned with the State's human resources strategy and support the State's overall ability to recruit and retain a high quality workforce. It must provide for fair and reasonable compensation for services rendered, and reflect the principle of like pay for like work.</p>
Comparison Markets & Competitive Position	<p>Competitors will include public sector employers that have similar services within the State and outside the State for select job classifications</p> <p>Competitive positioning will, depending on job classification, take into account:</p> <ul style="list-style-type: none"> <li>➤ Public sector data</li> <li>➤ Private sector data</li> <li>➤ A blend of public and private sector data</li> </ul> <p><b>Option 1</b></p> <p>Pay ranges will be market competitive and established based on pay set at the 50th percentile of the market pay range midpoint. Progression within pay ranges will be governed by years of service (steps) and satisfactory performance.</p> <p>Geographic labor markets for the determination of competitive compensation will vary based on occupational group as follows:</p> <ul style="list-style-type: none"> <li>➤ Statewide: Non-exempt and professional, exempt jobs</li> <li>➤ Statewide and Nationally: For select professional jobs</li> <li>➤ Nationally: Executive Management Team</li> </ul> <p><b>Option 2</b></p> <p>Pay ranges will be market competitive and established based on pay set at the 65<sup>th</sup> percentile of the market midpoint. Progression in pay ranges will be governed by performance.</p> <p>Geographic labor markets for the determination of competitive compensation will vary based on occupational group as follows:</p> <ul style="list-style-type: none"> <li>➤ Statewide: Non-exempt jobs and professional and technical, exempt jobs</li> <li>➤ Statewide and Nationally: For select professional and technical jobs</li> <li>➤ Nationally: Executive Management Team</li> </ul>
Total Compensation Elements & Prominence	<p>While base salary is an important component of the State's total compensation package, there are other components, which bring value in attracting and retaining employees. The total compensation package will take into account other elements such as variable pay, paid time off, medical benefits, recruitment benefits, and certain fringe benefits that are determined appropriate.</p>

**TABLE 4 *Continued*  
COMPENSATION PHILOSOPHY OPTIONS**

Compensation Philosophy Element	Description
Performance Measurement and Goal Setting	High performance is both the expectation and the standard at the State. Performance evaluations will be conducted annually based on pre-established goals, and work achieved at or above and beyond the established goals. Movement within a pay range shall be governed by the outcome of performance evaluation process.
Internal vs. External Valuation	<p>It is important that the State is able to attract the best and brightest employees that are capable of achieving its mission.</p> <p><b>Option 1</b> The valuation of jobs will be market-based by job family and internally valued for non-benchmark jobs to support pay equity across all State jobs</p> <p><b>Option 2</b> The valuation of jobs will be market-based by job family and internally valued for non-benchmarks jobs within each respective job family</p>
Governance and Decision Making	<p>HR will be responsible for the design of the compensation program, related policies, and definition of objectives, subject to approval of the Executive Team</p> <p>HR will implement program changes through effective training and communications, will serve in an advisory capacity during implementation and ongoing administration, and will evaluate the program against objectives</p> <p>Departments will be responsible for supporting implementation and will be accountable for ongoing administration, based on parameters and guidelines set by HR</p>
Communication / Openness	<p>HR will communicate and promote the State's cost of total rewards and determine appropriate timing for information sharing</p> <p>Compensation and classification policies and practices will be consistently and clearly communicated to managers and staff</p> <p>Managers will be trained on how to implement and manage compensation and classification policies and practices</p>

### Funding

The State needs to ensure there are sufficient funds available to support the compensation philosophy. If the compensation goals outlined in the philosophy are not achieved, it will hurt employee morale and employees may lose confidence in the Division of Personnel and Labor Relations.

We think that for performance based pay systems to be effective, the merit pool must be regularly funded in order to add legitimacy, credibility, and stability to maintaining a performance based reward approach to pay delivery.

## **Open Ended Salary Structures**

The majority of the State's salary schedules are open ended, range and step structures with no pay range maximum. For Steps A-F or G (as applicable), employees receive an automatic step increase every year. After Step F or G, employees with a satisfactory performance review receive a pay increment biennially.

Open ended salary structures may result in employees being overcompensated, compared to the labor market, based on tenure in job.

### *Stakeholder Feedback*

Some stakeholders were concerned that the salary schedules do not have a pay maximum and employees could potentially be paid more than their market value and/or more than their value to the State. Stakeholders also feel that salary structures lack flexibility to respond to market changes in different industries.

### *Segal Observations*

The current open-ended schedules lack flexibility in terms of maintaining market competitiveness, hiring, and aligning rewards with outcomes.

The current salary structures also lack consistent step and pay range intervals as shown previously in **Table 1**. Consistent step and range intervals make pay administration simpler and more efficient.

### *Recommendations*

We recommend the State develop new salary schedules reflecting market competitive years to maximum, pay range maximums, and consistent pay range widths, pay range intervals, and step intervals (if applicable). We recommend several alternative types of salary structures to address these concerns and to achieve the pay plan's strategic goals:

- Range and step structure with competitive numbers of years to reach the pay range maximum
- Occupational based pay scales
- Performance based pay structures
  - Range and step structure with mini steps
  - Open range salary structure
- Hybrid pay structure

Our alternative salary structures are based on the identified strengths and weakness of the current salary schedules as well as the strategic goals of the different compensation philosophy options.

## **Market Competitive Range and Step Structure**

One option for the State to consider is a range and step structure with a market competitive pay range maximum and years to maximum. Of all the recommended salary structures, this is the most similar to the States' current salary schedules.

Open ended step structure may lead to overcompensating employees based on years of service. By comparison, it takes employees 18 years to progress from the pay range minimum to the maximum on the Federal Government General Schedule (GS), 19 years on the City and Borough of Juneau pay scale for unrepresented employees/Marine Engineers Beneficial Association, and 5 years on the Municipality of Anchorage pay scale for Municipal Employee Association scale. We recommend the State reinstitute a pay range maximum to ensure that the State does not pay more than the market value of a job. The pay range maximum should be consistent with the market average pay range maximum for each job title.

Range and step schedules are very structured and, as a result, pay increases are predictable since employees progress through the pay range based on tenure in job and in the case of the State, satisfactory performance. The structured pay increases also makes it easy to forecast future costs based on the workforce demographics. This approach is consistent with a compensation philosophy that rewards tenure on the job.

Because the proposed system is similar to the current system, there would be little change to the current administrative processes and minimal implementation costs. We do, however recommend that all step progression be predicated on at least satisfactory performance rating.

Nonetheless, with range and step structures, pay cannot be differentiated based on performance. While the cost of the pay progression is predictable, it creates an entitlement environment of escalating costs as the workforce ages. Additionally, the automatic step progression based on tenure in job may be unpopular with citizens.

## **Occupationally Based Pay Scales**

The State currently has some occupational based salary schedules such as a separate scale for Labor, Trades, and Crafts. However, for the largest employee groups (General Government, Confidential, Supervisory, and Non-Covered) salary schedules are inclusive of different occupations across different labor markets. The current pay plan does not give the State the tools to respond to changes in market conditions, particularly when those changes only affect select occupational groups.

The State should consider occupationally based pay scales where there would be a different salary schedule for each of the State's 12 occupational groups (e.g. Administrative and Office Support, Legal, Judicial, & Related, Physical Sciences & Engineering, and Medical, Public Health & Related, etc.). This recommendation would reduce the number of base schedules by half.

Occupationally based pay scales are designed to give the State more flexibility to respond to market conditions by occupational group. Additionally, it allows the State to be more market

sensitive for some occupational groups and more internally focused for other occupational groups. Occupationally based pay scales would support a compensation philosophy that ties pay levels to different labor markets that reflect competition for various occupations.

There are some implementation and reoccurring financial and administrative costs associated with implementing an occupationally based pay scale. The State would have to negotiate with the labor unions to reduce the number of salary schedules. The State would have to conduct periodic market surveys to ensure salary schedules are adjusted to reflect changes in market conditions for different industries.

The occupationally based pay scales could maintain a step structure, could reflect open ranges or any of the other alternative pay structures that we have recommended.

### **Performance Based Pay Structure**

Some stakeholders would like to be able to reward high performers with larger pay increases. Performance based pay differentiates pay by performance-level and aligns employee's pay with individual, agency, and State goals. Performance based pay systems can be popular among the public because it is consistent with common private sector practices and recognizes employee contributions to program outcomes.

There are some additional administrative burdens associated with performance based pay structures. It is critical that there are specific and measurable goals, documentation of performance, and justification for differentiating performance. This may require additional training to ensure supervisors have the knowledge, skills, and abilities necessary to differentiate performance.

Implementing an effective performance management system requires oversight from DOP to ensure that performance ratings are fair and performance rating criteria are applied consistently across supervisors, agencies, and other similar equity considerations. It will also require additional administrative paperwork for supervisors and DOP.

For the performance based pay system to be successful at the State, there would need to be a significant culture change. Currently, the State has a performance review process but lacks the robust performance management system necessary for performance based pay to be successful. For example, supervisors are not held accountable for conducting timely, annual performance reviews for all employees or for differentiating performance. Culture change is not easy and often requires a significant investment of time and money.

If the State does switch to a performance based pay system, we highly recommend that the State transition from performance evaluations on employees' anniversary date to focal point review, where all employees have their performance evaluation at the same time. There are advantages and disadvantages to both anniversary dates and focal point reviews, as shown in **Table 5**. In terms of performance based pay systems, the major advantage of a focal point review is that it is easier to budget for pay increases.

**TABLE 5**  
**ADVANTAGES AND DISADVANTAGES OF  
DIFFERENT PERFORMANCE REVIEW DATES**

Date of Performance Review	Advantages	Disadvantages
<b>Employee's Anniversary</b>	➤ Spreads out administrative burden throughout the year	➤ Difficult to budget for pay for performance increases or bonuses ➤ Reviews may “slip through the cracks”
<b>Focal Point</b>	➤ Easier to identify employee's contribution towards departmental or unit goals ➤ Easier to budget for the impact of any variable pay increases or bonuses	➤ Supervisors and HR spend a lot of time on administrative paperwork during review time ➤ Employee may not get enough one-on-one attention with supervisor who has a lot of direct reports

Pay progression based on performance is more subjective than pay progression based on tenure. As a result, there is a greater potential for grievances over employee performance evaluations and related pay decisions.

It is also more difficult to determine long-term expected costs for performance based pay structures than range and step structures.

### **Range and Step Structure with Mini Steps**

A mini step structure is similar to a traditional range and step structure except there are more steps and the percentage increase between steps is reduced. Unlike a traditional range and step structure, employees progress through the pay scale based on a combination of service and performance. High performing employees can receive multiple steps in a given year. This option is consistent with a compensation philosophy that rewards for performance and tenure in job.

The structure should be easily understood by supervisors and employees because it has many similarities with the current salary schedules. Typically, mini steps are easier to administer than open ranges.

One disadvantage of mini step structure is less flexibility in determining base pay increase amounts, which is determined by the number of steps and percentage increase between steps.

## **Open Range Salary Structure**

An open range salary structure has a pay range minimum and maximum. Employees progress through the pay range based on variable base pay increases, which are determined by performance. Open pay ranges are common in the private sector and are becoming more common in the public sector.

Open range structures provide a lot of flexibility in determining the pay increase amount. In addition to performance, variable pay increases may be based on additional factors such as an employee's position in the range, distribution of ratings, the merit budget, etc. In the sample Performance Matrix below, pay increases are determined by the employee's position in the range (Quartile 1, 2, 3, or 4) and the employee's performance rating. Typically, these plans have a cap on the maximum pay increase to ensure that the system is not abused and employees do not top out at the pay range maximum too quickly.

### **SAMPLE PERFORMANCE MATRIX**

	<b>Quartile 1</b>	<b>Quartile 2</b>	<b>Quartile 3</b>	<b>Quartile 4</b>
Does Not Meet Expectations	0%	0%	0%	0%
Meets Expectations	6%	5%	4%	3%
Exceeds Expectations	8%	6%	5%	4%

Open range salary structures are consistent with a compensation philosophy that rewards performance.

While flexibility in determining pay increases is an advantage of open range structures, it can also be a disadvantage. As mentioned previously, oversight from DOP is required to ensure the performance system is properly managed and the variable pay increases are equitable.

## **Hybrid Salary Structure**

Another option is a hybrid salary structure. The hybrid salary structure has advantages of both the range and step structure and open ranges. The hybrid salary structure pays employees for time in job from the pay range minimum to the midpoint as the employee learns and becomes proficient in performing the job. When employees reach the midpoint (or market focal point) of the pay range they should be competent in the majority of the job duties. After the pay range midpoint, pay increases are based on performance. Hybrid salary structures are consistent with a compensation philosophy that rewards both tenure in job and performance.

The hybrid salary structure also has many of the disadvantages of the range and step structure and open ranges as well. In the first half of the pay range, employees and supervisors may be frustrated that pay cannot be differentiated by performance. This option requires additional effort to implement and maintain an effective performance management system. It is also more difficult to budget for open ranges. This structure would also require changes in the salary administration processes.

A hybrid salary structure may be confusing to supervisors and employees and would require communication and training to explain the structure and pay progression guidelines.

### **Range Width, Range Intervals and Step Intervals**

We recommend salary schedules have pay range widths, range intervals, and step intervals that are consistent across the schedule and in line with the WorldatWork standards.

WorldatWork recommends pay range widths of 20-30% for service, production and maintenance jobs, 30-40% for clerical and administrative jobs, 40-50% for professional and supervisory jobs and 50% or more for managerial and executive jobs. These pay range widths are typically reflective of surveyed market ranges.

WorldatWork recommends midpoint differentials of 5-12% for clericals/production jobs, 8-15% for paraprofessional and professional jobs, and 20-35% between ranges for executive levels.

For range and step structures, we also recommend consistent step intervals across the salary structure.

The recommendations for range width and step intervals are consistent with market best practices. Additionally, consistent range widths and range and step intervals facilitate pay administration.

### **Complex Structure of Salary Schedules**

The State has too many base salary schedules. The variations of salary schedules based on workweek, geographic differential, and other factors further complicate the pay plan administration.

#### *Stakeholder Feedback*

Stakeholders believe there are too many salary schedules. The number of salary schedules makes administrative processes unnecessarily tedious and complex.

#### *Segal Observations*

The number and complexity of salary schedules affects the State's ability to efficiently administer and maintain the pay plan.

The pay structures cut across occupational groups where the market may treat occupational groups in a different manner.

#### *Recommendations*

We recommend the State reduce the number of salary schedules to simplify the pay plan and facilitate salary administration.

As previously mentioned, one option the State should consider is developing a salary schedule for each of the 12 occupational groups. This would reduce the number of pay scales in half. This option allows the State the flexibility to consider the external market competitiveness by occupational group. Occupationally based pay schedules are consistent with a compensation philosophy that values internal equity within a job family.

Another option is to create one salary schedule that would apply to all or most of the State jobs. This would make pay administration significantly easier but may be difficult to bargain. This option is consistent with a compensation philosophy that values internal equity across the State and places more emphasis on internal equity than external market competitiveness.

If the State does create new salary schedules, we strongly recommend the State conduct a comprehensive compensation and classification study to determine the appropriate range assignments for each class specification. The compensation study should be conducted first to determine the market competitiveness of the benchmark jobs. Benchmark jobs should be assigned ranges on the new salary schedule consistent with the State's desired market position (e.g. 50<sup>th</sup> percentile or 65<sup>th</sup> percentile of the market midpoint outlined in the compensation philosophy). Then a classification study should be conducted to evaluate the internal equity of jobs. Classification findings will be used to slot the non-benchmark jobs on the new salary schedule. Depending on the State's compensation philosophy, the classification study may compare jobs within job families or with job families and across the State.

## **Initial Step Placement Policy**

The State's initial step placement policy limits starting salaries to Steps A-F or G (as applicable) of the pay range. Pay ranges, subject to market competitiveness, may affect the State's ability to recruit experienced hires because hiring managers do not have the flexibility to pay higher starting salaries (past Step F or G) for candidates with additional or specialized knowledge and/or experience.

### ***Stakeholder Feedback***

Hiring managers feel that being limited to offer candidates initial salaries of Step A-F or G (as applicable) on the pay range hinders their ability to attract experience and highly qualified candidates. This is compounded by the fact that hiring managers believe the pay range minimums for many professional, scientific, and technical jobs are below market.

The Fox Lawson study found that overall the State was competitive at entry. Nonetheless, stakeholders believe many professional, scientific, and technical jobs are below market and the study results were misleading because they did not include enough of these jobs and did not accurately define the competitive labor market. The Fox Lawson survey did not include many of these professional, scientific, and technical jobs because they were single incumbent and/or specialized jobs that were not highly representative of their job family. Stakeholders believe that the study defined the labor market too broadly and the State's jobs are not competitive against their biggest competitors for talent.

## *Segal Observations*

Currently, hiring managers have limited flexibility to offer initial salaries above Step A. The State needs to have the ability to compensate candidates based on their prior job related knowledge and experience in order to attract qualified, experienced applicants to work for the State.

## *Recommendations*

We recommend that the State first evaluate the competitiveness of their pay ranges to support competitive hiring.

Typically, we recommend candidates meeting the minimum qualifications are hired in the first quartile of the pay range with highly qualified candidates offered salaries within the second quartile of the pay range (up to the pay range midpoint).

There are some sample policies regarding starting salary below:

*Sample Policy Language 1: Generally, initial pay for new hires will be within the first third of the pay range (Steps 1 through 7 of the General Pay Schedule). Senior Management may approve exceptions, based on the following factors: the candidate's experience and qualifications, market conditions, level of urgency of the recruitment, pay levels of existing employees, recommendations of the HR department, or similar considerations.*

Sample policy language 1 is similar to the State's current policy but more factors are considered in determining starting salary such as market conditions.

*Sample Policy Language 2: It is our general policy that new employees should be hired at the lower steps or portions of the applicable range and advance through the range at the normal progression. However, it is recognized that a number of factors may justify a higher starting salary. Mid-range and upper range placements may be requested and considered based on extraordinary qualifications, internal equity considerations or as necessary to attract particular candidates.*

**Step Plans:** Managers are strongly encouraged to hire employees into the lowest possible step of the range in order to prevent employees from “topping out” too quickly and to extend the opportunities for step increases. Approval requirements are as follows:

Above Step 5	Chief Administrator
Up to Step 5	Human Resources Director
Up to Step 3	Department Head or Elected Official
Step 1	Hiring Manager

**Merit Plan:** Generally, new employees should be hired in the 1st or 2nd quartiles. Consideration should be given to previous work experience combined with labor market conditions, and internal equity and compression. Approval requirements are as follow:

4th quartile	Chief Administrator
3rd quartile	Human Resources Director
2nd quartile	Department Head or Elected Official
1st quartile	Hiring Manager

Giving hiring supervisors the tools to offer market competitive starting salary and/or match leave under certain circumstances will improve the State’s ability to recruit experienced, highly-skilled candidates, particularly for professional, scientific, and technical jobs.

Of course, by offering higher starting salaries the State will incur the recurring cost of higher base pay. Additionally, depending on how the policy is structured, it may require additional administrative processes and paperwork for hiring supervisors, DOP and/or senior management.

## Integration of Performance Management with Pay Progression

As mentioned previously, employees progress automatically from Step A to Step F or G (as applicable) depending on employee group unless the employee receives a less than satisfactory performance rating and their supervisory takes timely and proactive action to deny an increase. After Step F or G, an employee must receive a performance review to receive a pay increment. Performance reviews are supposed to occur annually on an employee’s anniversary date. However, there is a lack of accountability for supervisors to conduct performance reviews on-time, especially during an employee’s first five or six years of performance.

### Stakeholder Feedback

According to many stakeholders, supervisors are not held accountable for conducting reviews on time (especially during the first five or six years of service) and reviews frequently take place months after an employee’s anniversary date. Late performance reviews cause complications and additional work for Payroll.

Additionally, stakeholders feel that the current performance review process is ineffective at managing, coaching, and improving performance. If the State were to consider performance based pay, the State must first address the performance review process.

### *Segal Observations*

The State lacks a robust performance management system. For the system to be effective, supervisors must be held accountable for differentiating performance and conducting punctual reviews.

### *Recommendations*

Regardless of whether the State decides to adopt a compensation philosophy that rewards based on tenure in the job or performance, we recommend the State implement a more comprehensive performance management system. This would include mandatory mid-year and annual performance reviews.

The State needs to ensure that all supervisors have the knowledge, skills, and abilities, and the willingness to differentiate performance. Then the State must hold supervisors accountable for accurately measuring and differentiating performance. The State also should hold supervisors accountable for conducting punctual reviews.

Performance management is important because it helps identify gaps in performance or skills, facilitates meaningful dialogue between supervisors and employees, and provides important documentation to justify terminations or promotions.

## **Pay Compression between Supervisors and Subordinates**

Pay compression between supervisors and subordinates is an issue for the State. Pay compression causes internal equity concerns, creates disincentives for employees to become supervisors, and may hurt employee morale.

### *Stakeholder Feedback*

We heard from both agency and union representatives that pay compression is a significant issue between supervisors and subordinates. In many agencies, the State is having difficulty finding employees who are willing to move into supervisory roles such as Accountant V and supervisory nursing jobs because the supervisory premium is so small. Pay compression between supervisors and subordinates is a significant issue because it creates disincentives for employees to take on supervisory responsibilities.

Stakeholders also feel that pay compression is also an issue between experienced professional, scientific, and technical employees and managers/executives. For example, in the Department of Transportation, engineers received market adjustments that caused engineers' pay to bump up against the managers/executives in the department.

Pay compression may cause equity issues and may also hurt employee morale.

### *Segal Observations*

Based on stakeholder input, pay compression between subordinates and supervisors and professional, technical, and scientific jobs and managers/executives appears to exist at the State

and is creating a disincentive for employees to take on supervisory responsibilities. This causes serious equity concerns.

### *Recommendations*

We recommend the State develop a formal pay compression policy to address these issues. The formal policy may define what is an appropriate differential between subordinates and supervisors and outline corrective actions DOP may take if pay compression exists.

Additionally, we recommend the State develop new salary schedules with a sufficient differential between supervisors and subordinates. WorldatWork recommends 15-25% midpoint differential between supervisors and their subordinates. The midpoint differential standard may be inconsistent with market differences between job classifications in a career ladder.

Developing a formal pay compression policy and providing a sufficient supervisor differential will incentivize more employees to become supervisors and address pay equity issues.

Pay compression policies may also add unnecessary rigidity to pay administration, where a flexible, ad hoc approach may be more desirable.

### **Lack of Retention Tools**

The State has limited retention tools to incentivize employees to remain employed at the State. The State lacks a:

- Strong link between pay and performance
- Tool to incentivize employees to stay for the duration of a major project

### *Stakeholder Feedback*

The State has difficulty retaining specific groups of employees such as attorneys with 4-10 years of service, Oil and Gas Revenue Auditor, and other experience professional, scientific and technical employees. Currently, managers have limited tools to retain high performing employees. Some stakeholders would like the ability to differentiate pay based on performance. Certain outstanding performers may currently be granted a two-step increase (CEA and Partially Exempt Service only), but this practice is not commonly implemented because of the amount of time and effort it takes to get the necessary approvals and complete the required paperwork.

The State has also experienced retention issues by losing key personnel that possess specialized knowledge and skills on high priority, complex, and/or expensive projects. When these employees leave in the middle of a project, the project often stalls, misses deadlines, and/or goes over budget. Agencies that frequently experience this problem feel that they would benefit from project completion bonuses, which incentivize employees to stay through the duration of the project.

In addition, many stakeholders feel that pay compression issues are affecting the State's ability to retain employees and incentivize qualified employees to become supervisors.

## *Segal Observations*

Retention issues result from the State's lack of differentiating rewards based on performance, lack of incentives for employees to complete projects, and lack of flexibility for salary matching should State employees be offered opportunities elsewhere.

## *Recommendations*

Stakeholders are concerned about the retention of employees, specifically employees with specialized knowledge and skills and high performers. We recommend the State should consider policies and pay supplements to address these retention issues, including:

- Performance based pay
  - Variable pay increases
  - Bonuses
- Retention bonuses for project completion
- Promotion Pay Increase Policy
- Pay Compression Policy

We also have recommendations for the Classification Plan that will help address retention issues.

### **Performance Based Pay**

As previously mentioned, performance based pay can be delivered through open ranges with variable pay increases or mini steps. Performance based pay can also be delivered as a lump sum bonus. Both variable pay increases and bonuses based on performance will reward and motivate high performers. Performance based pay may incentivize high performing employees to stay with the State because they feel they are adequately recognized and compensated for their contribution.

Bonuses are less costly than pay increases because they are not base building. However, employees may not view bonuses as a large enough incentive to affect consistent, long-term performance. In addition, budgeted bonus dollars may lead to a culture of "automatic" bonuses based on funded amount.

The State may wish to implement performance based pay only for those more market sensitive occupational groups. For example, it may make sense for Legal, Judicial, & Related to move towards a performance based pay approach because they compete largely against the private sector where this a common practice. For Public Safety, it may be harder to accurately measure and differentiate performance and therefore the State may wish to reward tenure in job instead of performance. The State would have to consider the internal equity and employee morale considerations associated with offering rewarding performance for some occupational groups and tenure in job for other groups.

## **Bonuses for Project Completion**

Several agencies have had issues where key personnel with specialized knowledge left in the middle of a high-priority project. It caused the project to stall and ultimately take longer and cost more than anticipated. One solution to this specific retention problem is to offer bonuses to employees for project completion. These bonuses incentivize employees to stay with the State through the duration of the project (recognizing that employees may leave the State after the project is completed), which will facilitate the successful completion of these major projects.

In general, the cost of the bonuses will be significantly less than the cost of replacing key personnel in the middle of a project.

It is important that any eligibility requirements are clearly drafted and communicated. This will help mitigate feelings of favoritism that only certain people or agencies are eligible for bonuses.

There will be some administrative costs associated with implementing project completion bonuses, including time spent developing and validating bonus eligibility and completing the required paperwork.

## **Salary Matching Policy**

The State should consider implementing a salary matching policy that would apply to certain critical areas. The policy would give the State the ability to match salaries of current employees offered employment elsewhere as a tool to retain talent.

## **Ensuring proper pay increases with promotions and sufficient supervisory differentials**

A well-maintained pay system rewards employees for promotions and facilitates appropriate pay differentials between supervisors and subordinates. As described previously, we recommend the State develop a policy to address and alleviate pay compression.

## **Lack of Skill Based Pay Supplements**

The State has positions that require specialized knowledge, skills, and abilities. The State lacks a way to recognize and reward these knowledge, skills, and abilities.

## **Stakeholder Feedback**

According to some stakeholders, the State is having trouble recruiting and retaining specialized professional, technical, and scientific jobs such as Attorneys with certain specialties, Oil and Gas Revenue Auditors, Corrosion Engineers and Petroleum Geologist because the private sector pays more for these specialties. Many stakeholders and union representatives would like to recognize and reward employees for these specialized knowledge, skills, and abilities with skilled based pay and certification pay.

Skill based pay recognizes and rewards specialized knowledge and skills that add value to the State. Skill based pay also motivates employees to acquire knowledge and skills the State rewards for.

## *Segal Observations*

The State has positions that require specialized knowledge, skills, and abilities. Some agencies and union representatives would like to recognize and reward employees for these specialized knowledge, skills, and abilities with skilled based pay and certification pay.

According to 2010/2011 Towers Watson Survey on Compensation Policies & Practices, 70.9% of organizations pay for non-degree, non-credit, professional certifications such as Project Management certifications.

## *Recommendations*

We recommend the State consider skill based pay and certification pay to recognize and reward specialized knowledge, skills, and abilities. Agencies should be consulted to see what, if any, skills or certifications the State may want to reward for. This conversation is essential to ensure that the State is only rewarding for knowledge, skills, and abilities that add value to the State.

One advantage of skill based pay is that job classes can be broader because specialties can be recognized and rewarded through skilled based pay, as opposed to a more rigid system with separate class specifications and pay rates for each skill/specialty.

However, there are some disadvantages for the State to consider when thinking about implementing skill based pay. There is a direct cost associated with providing pay supplements. There are also an indirect administrative costs associated with providing pay supplements, including maintaining records on employees' qualifications and certifications and ensuring pay supplements are correct in payroll.

Pay supplements can quickly become complicated and expand into areas that may not be necessary. There is also a risk that the State may be paying employees for skills that are necessary and valued at the State, which an employee possesses but does not use, in their current role.

## **External Market Competitiveness**

There were some issues with the Fox Lawson report methodology, including inaccurate job summaries for some of the benchmark jobs (because the summaries referenced out of date class specifications) and inaccurate definition of the labor market for some occupational groups.

Many stakeholders believe some professional, scientific, and technical jobs are paid below market. These jobs were underrepresented in the Fox Lawson study because many of them are single incumbent or highly specialized. The State needs to conduct additional analysis to determine if these jobs are market competitive.

## *Stakeholder Feedback*

Overall, stakeholders feel that the State lacks the ability to respond to the market and as a result pay for some occupational groups and jobs are not market competitive. Market competitive pay is critical to recruiting and retaining qualified employees.

### **2009 Salary Survey Report**

The 2009 Fox Lawson Salary Survey Report found that overall the State's pay is in general market competitive. Nonetheless, stakeholders believe pay for many State jobs is not at market. Stakeholders have the following concerns about the survey:

- Select jobs were inaccurately defined
- Labor markets were inaccurately defined for select occupational groups
- Specialized jobs that were not selected as benchmarks are below market

Many stakeholders believe that some of the benchmark summaries did not accurately define the work being performed. Job summaries were based on the State's class specifications, many of which are outdated. If the job summaries inaccurately describe the jobs then respondents may have matched the wrong job and the pay data is not meaningful.

Stakeholders also believe the survey did not accurately define the labor market for two reasons. First, stakeholders believe the labor markets were defined too broadly. The Fox Lawson study assigned each benchmark to one of two labor markets: the local labor market plus surveyed state governments or the expanded labor market including public and private sector organizations outside the state. Stakeholders believe these labor markets do not accurately reflect whom they actually compete with for talent (where they recruit from and lose employees to). As a result, the survey findings may include data that is not relevant.

Secondly, stakeholders believe that some key competitors do not appear to have been included in the survey. The survey was not sent to any oil and gas companies, which are competitors for talent for many State jobs (e.g. Oil and Gas Revenue Auditor, Environmental Impact Analysis Manager, and Biometrician). It was unclear from the survey methodology if Fox Lawson used an oil and gas industry cut from the published data to augment the custom survey. The survey also did not include quasi-government agencies such as the Alaska Railroad Corporation, which is a competitor for Department of Commerce, Community and Economic Development and Department of Revenue.

The report did not provide a detailed breakout of how the State compares to market sectors or individual respondents (for the public sector). This is significant because stakeholders believe pay for some occupational groups is not competitive with the biggest competitors for talent. For example, pay for specialized professional, scientific, and technical jobs are not competitive with their competitors: Federal Government and the private sector organizations, especially oil and gas companies. Pay for health and human services jobs is not competitive against native

corporations and the private sector, especially in more remote areas. Pay for many Revenue and Commerce jobs is not competitive with the quasi-governmental agencies that these agencies work very closely with.

While the 2009 study included some professional, scientific, and technical job titles, many of these jobs were not included in the survey because they are single incumbent and/or not very representative of other jobs in the job family. Stakeholders believe the State is having trouble recruiting and retaining these jobs because they are not paid at market. Stakeholders feel additional analysis is necessary to determine the market position of select professional, scientific, and technical job titles.

The Fox Lawson study compared data for two jobs with different specialties to determine if pay varied by specialty (Forensic Scientist-Chemistry & Forensic Scientist-DNA and Nurse II & Nurse-Psychiatric). Agencies believe there is a significant premium for certain specialties in their respective labor market and would like the State to conduct additional analysis as to what, if any, additional pay would be appropriate. For example, stakeholders would like to understand how the general scientific and technical jobs (engineers, biologist, geologists, geophysicist, etc.) compared to those same jobs with specialties such as petroleum, minerals, and corrosion.

Stakeholders are also frustrated because there were not any pay increases or changes to the pay structures as a result of the study.

### *Segal Observations*

We have identified some methodological concerns with the Fox Lawson study. The survey only reported the overall market competitiveness of each benchmark; it did not show competitiveness by market sector or each peer employer (for the public sector). While this achieved the State's objective of determining the overall market competitiveness of pay at entry, the State now needs a more granular analysis of how competitive the State is against specific market sectors and competitors across the entire pay range.

### *Recommendations*

#### **Market Study Methodology**

We recommend the State conduct a market study at least once every three years covering a representative sample of all of its occupational groups and job titles and make adjustments to pay range assignments as necessary to be positioned at the target market position as defined in the compensation philosophy. Competitive pay is essential to recruiting and retaining qualified employees.

Division of Personnel should track where employees are being recruited from and where the State is losing employees to. This information should be used in combination with discussion with the agencies to define the labor markets that may differ by occupational group.

Benchmarks that are representative of the distribution of the work force (pay ranges, agencies, job families, unions, etc.) and likely to have matches. The State may also wish to include a few jobs as benchmarks for which the State has had particular difficulty recruiting and/or retaining employees. Typically, we recommend the State select highly populated jobs as benchmarks, whereas these select benchmarks may be single incumbent jobs. Nonetheless, given stakeholder concerns about the market competitiveness of many specialized and/or single incumbent professional, scientific, and technical jobs, particular attention should be given to including some of these jobs as benchmarks.

The State may wish to include questions on salary structure design, pay supplements (e.g. retention bonuses and skill based pay supplements), and policies (e.g. initial step placement policy and pay progression policy) to assess the competitiveness of the State's pay administration policies and practices.

We recommend that, in addition to examining the State's overall market competitiveness and competitiveness by benchmark, the State examine:

- Overall market competitiveness by sector (e.g. public sector, private sector, and non-profit)
- Overall occupational group market competitiveness
- Occupational group market competitiveness by sector
- Benchmark market competitiveness by sector
- Benchmark market competitiveness compared to each respondent (Note: This comparison is likely not possible for private sector organizations)

These additional comparisons will provide the State a more holistic view on the competitiveness of pay.

# Classification Findings and Observations

## Current State

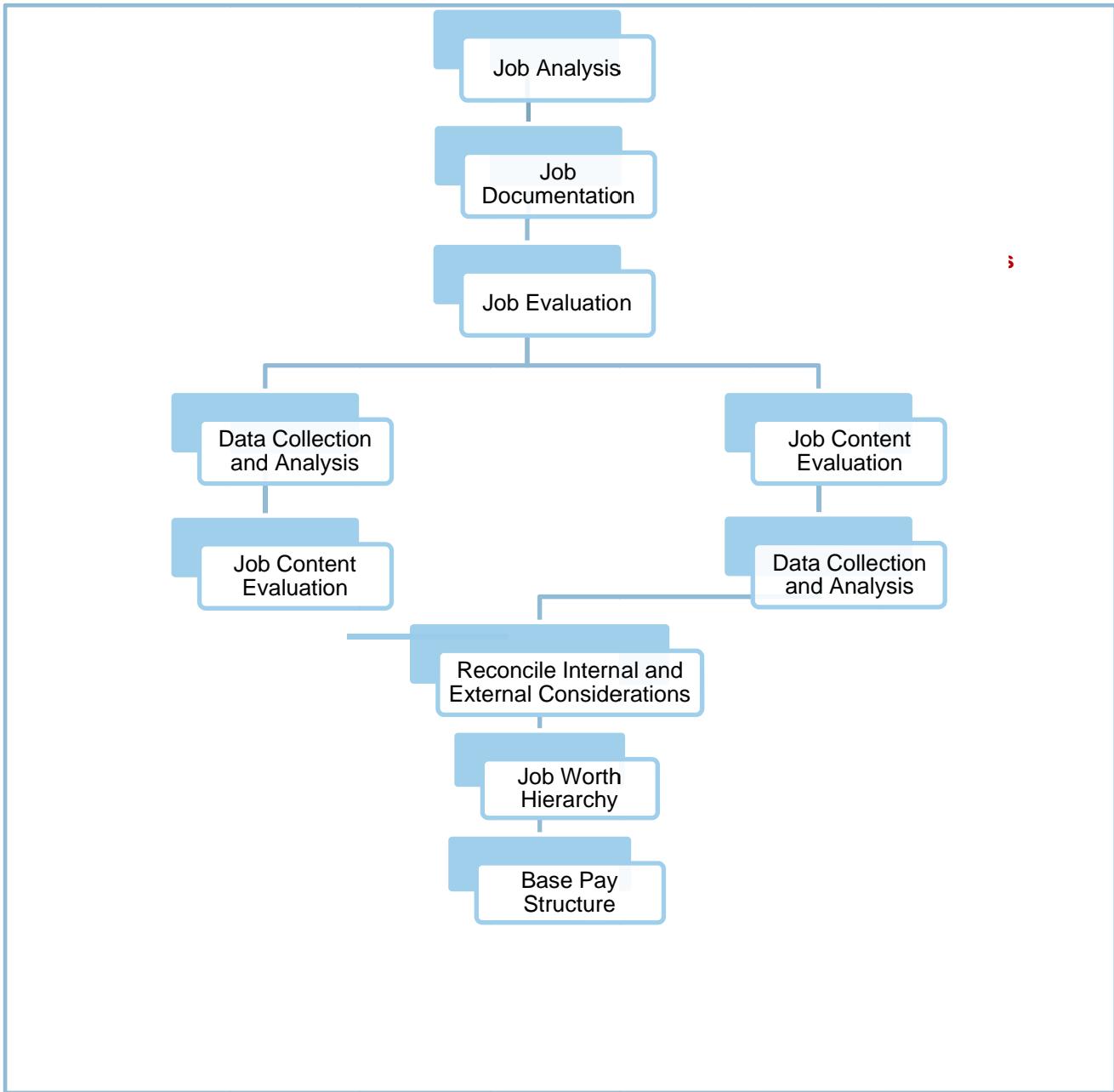
The process of building and maintaining the State's base pay structure is predicated upon the following major steps:

- Determining the nature and variety of work performed within the organization (Job Analysis)
- Developing class specifications
- Determining classification structure
- Determining internal equity among and between jobs (Job Evaluation)
- Assigning pay ranges and determining base pay structure (result of Job Evaluation)

The State of Alaska's classification plan covers positions in the classified and partially exempt (PX) services. The State uses the Whole Job Method as its classification / job evaluation method.

In this section, we outline the features of the classification system as well as the Classification Study Process, which details how the State evaluates, analyzes, and categorizes the work activities of its labor force.

## Building a Base Pay Structure



We find that the State's classification study process contains many elements typically found in successful job analysis systems, especially in the "Job Analysis" and "Job Documentation" phases. For example, referencing the process chart above, the State's current process for collecting and analyzing job content information (duties, responsibilities, skills, etc.) is in line with common practices found in the public sector. The major steps for collecting and documenting job content information are consistent with the State's approach, including:

- Job Analysis Questionnaires or other primary source job data collection (interviews, desk audits, etc.)

- Development of job family matrices (summaries of job duties, levels within the series, reporting relationships, etc.)
- Development of class specifications

However, we think the State's ***job evaluation*** process (called Whole Job Classification) may be contributing to the concerns about the functioning and efficacy of the State's Classification system. Fundamentally, many of the concerns about the Classification System can be linked to the complaint that ***there is inadequate justification for how job classifications are made.***

The State may want to consider alternative approaches to job evaluation. The strengths and weaknesses associated with the major types of job evaluation systems is described in more detail on the following pages.

## Classification Plan and Job Evaluation Issues

Based on Segal interviews with key stakeholders, we identified the following concerns/issues with the current classification structure:

### **Classification System:**

- Used as a tool for pay increases without commensurate increases in job duties
- Overly complicated and burdensome to use
- Too many job classes, not properly defined
- There is no clear, understandable, and defensible system regarding how jobs are evaluated from an internal equity perspective
- Current system is heavily subjective and may not be based on well-defined objective factors
- Certain class specifications are out-of-date and may not accurately describe work currently being performed
- Levels within a class series are not always clearly differentiated
- Class system emphasizes supervisory duties and does not account for project management duties that do not include direct staff supervision
- Is too heavily weighted on education and certifications
- System does not emphasize or value specialty skill sets or competencies
- Variance in quality and lack of consistency in language, format, etc. of position descriptions because there is no central review by DOP
- Sufficient consideration is not given to consequence of error
- Lack of effective classification appeal process

### **Re-Classification Process:**

- Lack of consistency in position allocation outcomes (different classifiers yield different results)
- Mistrust in how the process is conducted
- Classifiers lack subject matter expertise

- Study process takes too long
- Direct supervisors have minimal role in process
- Study process is used as a potential pay delivery system

In summary, our concerns fall into two (2) broad categories:

1. Classification system is too cumbersome and complicated
2. The State's Whole Job Evaluation Method is not providing adequate justification for how job classification/pay range decisions are made

As an example of the cumbersome and complicated process the State uses to evaluate, analyze, and categorize work, we summarize the guidelines of the State's Classification Study Process, which provides the framework for how the State's classification structure is created.

## State's Classification Study Flow Chart



Classification studies are used to evaluate if individual positions and job classes are classified correctly, according to the guidelines and job evaluation factors. Potential study outcomes could include:

- Class series may be broadened or collapsed
- Specialty classes may be established or abolished
- Ranges may be increased or decreased for a class
- Individual positions may be reallocated up, down or to a same-range different class
- Positions' bargaining unit may change; and positions' FLSA status may change

## 1) Conduct Study Planning Meeting

If Personnel determines there is sufficient information to warrant a study, the next step is conducting a study planning meeting process that encompasses the following steps:

- Background research (review class study request, examine class outline to identify similar classes/series that should be considered in setting the study scope, etc.)
- Study planning meeting will:
  - Identify and discuss issues or concerns motivating the study request
  - Identify study objectives/goals and potential problems and reach agreement on scope of study (job classes to be included)
  - Identify study contacts and Occupational Consultants
  - Establish communication plan and project deadlines

## 2) Occupational Analyst Review

After process details are determined, the Division representative will meet with the Occupational Analyst to discuss the scope of the study and information to be collected through position descriptions and through desk audits.

Generally, information covered in these sessions covers the following topic areas:

- 1) General information about the work, such as:
  - Activities that define the work and how they have changed since the last study
  - The role employees outside of the study classes play in the workflow
  - The role of non-employees in the work activities
  - Specialized training or education that is required to do the work
- 2) Information about the organization and workflow, such as:
  - The current hierarchy of the organization and how the work flows through the hierarchy
  - The changes to the organization or workflow that have happened since the specifications were last reviewed

- The changes to the organization or workflow that have been proposed, planned, or are in the process of being implemented
- The process for work review and checks for error

### **3) Agencies Update Position Descriptions**

At the beginning of a study, supervisors are typically required to review, update, and submit for classification a position description for each position in the study.

### **4) Desk Audits and Interviews**

A common method of collecting job information is the desk audit. This is an opportunity for the employee to explain the job directly to the classifier and for the classifier to gain first-hand knowledge of the job.

The desk audit and/or interview may include observations and questions regarding:

- The incumbent's duties, such as reports prepared, records maintained, or equipment operated
- The most difficult and complex task
- The most routine, repetitive task
- Work assignments, processes, etc., that will clarify the classification factors, such as examples of when approval or direction from the supervisor is necessary
- Any job information the incumbent would like to have considered

### **5) Additional Job Content Data Collection**

The Study Analyst, usually in consultation with the Study Supervisor, will determine what additional data sources are needed based on the nature of the work being studied and the issues the agencies are having with the job classes. These additional sources may include:

- **Supervisory Interviews-** A supervisor may be the only source of position information regarding new or vacant positions or when reorganization is being implemented. In general, a supervisor is best at providing occupational and organizational information, providing an overview of the position, and placing the position into context within the section and agency.
- **Group Interviews-** During a classification study, a group audit may be a more efficient way to gather information about similar positions. For example, a group meeting could yield a comprehensive list of tasks for a particular job. Managers and supervisors can identify benchmark positions that represent the full range of proficiency and expertise within a series or group of positions.
- **Statutes and Manuals-** Statutes, regulations, training manuals, Standard Operating Procedures and departmental policies and procedures provide information about the rules and regulations that govern the work performed by the position. These and other sources may provide information about relevant classification factors such as authority exercised and the knowledge and training required.

- **Specialized Questionnaires**- A tailored questionnaire may be helpful when studying a class series that has many positions. The questionnaire allows the classifier to gather information from a larger sample of incumbents than would otherwise be possible.

## 6) Job Analysis

Job analysis is the systematic process of making certain judgments about the important information relating to the nature of a specific job. Job analysis is concerned with a position's duties and responsibilities, reporting relationships, skill requirements, and other elements that govern its allocation to a particular class. It involves the comparative analysis of facts about a position to identify the principal characteristics. When these characteristics meet existing classification standards, a position is allocated to an established class in the organization's classification plan. When a position does not fit an established class, a new class may be created.

The commonality among all formal job analysis models is that the results clearly demonstrate the job relatedness of the minimum qualifications and any assessment device, in that they:

1. Systematically document job tasks.
2. Determine the frequency that a task is performed, assess the relative importance of tasks, and evaluate how critical each task is to successful job performance.
3. Identify the knowledge, skills, and abilities (KSAs) needed to perform the work and demonstrate their relationship to the tasks.
4. Distinguish between KSAs required at entry and KSAs required for full performance of the job.
5. Establish the relative importance of specific work in the performance of the job as a whole.
6. Document a logical relationship between the KSAs and the minimum qualifications.

## 7) Class Grouping/Structure

There are three steps to the Class Grouping:

1. Group Individual Position Descriptions into Job Classes
2. Group Job Classes into Class Series Categories (Professional, Administrative, Technical and Clerical) using JE Factor 1 (described on pg. 52)
3. For each Class Series, Assign Levels to Job Classes (entry, trainee, developmental, journey, advance, lead, supervisor, or manager) using JE Factors 2-8 (described starting on pg. 52)

### *Step 1. Group Individual Position Descriptions into Job Classes*

A job class is a group of one or more positions that are sufficiently similar with respect to duties and responsibilities, degree of supervision exercised and received, and entrance requirements so that:

1. The same title can be used to clearly identify each position.
2. The same minimum qualifications for initial appointment can be established for all positions.

3. The same rate of base pay can be fairly applied to all positions.
4. Employees in a particular class are considered an appropriate group for purposes of layoff and recall.

A job class should be constructed as broadly as feasible as long as the tests of similarity are met.

*Step 2. Group Job Classes into Class Series Categories (Professional, Administrative, Technical and Clerical) using JE Factor 1*

If the information covers more than one of the categories below separate class specifications should be written. A class series should not cross from one type to another. These class series categories are as follows:

- **Professional:** Work is creative, analytical, evaluative, interpretive, and requires a range and depth of specialized and theoretical knowledge in a field of science or learning characteristically acquired through education or training equivalent to a bachelor's degree or higher. The work requires the exercise of discretion, judgment and personal responsibility for the application of an organized body of knowledge that is constantly studied to make new discoveries and interpretations, and to improve data, materials and methods.
- **Administrative:** Work involves the exercise of analytical ability, judgment, discretion and personal responsibility, and the application of a substantial body of knowledge of principles, concepts and practices applicable to one or more fields of administration or management. While these positions do not require specialized education, they do involve the type of skills (analytical, research, writing judgment) typically gained through a college level education, or through progressively responsible experience. Employees engaged in administrative work are concerned with analyzing, evaluating, modifying and developing basic administrative support programs, policies and procedures, that facilitate the work of agencies and their programs.
- **Technical:** (also called Paraprofessional) Work is typically associated with and supportive of a professional or administrative field. It involves extensive practical knowledge gained through experience and/or specific formal or on-the-job training. Work in these occupations may involve substantial elements of the work of the professional or administrative field, but requires less than full knowledge of the field involved. Technical employees perform tasks, methods, procedures, and computations that are covered by established precedents or guidelines and often require a high degree of skill, care, and precision.
- **Clerical:** Work involves processing data normally initiated elsewhere, or easily ascertained and that is subject to verification, revision, correction and forwarding for action, referral, or archiving. The work is structured, often repetitive and performed in accordance with established guidelines.

Determinations should be made using JE Factor 1-Nature, variety and complexity of work. The Factors are defined in more detail in the section called "Current Job Evaluation Factors". Factors 2-8 are not considered in this step.

*Step 3. For each Class Series, Assign Levels to Job Classes (entry, trainee, developmental, journey, advance, lead, supervisor, or manager) using JE Factors 2-8*

In this step, positions are grouped together based on similar kind and level of to determine the number and type of levels for a class series. According to the procedures, Classifiers should first define and describe the journey level, however in practice the comparisons is all relative.

These class series levels are:

- **Entry:** Assignments consist of basic or elementary tasks and duties. This level is appropriate when these tasks and duties constitute the primary purpose of one or more positions and are ongoing. This level is the entry into a series, typically after high school or college. Experience gained at this level will qualify an incumbent for the next level.
- **Trainee:** Similar to the entry level but includes as a significant duty the completion of training to perform at the journey level. The goal is to provide training to perform journey level work. This level is suited for flexibly staffed or coupled classes.
- **Developmental** (or advanced trainee): Assignments involve completion of limited, well-defined projects or completion of portions of the journey level work for the purpose of furthering the incumbent's training. This level occurs in occupations with an identified journey level that requires an extended training period with distinct, progressive levels or phases of training.
- **Journey** or Full Working: Work involves a variety of assignments that are typical of the field or profession. Incumbents perform the full range of assignments independently, using standard methods and techniques of the field. This level usually requires both knowledge and experience in the related job area as a minimum qualification for entry into the class. Most positions in an organization should fall into this level. In some instances, this is the first level in the series.
- **Advanced** level: Assignments consist of unusual, difficult or exceptional matters encountered in the work, which are completed by modifying approaches, methods or techniques. Advanced level work represents expertise in a specialty area. Specialists in particular aspects of a profession sometimes fit into this category. There must be clear distinctions between the advanced level and the journey level.
- **Lead:** Work involves continuous lead responsibility over employees while also performing the same or similar work. Lead responsibilities include instructing and training staff, assigning and checking work, setting task priorities, and preparing evaluations. Lead responsibilities may also include involvement in appointing or promoting, but not at the level of full supervisory authority.

The following may be considered a type of work or a level. Unless specific circumstances dictate otherwise, these would be established as a class or class series separate from the classes or class series of employees supervised or managed.

- **Supervisor:** Assignments include the authority and responsibility to effectively recommend or independently take action to employ (appointment, transfer, and promotion), discipline or discharge, or adjudicate the grievances of a subordinate employee or employees.

- **Manager:** Primary assignment is the managerial responsibility and responsibility for a major program or programs. Emphasis is on planning, organizing, directing and controlling resources and program delivery. This level may be separated from the series and titled "chief" or "program manager".

Determinations should be made using Job Evaluation Factors 2-8:

- Factor 2. Nature of supervision received by the incumbent.
- Factor 3. Nature of available guidelines for performance of work.
- Factor 4. Initiative and originality required.
- Factor 5. Purposes and nature of person-to-person work relationships.
- Factor 6. Nature and scope of recommendations, decisions, commitments, and consequence of error.
- Factor 7. Nature and extent of supervision exercised over the work of other employees.
- Factor 8. Qualifications required.

The Job Evaluation Factors are described in more detail below. Factor 1 is not explicitly considered in this step of the process as it is used in the prior step, which identified class series.

### *Job Evaluation Factors*

#### **Factor 1. Nature, variety and complexity of work.**

“Nature” includes the kind of work performed as shown by such elements as the subject matter, profession or occupation involved. “Variety” as applied to a position includes the range of duties and the inherently different kinds of work included in the position. As applied to a class, it reflects the range of kinds of work and skills which are included in the class. “Complexity” includes the difficulty in identifying what needs to be done, and the difficulty and originality involved in performing the work.

To evaluate this factor the following should be considered:

- What subject matter, profession, occupation or function is involved?
- What skills, knowledge and techniques are applied?
- Are the various tasks in the same or related subject matter fields?
- Are the various tasks of a recurring type or do they present non-repetitive problems?
- Are assignments made to the position selected on the basis of difficulty?

#### **Factor 2. Nature of supervision received by the incumbent.**

“Supervision received” refers to the nature and extent of deliberate, planned supervisory controls exercised over the incumbent of the position or, in relation to a job class, typically exercised over incumbents in a class of positions which limit the scope of work, the independence with which it is performed, and the nature and finality of decisions. Indications of the supervisory controls include the basis for selection of work assignments, the nature of direct instructions or advice from a supervisor the incumbent receives, and the extent and degree to which actions and decisions are limited by review of all cases, by spot checks, or review of the program for effectiveness or for conformity with policy.

To evaluate this factor the following should be considered:

- From whom does the employee receive instructions?
- What type of instructions are they and how general or detailed?
- Is supervision over the position technical, functional, or administrative?
- Is the work reviewed during process or upon completion?

- Is the work product given a technical review or is it reviewed only for compliance with administrative matters?

### **Factor 3. Nature of available guidelines for performance of work.**

This factor relates to the extent to which performance of the work is controlled or influenced by rules, regulations, manuals, procedures, prescribed work practices, principles, policies, or other written instruction or methods.

To evaluate this factor the following should be considered:

- How do manuals, rules, regulations, and policies control the employee's work?
- Are policies and procedures governing work general or specific?
- How much initiative or latitude is the employee allowed to plan or execute the work?

### **Factor 4. Initiative and originality required.**

This factor concerns the degree of inventiveness, imagination, and ability to innovate or create that is required in the work, the extent to which the work requires new approaches or previously unused methods and deviations from standard work practices. The resourcefulness or ingenuity required to solve new problems or old problems in new ways is the crux of this factor.

To evaluate this factor the following should be considered:

- How much initiative is allowed to decide how to accomplish the assignment?
- How much and what type of review is given to the work while in process?
- Does the work require development of new methods or procedures?
- Does the work require adapting existing methods to fit the assignment?
- Does the work require developing solutions to problems for which no existing solution exists?
- Does the work require analysis and evaluation of the recommendations of others in relation to the above?

### **Factor 5. Purposes and nature of person-to-person work relationships.**

This factor includes what, why, how, and with whom relations are maintained with persons not in the supervisory chain based within or outside the agency. The purpose of these relationships typically includes one or more of the following:

- To give or secure information,
- Render personal service,
- Perform administrative services,
- Explain policies or method,
- Interpret programs, plans or individual actions,
- Coordinate and secure cooperation, or
- Resolve controversies by means of personal contact.

To evaluate this factor the following should be considered:

- What contacts does the position have with others within the agency?
- Outside the agency?

- What is the purpose of these contacts?
- What type of subject matter is dealt with?
- Is the subject matter simple, complex, broad, narrow, controversial?
- What conditions make it easy or difficult to accomplish these contacts?
- During these contacts, does the position have authority to make official commitments?

**Factor 6. Nature and scope of recommendations, decisions, commitments, and consequence of error.**

This factor reflects the questions, problems, or types of cases in which the employee makes recommendations, decisions, commitments, or conclusions which affect operations, plans, programs, methods, or policies; and the degree of finality in such judgments or actions as measured against such criteria as instructions, delegated authority, and review by supervisors, or agency policies, rules, regulations, statutes, or precedents.

Also included is the likelihood of an error being made by a prudent employee and the consequence of that error to individuals, operations and/or programs.

To evaluate this factor the following should be considered:

- What decisions does the position make that are not reviewed by others?
- If the position's decisions are reviewed, what is the type and extent of this review?
- What types of problems are these and how important are they?
- What is the position's responsibility for recommendations on agency programs and policy?
- How final are the position's decisions and recommendations in relation to the functions of the agency?
- What would be the consequence of errors or inadequacies in these recommendations and decisions?

**Factor 7. Nature and extent of supervision exercised over the work of other employees.**

“Nature of supervision exercised” includes supervisory responsibilities in areas such as setting policies; establishing objectives; planning, organizing and establishing work flow; making assignments and reviewing work; selecting, training, and rating performance of employees; coordinating production; and attending to the personnel and administrative functions of the organization.

“Extent” includes the degree of independence and responsibility with which such functions are performed, the scope of performance as reflected in the difficulty of the supervisory work, the size and complexity of the organization, the variety of functions, etc.

To evaluate this factor the following should be considered:

- What is the extent of the position's formulation of policies and the scope of these policies?
- What is the responsibility for control over the objectives and purpose of the work supervised and the form and quality of the end product?
- Does the position plan for an entire organization or plan specific techniques for given

tasks?

- What is the position's responsibility for organization of work, work flow and methods of operation? Does the position determine work methods or ensure that approved methods are used?
- What latitude does the position have in making work assignments?
- What type of review does the position make of the work of others – detailed, general, technical, policy, administrative?
- What is the extent of the position's responsibility in selecting, promoting, transferring, evaluating and disciplining employees and settling grievances?
- What general administrative responsibilities does the position have, such as supplies, equipment, budgeting?
- What is the number and class level of subordinates supervised? What is the complexity of the organization supervised?

#### **Factor 8. Qualifications required.**

“Qualifications required” includes the knowledge, skills, abilities, and other requirements for performance of the work. The qualifications required should reflect the other seven factors, as well as the tasks assigned to the position.

To evaluate this factor the following should be considered:

- What knowledge is required for reasonable success in the position or job class?
- What knowledge is required upon appointment to the position or entry to the job class?
- What knowledge can be gained on the job in a reasonable period?
- What skills and what level of proficiency are required for the position or job classification?
- Are these skills required at appointment to the position or entry to the job class, or can they be acquired during the probationary period?
- What kinds of machines and equipment are used?
- What general abilities are required for the position?

### **8) Management Review of Class Structure**

Management should review the class structure developed in the job analysis and identify any problems, concerns, and requests. DOP and Management will reach agreement on the structure prior to writing class specifications.

### **9) DOP Prepares Draft Class Specifications**

DOP will prepare class specifications, which contain the following sections/information:

- **Class Title/Series Title**
- **Series Description-** A brief statement of the nature of work that distinguishes the class series. The element(s) described should be common to all levels within the class series.
- **Class Definition-** The essential "reason for being" of the position or positions in the job class is stated in the Definition. This is a concise statement of the overall kind and level

of work performed by the class. It also describes the level of supervision received by positions in a class.

- **Distinguishing Characteristics**-This part of the class specification describes the characteristics that, when found in a position, would cause the position to be placed in the class and the boundaries with other, similar, classes.
- **Examples of Duties**
- **Knowledge, Skills, and Abilities**
- **Minimum Qualifications**
- **Class History**- This section includes the dates of all changes/revisions, followed by a brief notation describing the change/revision and the last name of the specification writer
- **DOP Codes** – Job codes, AKPAY code, category code, SOC code, EE04 code, census code

## 10) Management Review of Updated Class Specifications

After the classification specifications are updated, management reviews the draft class specifications. The goals of this step are to:

- Confirm usefulness of class structure and levels described
- Identify any areas of confusion
- Identify work that is mentioned in the wrong class/level
- Recommend improvement to the clarity of class distinctions and boundaries with other classes/levels
- Finalize minimum qualification recommendations to improve recruitment and retention

## 11) Allocating Positions to Job Classifications

Allocating or classifying positions is defined as the process of determining the most appropriate job class for a position. The process has two critical steps: 1) Determine the occupational area, and then 2) Compare the position to class specifications in the occupational area to determine the class series and level of the position.

**1. Kind of Work** - First, determine the occupational area of the position or the kind of work. In the case of mixed-occupation positions, two options are available: establish a new "combination" job class, OR select the most appropriate existing class or series for the position(s).

**2. Level of Work**- After the occupational area and class series of the position have been determined, the next step is to determine the level within the class series.

A position may be considered properly classified when all the following criteria are met:

- a. The position fits the description set forth in the definition and distinguishing characteristics.
- b. The position is assigned a significant number of duties equivalent to the type and level of the examples stated on the class specification.

c. The kind and amount of knowledge, skills, abilities and minimum qualifications required for the position are consistent with the qualifications on the class specification.

## **12) Salary Analysis and Setting Salary Range**

Salary ranges are determined based on internal alignment with other job classes based on similarity of classification factors. Comparisons are conducted within the job family of the study class(es). Comparisons with similar classes in other job families in the same occupational group are made when there is a lack of classes for comparison within the study classes' family. Comparisons with classes in job families outside the occupational group are limited and only made when similarities are sufficient to provide valid relationships; the comparisons within the occupational group are few; and/or when the class has particular characteristics that justify comparisons with another job family.

Judgment is used to determine how much weight to give comparisons with other job classes. The greater the similarity with the study class the more weight should be given. Comparisons within the job family should be given greater weight than alignment with less similar classes.

Comparisons that cross bargaining units are weighted with care and focus on the salary range of the class, not the dollar amount of actual salaries. The ability of different unions to negotiate different pay amounts should not be allowed to distort the internal relationships.

Comparisons with classes in other pay plans are made only when circumstance require them (such as evaluating the salary range for a supervisory class that oversees State Troopers).

References to past practice and one- or two-range increments are typically avoided. If a study class must be aligned based on range spacing from another study class, DOP will evaluate and apply the appropriate increment (do not default to two ranges).

The salary range indicators for positions in the General Government, Supervisory, and Confidential Bargaining Units in the Classified Service use a numbering pattern from Range 5 to Range 27. Positions in the Partially Exempt Service use a similar numbering pattern from Range 5 to Range 30.

- Clerical job classes have commonly been placed at Ranges 7 through 12.
- Technical/Paraprofessional classes have commonly been placed at Ranges 9 through 15.
- Professional Classes have commonly been placed at Ranges 13 through 20.
- Managerial classes have commonly been placed at Ranges 18 through 27.

## **13) Study Conclusion**

Final approval for the class specification and salary range assignment must be obtained from the Director of Personnel before the specification is implemented and distributed.

Then Division of Personnel staff is responsible for issuing the final documents.

- a. Final class specification
- b. Memorandum establishing the class or reporting changes to the old class, including any pay range analysis that was conducted

c. Allocation of individual positions are contained in a separate memorandum that is with the specification package; or be incorporated into the cover memorandum under part b above

### **Classification Structure:**

In addition to summarizing the State's rather complex process for reviewing and analyzing jobs, we also looked at the current class specifications to determine whether there is sufficient differentiation between the job levels and whether those differences clearly communicate what distinguishes one level from another. We reviewed seven (7) representative State class specifications:

- Accountant (Level I-V)
- Data Processing Manager (Level I-IV)
- Eligibility Technician (Level I-IV)
- Engineer/Architect (Level I-V)
- Geologist (Level I-VI)
- Procurement Specialist (I-V)
- Public Health Nurse (I-V)

Overall, the distinguishing characteristics between levels are based on an increasing level of complexity of the job and/or a broader skill set applicable to more varied and less routine tasks. For example, the Accountant series begins with and Level I that is entry level and responsible for basic accounting functions for a small area of financial control. Levels II and III are differentiated from Level I in that they require more highly skilled analytic abilities and work in areas of greater financial complexity (larger departments or financial units).

Some series, like Data Processing Managers and Engineer/Architects also differentiate higher levels based on additional supervisory responsibilities (managing staff or managing projects).

Additionally, many of the State's job series have between four (4) and six (6) levels, which exceeds the typical three (3) level approach we see in the public structure and is usually linked to the following concept:

- Level 1 – Entry
- Level 2 – Full Performance
- Level 3 – Highly Skilled / Technical Ability

Of course, we recognize the need for employers to account for important differences between levels of work and there are rational reasons to have more than three (3) levels. However, slicing job series so finely can and often does create confusion about the real differences between jobs, which may be reason why our Stakeholder feedback suggests frustration with using the current structure.

Another equally important aspect to the classification structure is determining whether any of the job classifications are duplicative of one another. Whereas the job level discussion focused on determining differences between levels in a job series, this question focuses on whether there are sufficient differences between job classifications.

For example, the following classifications require similar skill sets:

- Accounting Technician (Level III-IV)
- Accountant (Level I-II)

Although our study does not provide an analysis of these functions at the incumbent level to determine whether or not there is overlap in duties between these classifications, a cursory examination of the class specifications suggests there are similarities between these jobs that could suggest they be collapsed into a single classification. This type of analysis would be the focus a “Job Analysis” study, which is discussed further in the **Classification System and Job Evaluation Recommendations** section of the report.

## Classification System and Job Evaluation Recommendations

Concerns regarding the State's Classification system fall into two (2) broad categories:

1. Classification system is too cumbersome and complicated
2. The State's Whole Job Evaluation Method is not providing adequate justification for how job classification/grading decisions are made

The State's current classification structure differentiates job levels based on ascending complexity and/or increased supervisory responsibility and is consistent with how many other public employers characterize jobs. ***However, the State's Classification system has an abundance of levels within a job series that may be contributing to the perspective that it is cumbersome and difficult to use.***

Since the State has not conducted a comprehensive Job Analysis study aimed at addressing duplication or redundancy in the job titling structure, the State's structure may be unnecessarily overly complicated and adding to the concerns that it is difficult to use by stakeholders.

***The State may want to consider conducting a Job Analysis study to ensure the work being performed by employees is accurately being described by the class specifications and that the classification structure clearly defines the necessary classification titles and any associated job levels.***

## Job Evaluation Approaches

With regard to our second major concern, we think that the State should consider implementing a formal job evaluation system to support pay range placement. Doing so could result in the following:

- Minimize subjectivity of reviewers and classifiers
- Predicate job range determinations on objective and understandable criteria
- Establish defensible range assignments
- Demonstrate linkage between job duties and job worth to the organization
- Ensure that jobs of equal value to the organization are compensated equally
- Consideration is given to "Consequence of Error" job factor – stakeholders want more emphasis on this factor

With improvements to the State's classification system, which would serve as the backbone to any job evaluation system implementation, a more rigorous job evaluation approach than currently utilized by the State would better align pay levels necessary to recruit, retain, and develop human capital talent.

A description of the types of available systems as well as a discussion on their various pros and cons follows.

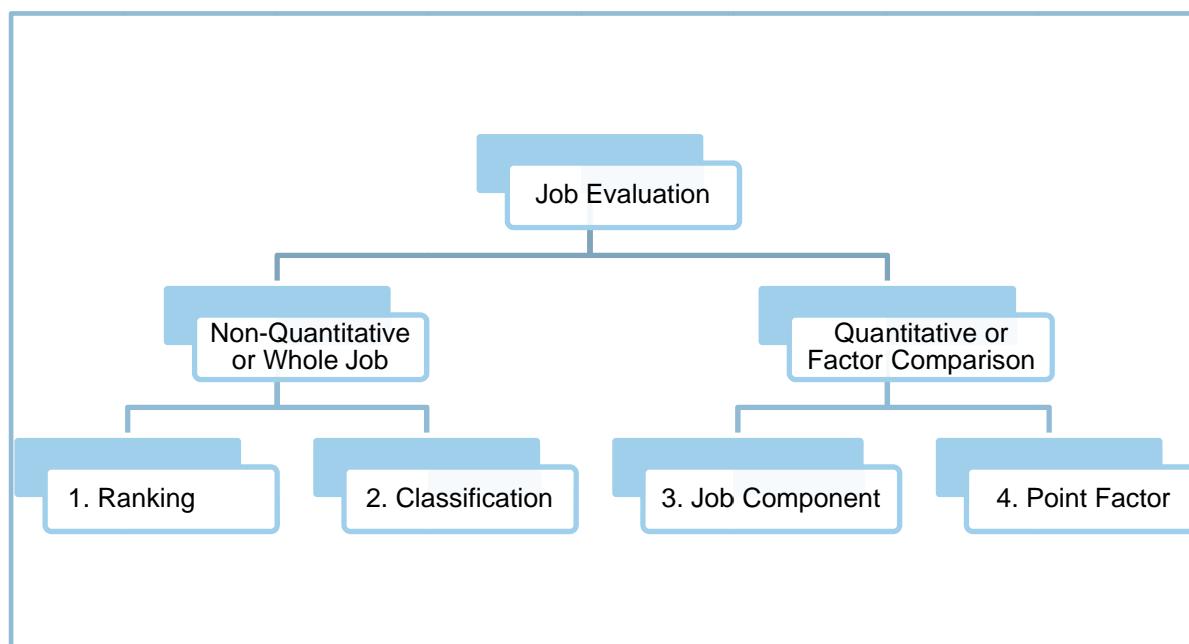
There are two basic approaches to job evaluation: ***market data*** and ***job content***. The major difference between the two is ***emphasis***.

- The ***market data approach*** to job evaluation emphasizes “external” labor market considerations and sets the value of jobs based on these external comparisons.
- The ***job content approach*** to job evaluation emphasizes the “internal” relationship of the organization’s jobs and sets the value of jobs relative to other jobs or classifications within the organization.

Employers tend to be concerned with both internal and external equity for a variety of reasons. The key is to balance the two considerations and utilize a job evaluation approach that is flexible enough to allow the State to be responsive to changing ***internal*** and ***external*** environments.

Job content evaluation approaches can be either ***quantitative*** or ***non-quantitative***. There are four primary methods of job evaluation (2 quantitative, 2 non-quantitative):

### Job Evaluation Approaches



## Non-Quantitative Job Evaluation

1. **Ranking** – It is the simplest form of job evaluation. “Paired Comparison” is the most commonly found version of this type of job evaluation process and essentially compares every job to every other job within the organization. The hierarchy of jobs is determined by the number of times a job is selected.

The comparisons between jobs are done on a whole job basis, meaning all the elements of a job are considered simultaneously and evaluated against all the elements of another job. “Pairs” of comparisons are made and each evaluation results in the selection of the higher leveled job.

For example, assume an organization with five jobs, Job A, Job B, Job C, Job D, and Job E. The setup for comparisons would be as follows:

Paired Comparison	Selection
Job A vs. Job B	A
Job A vs. Job C	A
Job A vs. Job D	A
Job A vs. Job E	A
Job B vs. Job C	B
Job B vs. Job D	B
Job B vs. Job E	B
Job C vs. Job D	D
Job C vs. Job E	C
Job D vs. Job E	D

After comparing each of the jobs, determine the number of times each job is selected and that determines the rank order other the jobs.

Job	Selection Frequency	Rank (#1 highest)
Job A	4	1
Job B	3	2
Job C	1	4
Job D	2	3
Job E	0	5

The following are advantages and disadvantages of the Paired Comparison:

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Simple to administer</li><li>• Inexpensive</li><li>• Quickly Implemented</li><li>• Little formal training required</li></ul>	<ul style="list-style-type: none"><li>• Inconsistent, different judgment criteria</li><li>• No detail or explanation of ranking</li><li>• May be perceived as superficial</li><li>• Job incumbent influence</li></ul>

**2. Classification (“Whole Job”)** – This method is the closest to what the State currently uses as its job evaluation process. In its simplest form, there are 5 steps:

- Step 1 – Analyze and document job content
- Step 2 – Identify and cluster benchmark jobs that appear to be similar in terms of their nature, scope, or level
- Step 3 – Develop preliminary generic definitions for each cluster to form classification levels
- Step 4 – Compare benchmark class specifications to preliminary classification definitions and modify definitions if necessary
- Step 5 – Assign all remaining jobs to classification levels (ranges) that most closely match the nature and level of work performed

The advantages and disadvantages associated with the Classification Method are:

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Simple to administer</li><li>• Inexpensive</li><li>• Quickly Implemented</li><li>• Little formal training required</li><li>• Evaluation reference points defined</li></ul>	<ul style="list-style-type: none"><li>• Jobs may be forced into classifications that may not fit</li><li>• Descriptions can be inflated to fit a classification</li></ul>

## Quantitative Job Evaluation

Although developing internal standards of comparison among jobs remains the goal of job evaluation, quantitative methods incorporate points or other numerical units to assist in evaluating jobs. The result is that job evaluation under a quantitative method determines particular point “scores” for each job being evaluated and the relationship of these point totals affects internal equity between jobs.

Each quantitative job evaluation method (Job Component of Point Factor) relies on the development and definition of “compensable factors.” A compensable factor may be described as:

- Any criterion used to provide a basis for judging a job value (in order to create a job worth hierarchy)
- The elements used to measure job worth
- Intrinsic elements in jobs that add value to the organization and for which it wants to pay

The generic compensable factors are skill, effort, responsibility and working conditions. Each of these factors is partially incorporated into the State's current definition of compensable factors. However, the State could consider expanding the factors to more explicitly account for physical demands and working environment differences between jobs.

Once compensable factors are defined, the quantitative job evaluation approach can be applied.

**3. Job Component** – This method is a statistical job evaluation method that uses multiple factor regression analysis encompassing eight (8) steps:

- Step 1 – Select and define compensable factors and job content to be measured
- Step 2 – Develop a structured questionnaire to collect data on independent factors, such as work experience, level of education, budget, duties and responsibilities.
- Step 3 – Administer and evaluate questionnaires
- Step 4 – Collect Market Data
- Step 5 – Input the data from questionnaires and/or organizational records on selected benchmark jobs along with market data into computer

Example of Step 5:

Survey Wage Data		Job Questionnaire Data		
Job	Market Wage	Work Experience (years)	Education Level (1=H.S., 2=College, etc.)	Budget Responsibility (\$)
1	\$100,000	20	3	\$200,000
2	\$75,000	15	3	\$100,000
3	\$60,000	12	2	\$75,000
4	\$50,000	10	2	\$30,000
5	\$40,000	5	1	\$10,000

- Step 6 – Conduct multiple factor regression analysis on the data to determine which factors should be included in the initial compensation model. (This step typically is done with regression software). The standard multiple regression formula is:

$$\text{Base Pay} = \text{constant} + \text{coefficient (experience)} + \text{coefficient (education)} + \text{coefficient (budget)}$$

- Step 7 – Test the model using the above formula for each of the selected benchmark jobs and input additional benchmark data to verify results; adjust the model if necessary to produce the desired job worth hierarchy.
- Step 8 – Apply the mathematical model to all non-benchmark jobs to determine overall job worth hierarchy.

The advantages and disadvantages associated with the Job Component Method are:

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Objective</li> <li>• Comprehensive</li> <li>• Most statistically accurate</li> <li>• Involves management in selection of compensable factors</li> <li>• Streamlines administration</li> <li>• Results in database of information</li> <li>• Easy to report results</li> </ul>	<ul style="list-style-type: none"> <li>• Time-consuming for front-end question development</li> <li>• Mathematically complex and therefore difficult to communicate to employees</li> <li>• Often perceived as “black box”</li> <li>• Expensive</li> </ul>

**4. Point Factor** – This method uses defined factors and degrees to establish job value and job hierarchy. Jobs are compared to the definitions of degrees in to determine the most appropriate level. The corresponding points for that level are then awarded to the job and combined for all factors to derive a total score.

There are six (6) steps to evaluating jobs with a Point Factor job evaluation tool:

- Step 1 – Select compensable factors to be used in evaluation of jobs
- Step 2 – Define factors and degree levels within each factor – weight each factor as a percent of 100
- Step 3 – Assign points to each degree level
- Step 4 – Analyze and describe jobs in terms of the compensable factors
- Step 5 – Determine which degree level of each factor best fits the job and assign respective point values
- Step 6 – Sum points for each job and arrange a job worth hierarchy based on total points

Steps 1 and 2 are usually considered by job family and rely on management or classification committee judgment. An example of how the factors and weights may look is below:

Compensable Factors	Maximum Points	Percentage of Possible Points
<b>Skill (35%)</b>		
Education	125	12.5%
Experience	125	12.5%
Physical Skill	100	10%
<b>Effort (20%)</b>		
Physical Effort	100	10%
Mental Effort	100	10%
<b>Responsibility (30%)</b>		
Contacts	150	15%
Independent Judgment	150	15%
<b>Working Conditions (15%)</b>		
Hazards	100	10%
Adverse Conditions	50	5%
<b>Total</b>	<b>1,000</b>	<b>100%</b>

Step 3 involves assigning points to each job. This generally is setup in one of two ways:

- Single Dimension – Used when the compensable factor is dependent on only **one (1)** variable (e.g. years of experience)
- Multi Dimension – Used when compensable factor is dependent on **multiple variables** (e.g. independent judgment is dependent on **both** decision making/impact and scope/complexity)

An example of a single dimension factor and point setup is below:

Experience		
Degree	Definition	Points
1 <sup>st</sup>	< 3 months	25
2 <sup>nd</sup>	> 3 months and < 12 months	50
3 <sup>rd</sup>	> 1 year, < 5 years	75
4 <sup>th</sup>	>5 years, < 10 years	100
5 <sup>th</sup>	> 10 years	125

After the degrees and associated points for each compensable factor have been established, Steps 4 and 5 analyze and evaluate jobs to determine appropriate levels. The method for analyzing jobs in Step 4 is generally the job analysis methodology used by the organization. In the State's case, this likely would mirror the steps described in the Classification Study Request Procedure.

Step 6 synthesizes the results of Steps 4 and 5 by arraying the jobs by point total to determine the job worth hierarchy. For example:

- Job A: 950 points
- Job B: 600 points
- Job C: 500 points
- Job D: 350 points

The advantages and disadvantages associated with the Point Factor Method are:

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Reliable</li> <li>• Objective</li> <li>• Easy to evaluate new or revised jobs</li> <li>• Can be tailored to organization</li> <li>• Difference between jobs is apparent</li> <li>• Responsive to pay equity laws</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive</li> <li>• Time-consuming</li> <li>• Cumbersome</li> <li>• Results in inflexible hierarchy</li> </ul>

Of the two quantitative job evaluation methods, Job Component and Point Factor, each defines compensable factors, analyzes jobs, and weights factors. However, the other elements vary by method as summarized in the table below:

A comparison of Job Component and Point Factor approaches is below.

	Job Component	Point Factor
<b>Identify Compensable Factors</b>	X	X
<b>Collect Market Data</b>	X	
<b>Select / Define Compensable Factors</b>	X	X
<b>Analyze / Document Jobs</b>	X	X
<b>Determine Levels (Degrees)</b>		X
<b>Define Degrees</b>		X
<b>Weight Factors</b>	X	X
<b>Convert Weights to Points</b>		X

## Summary of Job Evaluation Methods

The job evaluation system of an organization must balance both external and internal considerations. The “Market Data Emphasis” is primarily concerned with external comparisons, and the “Job Content Emphasis” is primarily concerned with internal comparisons.

Within Job Content Emphasis, there are two types of systems: Non-Quantitative and Quantitative. We have discussed the methodologies associated with each type in the previous section and the following table summarizes the major pros and cons associated with each.

Job Content Emphasis	Non-Quantitative or Whole Job	Ranking	<ul style="list-style-type: none"><li>➤ Little training required</li><li>➤ Evaluators may bring different judgment criteria to exercise</li><li>➤ No detail/documentation to justify evaluation</li></ul>
		Classification	<ul style="list-style-type: none"><li>➤ Little training required</li><li>➤ Class specifications can be inflated to fit a classification</li><li>➤ Generally not practical for companies with numerous, diverse job families</li></ul>
	Quantitative or Factor	Job Component	<ul style="list-style-type: none"><li>➤ Statistically accurate and relatively objective</li><li>➤ Management oriented</li><li>➤ Often perceived as “black box”</li></ul>
		Point Factor	<ul style="list-style-type: none"><li>➤ Easy to evaluate new or revised jobs</li><li>➤ Relatively objective</li><li>➤ Compensable factors can be tailored to organization</li></ul>

# Conclusion

## Pay Plan Recommendations

### Formal Compensation Philosophy

We recommend the State develop and adopt a formal compensation philosophy. This would provide a tactical direction for total compensation policies and practices which will help the State react quickly to organizational needs, such as changes in market conditions for certain industries. The philosophy would also link the compensation strategy to the organization's mission and strategic plan and increase transparency regarding pay and pay administration.

### Salary Schedules

We recommend the State develop new salary schedules with market competitive years to maximum and pay range maximums and consistent range widths, range intervals, and, if applicable, step intervals. Market competitive years to maximum and pay range maximum will ensure the State does not pay above market for employees based on tenure in job. Consistent intervals in pay structures are in line with market practices and facilitate pay administration.

We recommend the State reduce the number of salary schedules to facilitate pay administration.

The State should consider occupationally based pay schedules. This gives the State the flexibility to be more market sensitive for some occupational groups and more internally focused for other occupational groups.

While the State currently offers a 2-3 step increase upon promotion into a supervisory position, we recommend the State ensure a sufficient premium for supervisory responsibilities. This will prevent equity concerns associated with pay compression and provide an incentive for employees to take on supervisory responsibilities.

### Link between Pay and Performance

We recommend the State adopt a salary structure design that delivers pay in a manner consistent with the State's compensation philosophy. The State should consider the applicability of the following approaches:

- A structure that rewards tenure in job (revised range and step structure)
- A structure that rewards employee performance (mini-step structure or open range salary structure)
- A structure that reflects a combination of occupationally based pay and a hybrid structure including both tenure and performance

We have recommended structures that rewards tenure in job (revised range and step structure); structures that reward performance (mini step structure and open range salary structure); and

structures that reward a combination of the two (occupationally based pay structures and hybrid salary structure).

If the State's compensation philosophy rewards performance, we recommend the State consider implementing performance based pay bonuses. This provides a strong link between pay and performance and aligns pay with individual, agency, and State goals.

We recommend the State implement a more comprehensive performance management system that requires annual performance reviews. An effective performance management system would identify gaps in performance or skills, facilitate meaningful dialogue between supervisors and employees, and provide documentation to justify terminations or promotions.

### **Pay Policies**

We recommend the State revise the initial step placement policy to give hiring managers the ability to compensate candidates based on their prior job related knowledge and experience. This would provide hiring managers with the tools to attract qualified, experienced candidates to work for the State.

We recommend the State implement a pay compression policy for compression between subordinates and supervisors. This will ensure there is a sufficient premium to reward employees for taking on supervisory responsibilities.

### **Pay Supplements**

The State should consider implementing retention bonuses for project completion in order to provide an incentive for key personnel to stay with the State for the duration of a major project. This will prevent issues associated with key personnel leaving mid-project such as going over budget, missing deadlines, and other similar issues.

The State should consider implementing skill based pay supplements to recognize and reward specific skills and certifications.

The State should implement geographic differentials that are consistent across all employee groups in order to act equitably and simplify pay administration. This is important because if differentials do not reflect the actual differences in cost of living it may affect the State's ability to recruit and retain employees.

### **External Market Competitiveness**

We recommend the State should conduct a market study once every three years. The study should define the job summaries based on current job duties and responsibilities to ensure that the study produces good job matches. The study should define the labor market for each occupational group to reflect the labor markets in which the State competes for talent.

The study should include jobs where the State is having difficulty recruiting and/or retaining employees, even if these jobs are not highly representative of the workforce, so that the State can determine their market position for these jobs and adjust pay as necessary. This will help address recruitment and retention issues for specialized professional, scientific, and technical jobs.

## Classification Plan Recommendations

### Classification Structure

We recommend the State consider conducting a Job Analysis study to accomplish the following:

- Ensure there is adequate, justifiable, and clearly communicated differences between job series levels (e.g. Accountant I, II, etc.)
- Ensure there is not duplication or redundancy in current list of classification titles
- Create up-to-date class specifications reflective of work actually being performed and reflective of required minimum job requirements (education and experience)

We stress that a comprehensive job analysis study should be conducted **prior** to any development of a job evaluation system and the description of jobs contained in the class specifications will materially affect how jobs are evaluated.

If the State's class specifications do not accurately reflect work being performed, applying any job evaluation system to inaccurate class specifications will create a perverse and inaccurate job worth hierarchy.

### Job Evaluation

The State's current whole job evaluation method is not providing adequate justification for how job classification/grading decisions are made. We recommend the State consider implementing a formal job evaluation system that would result in the following:

- Minimize subjectivity of reviewers and classifiers
- Predicate job range determinations on objective and understandable criteria
- Establish defensible range assignments
- Demonstrate linkage between job duties and job worth to the organization
- Ensure that jobs of equal value to the organization are compensated equally
- Consideration is given to “Consequence of Error” job factor – stakeholders want more emphasis on this factor

We have provided the State with a “menu” of job evaluation choices and discussed the pros and cons associated with each. We stress that effective job evaluation systems should be customized to each employer's specific circumstances, such as organizational culture, staff and financial resources, and alignment with strategic goals and objectives.

## **Cost Implications**

Based on our experience with similar issues in large public employers, we think that a complete classification study completed by an outside consultant could cost the State upwards of \$1 million dollars. This would include gathering information on work currently performed by State employees, identifying the clearly defined levels of work within a job series and identifying the impact of changes to the classification system on each affected employee.

With respect to implementation of a new job evaluation approach, based on our experience in other settings, procuring a quantitative job evaluation system can run upwards of \$250,000 depending on the level of consultative advice required to train State staff and consultant involvement in the preliminary review of job scoring. Of course, the State would also have to provide current market data to validate the internal equity relationships derived from the job evaluation tool.