



## 2007 Total Compensation Benchmarking Survey



Sponsored by



## **IPMA-HR**

The International Public Management Association for Human Resources is an organization that represents the interests of human resource professionals at the Federal, State and Local levels of government. IPMA-HR members include all levels of public sector HR professionals. Our goal is to provide information and assistance to help HR professionals increase their job performance and overall agency function by providing cost effective products, services and educational opportunities.

## **Fox Lawson & Associates**

Our firm began in 1981 as the public sector compensation consulting practice at Arthur Young & Company. In 1989, Arthur Young merged with Ernst & Whinney to become Ernst & Young. In January 1995, Ernst & Young elected to sell its public sector compensation consulting practice to Fox Lawson & Associates LLC. By sale agreement with Ernst & Young, Fox Lawson is the successor firm to Ernst & Young LLP's public sector compensation and human resources consulting practice.

Firm partners James Fox and Bruce Lawson were responsible for all engagements of Ernst & Young's Public Sector Compensation & Human Resources Consulting Practice prior to forming Fox Lawson & Associates LLC. Since then, Fox Lawson has more than tripled its practice size. The firm continues to provide the technical expertise and know-how commonly associated with larger firms, combined with the innovative customer service and flexibility typically offered by smaller firms. We are a full-service company.

We serve our clients nationally on a variety of classification, compensation, and human resources issues, including

- Classification and Compensation Studies
- Organizational Change Management
- Performance Planning and Evaluation
- Human Resources Planning and Audits
- Executive Compensation Planning
- Human Resources Re-engineering

# Table of Contents

2007 Total Compensation Benchmarking Survey Report

Executive Summary.....	4
Background.....	5
HR Environment.....	6
Compensation Systems.....	7
Variable Pay Approaches.....	10
Program Effectiveness.....	15
Pay for Performance.....	17
Skilled Based Pay.....	18
Spot Awards.....	19
Gainsharing.....	19
Broadbanding.....	20

## **2007 Benchmarking Survey: Compensation with a focus on Variable Pay**

Compensation lies at the heart of human resource practices. How employees are paid can affect an organization's ability to attract, retain and recruit employees and can be a strong motivator in terms of performance. Bonuses, shift-differentials, uniform and allowances all might influence an applicant's decision to work for an agency; they might also influence an employee's decision to stay. While some programs might be necessary just to remain competitive, others might attract top talent.

Other programs, such as pay for performance, broadbanding and gainsharing, may provide flexibility and incentives to achieve cost savings or customer service goals. It's not enough just to have a well designed system, it must be implemented properly or workers will feel they are being treated unfairly thereby undermining the program's goal.

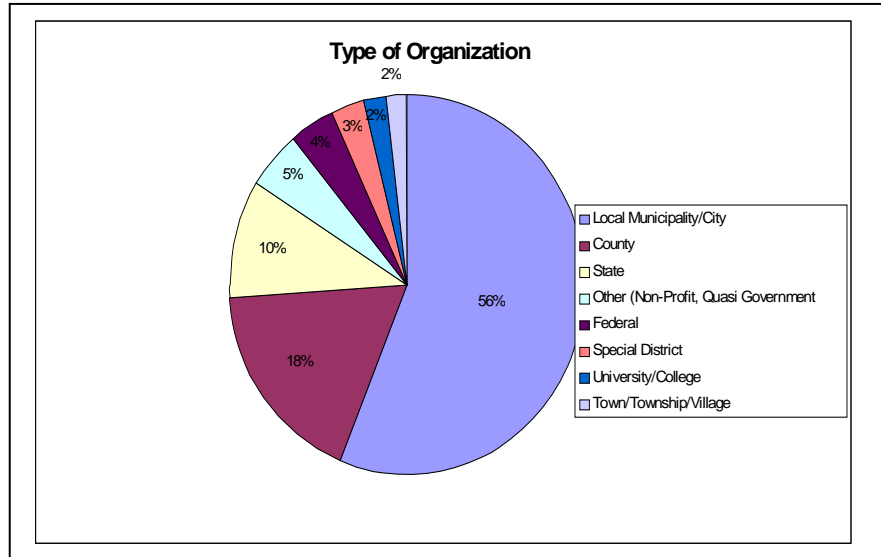
The focus of the survey is variable pay – what types of practices are government agencies utilizing to affect their workforces and how effective are these practices? Some highlights from the survey include:

- More than three-quarters of all organizations have a defined pay philosophy
- Most organizations use the traditional grade and step systems although a significant number are using other systems
- Three quarters of respondents offer uniform allowances
- Hiring bonuses are more common at the federal level than at the city or county level
- Less than half of respondents use variable pay
- Of those that do, pay for performance is the most common
- There is a strong correlation between funding levels and the perceived success of the variable pay program
- Fifteen percent of organizations utilize broadbanding
- Thirteen respondents have a gainsharing program in place.

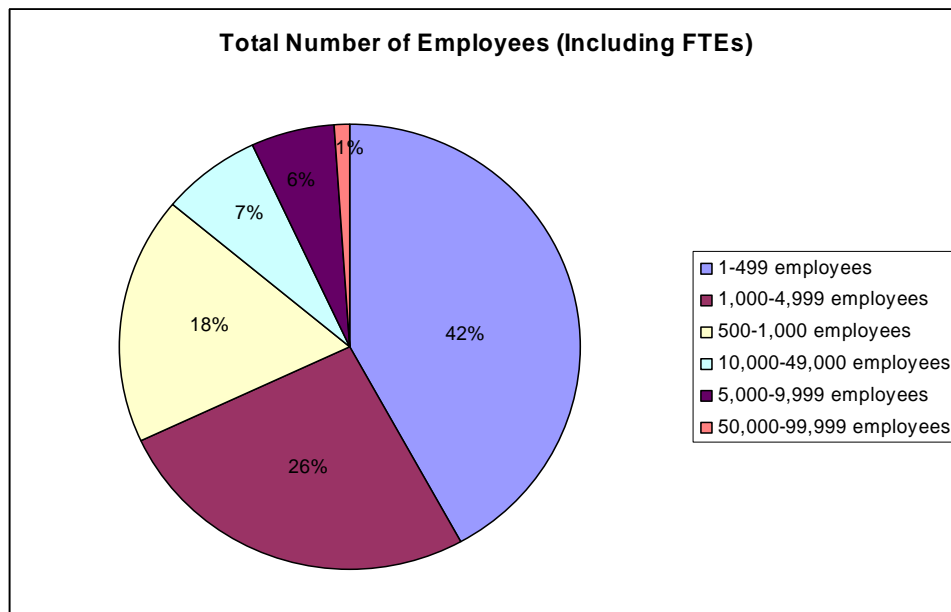
This benchmarking survey was conducted online in January and February 2007. The survey was sent to all IPMA-HR members and 640 individuals from all levels of government responded to the survey for a response rate of approximately 10 percent. "This response rate is much higher than in the past and shows the importance of the benchmarking effort to IPMA-HR members," noted Gib Johnson, Benchmarking Committee Chair and Senior Manager with CPS Human Resources Services.

**Background:**

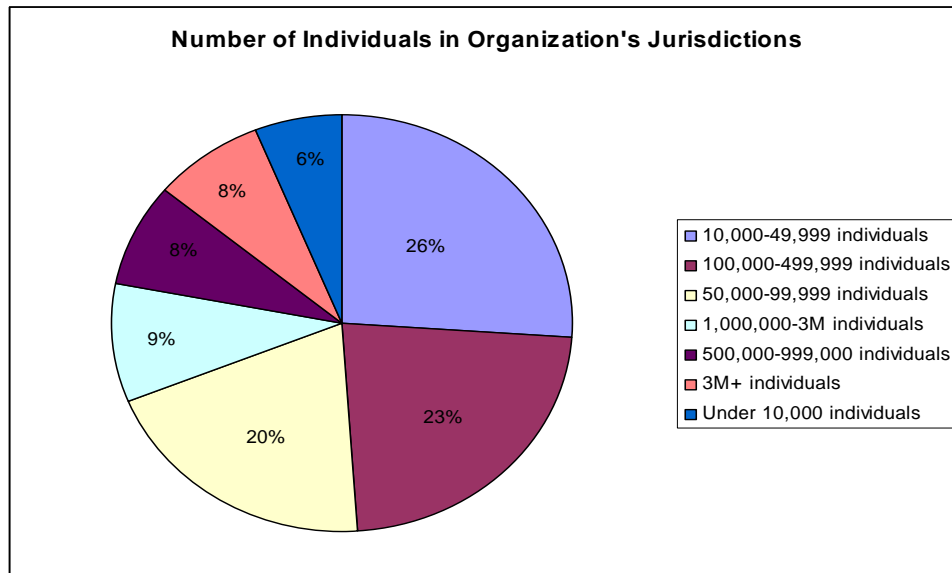
More than half of the respondents are from cities, 18 percent are from counties, 10 percent are from the state level of government and four percent are from federal agencies. The remainder is from special districts, universities and colleges and towns and townships.



Forty-two percent of respondents come from agencies with one to 499 full-time equivalent positions (FTEs). Eighteen percent come from agencies with 500 to 999 FTEs and 26 percent are from agencies with 1,000 to 4,999 FTEs.



More than three quarters of the organizations serve at least 10,000 individuals or more. Twenty-seven percent serve 10,000 to 49,999 individuals, 20 percent serve 50,000-99,999 individuals and 23 percent serve 100,000 to 499,999 individuals.



Respondents are also likely to have some experience in HR with only nine percent of respondents reporting less than one year of experience, 30 percent have between two and five years of experience, 23 percent have between six and 10 years of experience, 20 percent have between 11 and 20 years of experience and 18 percent have more than 20 years of experience.

## HR Environment

Over the years, HR has experienced several shifts, from centralized, to decentralized and back again. Respondents were asked about their operating environment – whether or not it is decentralized, has shared services or uses outsourcing. By far the most common arrangement is to have fully shared services. Seventy percent of respondents described their organization as fully-shared where one organizational unit provides HR services to all divisions and business units.

Ten percent of respondents said they had blended services with some shared services and/or some outsourcing. The remaining 20 percent described their organization as either some shared services, distributed services and some outsourced services.

Respondents were nearly evenly split in defining their organizations as at will (30 percent), merit-based civil service (26 percent), or some combination of both (34 percent). Three percent described their organization as having merit-based civil service but without formal protections. The breakdown by type of government is shown on the following page.

Org Type	At will employment	Merit-based Civil Service System		
		Merit-based Civil Service System	Merit-based Civil Service System without formal protections	Some combination of Civil Service and At-will
County	28%	36%	2%	34%
Federal	5%	84%	0%	11%
Local				
Municipality/City	36%	19%	3%	42%
Other	45%	22%	6%	28%
State	8%	51%	5%	36%

The majority of organizations' employees are covered by union agreements. Twenty-two percent report that nearly their entire workforce is unionized (76-99 percent of employees are covered by union agreements). Twenty-one percent report that the majority of their workforce is covered by union agreements (51-75 percent of employees are covered). Twenty percent report that less than half of their workforce is covered. Thirty-five percent said that none of their employees are covered by union agreements.

For the breakdown by government sector:

Org Type	Union - Yes/No	
	No	Yes
County	42%	58%
Federal	19%	81%
Local		
Municipality/City	31%	69%
Other	36%	64%
State	55%	45%

## Compensation Systems

Respondents are very likely to have a defined pay philosophy, 78 percent of respondents answered yes to the question of whether or not they had a defined pay philosophy while 18 percent said they did not. Four and a half percent chose "other." In 2000, only 64 percent of respondents indicated they had a defined pay philosophy; the 2007 number represents a 14 percent increase.

In considering why there might be an increase, James Tsugawa, Senior Research Analyst with the U.S. Merit Systems Protection Board, offered two possibilities. "Tight budgets can force organizations to make hard choices about what they value and how they will spend their pay dollars," said Tsugawa. Another reason might be the use of pay flexibility. Tsugawa continued, "Adoption of broadbanding or variable pay, which gives organizations more control over pay, requires some sense of how that control will

be used. A pay philosophy can guide those choices and help communicate them to employees and other stakeholders.”

### Level of Government and Use of a Defined Pay Philosophy

Org Type	Does not have a defined pay philosophy	
	Defined pay philosophy	Does not have a defined pay philosophy
County	81%	19%
Federal	95%	5%
Local Municipality/City	79%	21%
Other	81%	19%
State	91%	9%

Respondents were asked about the type of compensation system they have:

- Grade and Step
- Grade and Open Range
- Steps to Mid-Point and then Open Range to Maximum
- Market-Based System
- Broadbanded System

A definition of the different types is provided in Appendix A. Grade and Step systems are the most popular, with grade and open range next. The Executive level is the most likely to have grade and open range and market-based systems as well as broadbanding. Public safety is the most likely to use grade and step. See Figure 6 below:

Classification Type	Grade and Step System	Grade and Open Range
Executive	30%	30%
Supervisory	53%	26%
Professional	52%	25%
IT	51%	22%
Labor/Maintenance	63%	17%
Public Safety	64%	12%

To view the frequency of different compensation systems across types of government and by employee-level (executive, supervisory, etc.) see the charts in Appendix B.

For those that use the grade and step plan, 39 percent do not give their operating managers the authority to grant step increases above the normal increase. Twenty-two percent give operating managers a small amount of authority and 12 percent give moderate authority.

Operating managers negotiating and setting starting pay for incoming recruits have a small amount of authority over pay – 45 percent – while 37 percent report having a moderate amount of authority.

Most organizations – 65 percent – do not allow pay increases above the maximum range. Of the 34 percent who do, 29 percent do it with bonuses not added to base pay while 12 percent add it to base pay.

## Special Pay

Survey respondents were asked about their special programs. The most popular are uniform allowances (74%), temporary assignment differentials (60%), shift differentials (59%), employee recognition and awards programs (56%), longevity pay (53%) and tool or equipment allowances (32%). See figures eight and nine below for a break down by type of government.

Org Type	Special Pay Plans	Employee recognition program	Differential pay based on geographic location	Hiring bonuses	Recruitment/referral bonuses	Retention pay	Uniform allowances
County	15%	55%	5%	10%	13%	8%	68%
Federal	50%	88%	79%	63%	67%	71%	21%
Local Municipality/City	26%	50%	1%	7%	10%	6%	82%
Other	29%	54%	9%	13%	6%	11%	52%
State	25%	48%	21%	27%	17%	37%	32%

Org Type	Tool or equipment allowances	Longevity pay	Hazardous duty pay	Pay differential for specific specialized technical skills (specialty pay)	Bilingual pay	Shift differential	Differential for supervisory tasks	Temporary assignment differential
County	32%	45%	20%	24%	25%	62%	9%	58%
Federal	0%	21%	33%	50%	0%	46%	17%	21%
Local Municipality/City	37%	57%	17%	36%	29%	54%	12%	62%
Other	22%	46%	18%	30%	22%	49%	23%	42%
State	14%	35%	30%	27%	19%	59%	11%	56%

The organizations that indicated they have hiring bonuses were asked for what positions they are available. The majority of respondents - approximately 70 percent - said hiring bonuses are available only for hard-to-fill positions, while about 20 percent said they are only available for executive positions. Fewer than 10 percent indicated that they are available for all positions.

Respondents were also asked about title consolidation and 23 percent reported having done title consolidation while 77 percent said they had not.

## Variable Pay Approaches

In the past three to five years, variable pay approaches have exploded in popularity among public sector organizations. Performance evaluation systems, for example, have been used in most of the private sector companies for a long time. There is even research which suggests that if a company has a performance evaluation system in place, their performance is better (as measured by profits and related financial measures) than those companies that don't have such systems in place.

Since government managers want to be able to reward top performers, and in light of the evidence from the private sector, it stands to reason that variable pay systems in the public sector would work to motivate government employees. It is important to recognize the variety of options available to governments when they want to install or revise a variable pay system for their employees.

“There are two conceptually different types of pay for performance systems. There are individual programs and group programs. Each focuses on a different type of behavior and thus each has varying degrees of success,” said Jim Fox, Chairman, Fox Lawson. “The key to individual performance based programs is that they focus specifically on the individual. The assumption underlying these programs is that an individual can control their own behavior, and given some feedback about the behavior that is good and that which needs improvement, the employee will choose to improve. Typically, individual performance based systems involve one individual, usually a supervisor, evaluating (i.e., judging) the performance of another individual.”

Among individual performance based systems are the following:

- \* Performance evaluations
- \* Skill based systems
- \* Competency based systems
- \* Recognition
- \* Spot awards
- \* Suggestion programs
- \* Promotion

“Group-based programs are not as popular as individual based programs, especially in government organizations because many governments don't believe that productivity can be measured in the work of public employees,” said Fox. “However, case after case has demonstrated that these programs can and do work.”

Group programs can be both objective and subjective, but typically they are objectively based systems whereby the achievement of performance is observable and verifiable by others. In contrast to individual programs, group based programs reward all members of the group for achieving a targeted objective(s).

Among such programs are:

- \* Employee involvement
- \* Small group
- \* Gainsharing
- \* Profit sharing

Employee involvement programs will typically focus on group effort to improve service, processes or decision making. Small group reward programs will identify a target of performances for the group, say improved citizen response time, measure it over time and then reward the members of the group for achieving the agreed upon targeted improvement.

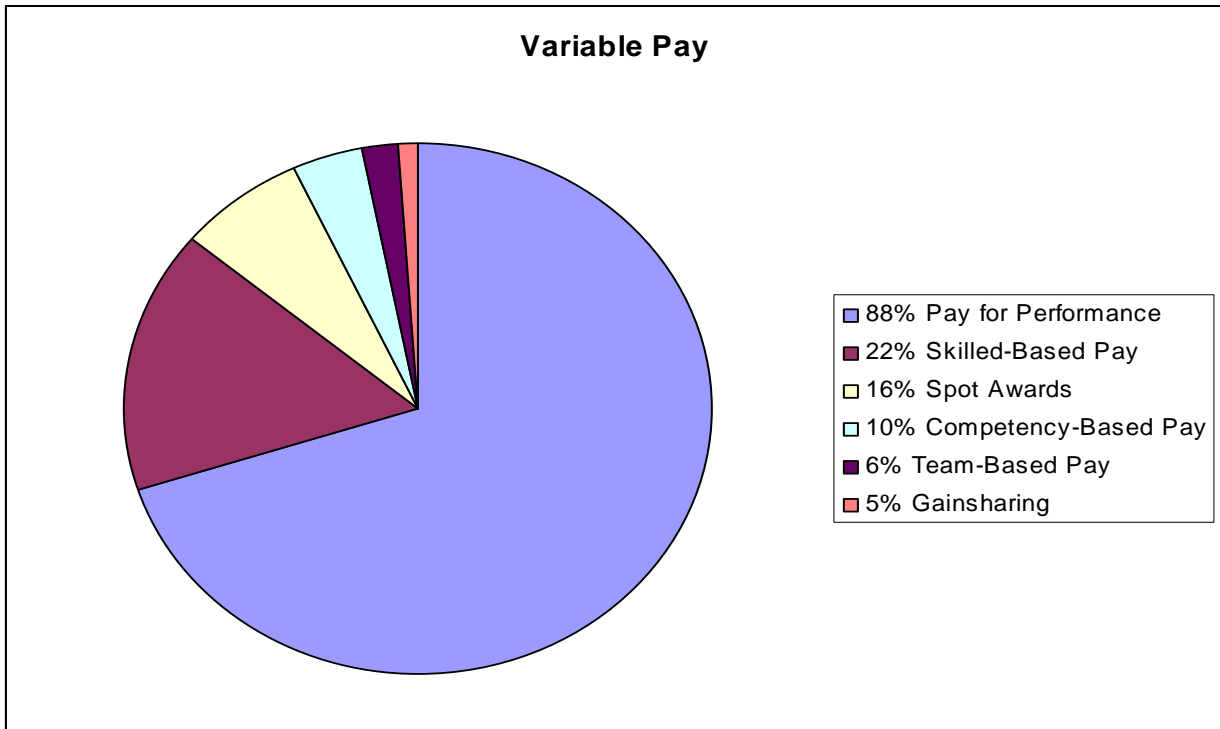
Gainsharing programs are like small group rewards except that they are usually based on financial improvements, such as a decrease in cost for performing the same or more work. Employees of the group share in the savings generated as long as quality and service do not suffer. Finally, profit sharing is a special program that is designed to achieve targeted savings in the overall general fund by targeted goal achievement.

“Group based programs have not changed much over the last five years in government,” said Fox. One argument against group programs in the government sector is that savings cannot be achieved because there is no bottom line measurement. Yet, this is not necessarily true, “Time and time again, this myth has been disproved. The benefits of a group program are that morale increases, employee involvement improves and cost of service decreases. Group programs are more difficult to develop and install, but the acceptance and pay off in terms of other characteristics of the employment is well worth the extra effort.”

While nearly all organizations have some type of special pay – the use of variable pay to reward performance and distinguish between qualities of work is less common with only 45 percent of respondents reporting the use of variable pay, while 55 percent did not.

Respondents were asked a series of general questions relating to their variable pay programs, which include pay for performance, skill based pay, competency based pay, gainsharing, goal sharing, spot awards and team-based performance pay. Only 40 percent of the overall total respondents have pay for performance, 10 percent have skill based pay, 0.04 percent have competency based pay, 0.02 percent have gainsharing, one percent have spot awards and 0.03 percent have team-based pay.

As mentioned, less than half of survey respondents indicated they utilize a variable pay approach, only 45 percent. When the types of programs are broken down by respondents with variable pay, pay for performance, with 88 percent, is the most popular. See the graph on the following page.



Breakdown by level of government:

Org Type	Pay for Performance	Skilled-based pay	Competency-based pay	Gainsharing	Spot awards	Team-based performance pay
County	39.1%	9.1%	6.4%	2.7%	8.2%	3.6%
Federal	<b>58.3%</b>	12.5%	<b>8.3%</b>	4.2%	<b>33.3%</b>	12.5%
Local Municipality/City	33.9%	10.7%	2.6%	1.4%	3.8%	1.7%
Other	39.2%	1.3%	2.5%	0.0%	11.4%	0.0%
State	47.6%	<b>15.9%</b>	7.9%	<b>6.3%</b>	4.8%	6.3%
<b>Average:</b>	<b>43.6%</b>	<b>9.9%</b>	<b>5.6%</b>	<b>2.9%</b>	<b>12.3%</b>	<b>4.8%</b>

How are the rewards given? For pay for performance, skill-based pay and competency-based pay, the rewards are most likely to be given as an addition to base pay. For spot awards, gainsharing and team-based performance pay, bonuses were more likely.

However, there is a variety, for example a significant percentage of respondents – 27 percent- said that pay for performance rewards would be given as either an addition to base pay or as an award depending on the placement in the pay scale. Twelve percent said rewards would be given as a bonus.

For skill-based pay, only six percent said that rewards would be given as a bonus and four percent said it depended on where the employee was in the pay scale. With respect to competency-based pay, the results were similar with four percent of respondents

saying it depended on where the employee is in the pay scale and 6 percent saying rewards are given as a bonus.

Not surprisingly, individual performance, not group performance, is the basis of rewards for most organizations when determining pay for performance. The same is true for skill-based pay and competency based pay. Spot awards are likely to be based on individual performance as well although many organizations said that both pay for performance and spot awards might also be based upon a combination of individual/group/agency performance.

Group performance is the basis for most team-based performance awards while agency performance or some combination of agency/group/individual performance is the basis for gainsharing awards.

Respondents were asked how the amount of the award was set – specifically if rewards are limited to:

- A certain percentage
- A certain dollar amount
- Only by the operating department's total budget
- Either depending on the placement in the pay scale
- All apply

For pay for performance, skill-based pay, competency based pay, and team-based performance pay, rewards are most often limited to a certain percentage. Spot awards are most likely to be limited to a certain dollar amount. Those answering for gainsharing awards are evenly split between limiting rewards to a certain percentage, a certain dollar amount and by the operating department's total budget.

Respondents were asked about the length of time their programs had been in place. And, many organizations said that their pay for performance and skill based pay programs are fairly senior. Nearly 30 percent of respondents said their pay for performance program was more than 10 years old. Twenty-two percent of respondents said their skill-based pay program was more than 10 years old. Skill based pay, competency based pay, spot awards, team based performance pay and gainsharing were all over the map with many organizations having started their programs several years ago and a handful of organizations trying it for the first time in the last year or two.

A recurring issue with variable pay programs is funding. In order to be successful, or at least have a chance of succeeding, a variable pay program must have adequate funding. Most respondents report a funding level of between three and five percent of payroll.

Amount of Funding as a Percentage of Payroll	Response
Less than 1 percent	10.6%
Between 1-2%	16.1%
Between 3-5 %	<b>40.1%</b>
Between 5-7 %	7.8%
Between 7-10%	2.8%
More than 10%	5.1%
Other	17.5%

One question that organizations must struggle with is how much funding is necessary to make a program successful. Are those that fund their programs at more than 10 percent of payroll more successful than those that spend three to five percent of payroll?

When broken down by level of government, you can see that county organizations typically have the lowest funding for variable pay programs while federal organizations have the highest. Only eight percent of cities, three percent of counties spend more than 10 percent of payroll on variable pay programs while 22 percent of federal respondents spend that much. No states spend more than 10 percent of their payroll on variable pay programs. See below.

#### Funding Level for Variable Pay Programs (as % of payroll)

Org Type	Less than 1%	Between 1-2%	Between 3-5%	Between 5-7%	Between 7-10%	More than 10%
County	6%	21%	61%	3%	6%	3%
Federal	0%	11%	56%	0%	11%	22%
Local Municipality/City	14%	17%	50%	10%	1%	8%
Other	4%	27%	46%	19%	0%	4%
State	35%	20%	25%	10%	10%	0%

Here's another look at the data by those who spend more or less than five percent of payroll on variable pay programs. Perhaps what is surprising here is not that the federal government appears to spend the most, because we expect that. Instead, it is notable that so many levels of government spend more than five percent of payroll on variable pay programs. Nearly one in five cities spends more than five percent of their payroll on variable pay programs. That is a significant number and shows that cities (and other government employers) recognize the impact of variable pay.

Org Type	Less than 5%	More than 5%
County	88%	12%
Federal	67%	33%
Local Municipality/City	81%	19%
Other	77%	23%
State	80%	20%

When compared to funding levels (expressed as a percentage of payroll), the results show that there is a significant relationship between funding levels and effectiveness.

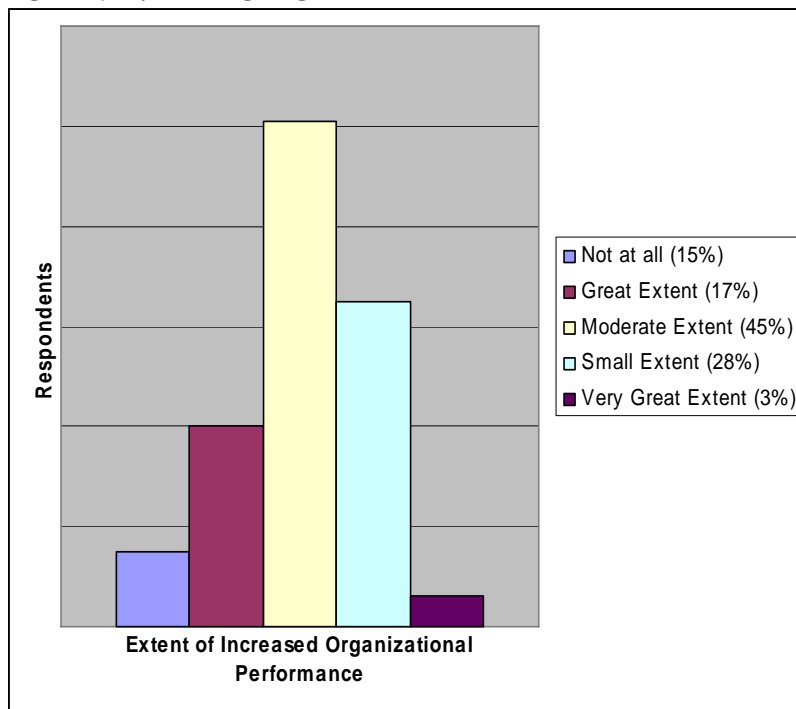
Analysis on the data show that funding below one percent of payroll is not effective, the monetary value is simply too low to have an impact and employees are probably not affected by the program. Funding between one and seven percent yields greater returns, with more people indicating that program has helped their organization become a higher performing organization. This is probably because the monetary reward is great enough to be appreciated by employees and to change behavior.

It is interesting to note that changes in funding between one and seven percent of payroll do not affect the effectiveness of the program. In order to have a great impact, funding must be greater than seven percent of payroll. At this level, effectiveness takes a huge jump, probably because the monetary reward is great enough to significantly impact employee behavior.

### Program Effectiveness

In terms of the impact of the variable pay programs on organizational performance, most respondents believed it had a positive impact. Twenty percent said it had helped to a great or very great extent. Only 15 percent felt that it had not helped at all.

*Q. To what extent do you feel your program has helped your organization become a higher-performing organization?*



In terms of achieving objectives, respondents indicated that the variable pay programs had been most successful at providing a better link between pay and performance and improving employee understanding of critical performance areas.

Respondents gave average marks to the programs' successes in the areas of improving service quality, improving employee morale, improving service productivity and employee involvement in work problems. The areas where variable pay has been seen as least successful appear to be improving job security and reducing a portion or all of base salary increase.

In terms of reducing costs, the survey showed that reward systems have average to low marks in this area with nearly 30 percent saying that the reward system had not been at all effective in achieving this objective.

### How effective have reward systems been at accomplishing objectives?

	Very	Somewhat	Not at all	N/A
Reduced Cost	5%	29%	29%	37%
Improved Service Productivity	11%	58%	8%	23%
Improved Employee Understanding of Critical Performance Areas	27%	44%	9%	20%
Provided Better Link Between Pay and Performance	29%	43%	10%	18%
Improved Service Quality	11%	60%	7%	21%
Employee Involvement in Work Problem	9%	50%	19%	22%
Improved Job Security	2%	20%	41%	36%
Improved Workforce Flexibility	5%	35%	31%	29%
Improved Employee Morale	11%	56%	15%	18%
Improved Recruitment	10%	42%	22%	26%
Reduced Portion or all of Base Salary Increase	4%	19%	41%	36%
Helped to Avoid Unionization	2%	7%	30%	61%

In terms of the rewards systems impact internally, on the employees, most respondents again gave only average marks on the success of the program. The areas where the rewards system is working best appears to be in the employees’ understanding of the programs goals and in the adequacy of the performance feedback to the employee on the results. Respondents gave lower marks to the program’s flexibility and ease of administration.

**How effective have rewards systems been in terms of:**

	Very	Somewhat	Not at all	N/A
Employee understanding of the program goals and features (program simplicity)	19%	56%	6%	19%
Employee understanding how they can impact organizational results	11%	56%	13%	20%
Adequacy of performance feedback to the employee on results	20%	52%	8%	19%
Significance of awards in eyes of employees	14%	55%	13%	19%
Appropriate degree of challenge in reaching performance goals	11%	61%	10%	19%
Program flexibility (e.g., suitability of program use in different functions and option to adjust measures in the future)	15%	46%	16%	23%
Ease of program administration	14%	53%	14%	20%

Rewards are most effective at improving “line of sight” – helping employees understand how they contribute and helping them focus their work efforts – which can, in the long term, improve productivity and service quality.

**Pay for Performance**

As noted above, pay for performance is the most popular type of variable pay program being used by government employers. Eighty-eight percent of respondents with a variable pay program said they have pay for performance. In terms of design, the plan criteria are most likely to be the same for all operating agencies (56%) while fewer said that it would vary by operating agency (19%), or by individual (13%). Ten percent said the plan criteria changes on annual basis.

Pay for performance rewards are most likely to be given as an addition to base pay (38%). Only 12 percent report that it would be given as a bonus although 27 percent

said whether as a bonus or an addition to base pay would be dependent upon the individual's placement in the pay scale.

Not surprisingly, individual performance is most likely to be the basis of awards but 10 percent said it could depend on individual, group and agency performance. Rewards are usually limited to a certain percentage (60%), with eight percent saying it's limited to a dollar amount, six percent saying it is limited only by the operating department's total budget and nine percent saying it depends on the individual's placement in the pay scale and seven percent said "all apply."

An important question in pay for performance is how many levels of performance an organization has. Most respondents indicated that four levels is the most common number to have, with three being next most common. Interestingly, the responses did not change a great deal based on the occupational category or by the level of government.

**Average Number of Performance Levels by Organization Type and Job Family**

Org Type	Executive	Mgmt/Supv	Professional	IT	Public Safety	Clerical	Skilled Labor	Avg
County	3.9	3.9	3.9	4.0	3.9	4.1	4.0	3.9
Federal	4.3	3.7	3.8	3.8	3.2	3.3	3.3	3.6
Local Municipality/City	4.2	4.4	4.5	4.3	4.5	4.4	4.5	4.4
State	2.9	3.2	3.5	3.6	3.9	3.6	3.5	3.4
Other	3.6	3.6	3.8	3.8	3.4	4.0	3.8	3.7
<b>Grand Total</b>	<b>3.9</b>	<b>4.0</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>

### Skill Based Pay

Twenty-two percent of respondents said they have skill-based pay, making this the second most popular variable pay program. Rewards are either limited to a certain percentage or to a certain dollar amount; almost no one said that it depended on the operating department's budget or the placement in the pay scale.

Of those who have skill based pay programs, respondents were nearly evenly split on whether skills are assessed through a specific test - 53 percent said yes, while 47 percent said no. When asked if skills could be rewarded one at a time or multiple skills at a time, responses again were quite close with 45 percent saying that skills were rewarded one at a time and 55 percent saying multiple skills were rewarded.

## **Spot Awards**

Spot awards are the third most common type of variable pay program with 16 percent of respondents indicating they have this program. Spot awards are much more likely to be given as a bonus not added to base pay than as an addition to base pay and they are almost always based on individual and not group performance. Spot awards are also usually limited to a certain dollar amount, not to a certain percentage and no one said it depended on the placement in the pay scale.

A combination of supervisors, department directors and HR are most likely to have the authority to make a spot award, with 51 percent of respondents choosing this option. If not a combination of people, then the person with the authority to give a spot award is most likely to be the department director, with 38 percent of respondents choosing this option. Nine percent said supervisors had the authority and two percent said HR had authority.

## **Gainsharing**

Thirteen organizations indicated that they have gainsharing. While this number is small, it is significant.

Gainsharing is about twice as popular in the private sector and is mostly found in manufacturing organizations. A number of organizational conditions such as clear goals, clear measures and a direct relationship with those goals and financial results are required for gainsharing. There is an even split among union and non-unionized work forces. The average payout for each employee is about four percent of their base pay and the formulas include not only quantity but also quality measures. They are most effective when they are applied to the entire group of workers, and contained within a well defined work group that does not exceed about 200 employees.

Gainsharing rewards are most likely based on a combination of individual, group and agency performance, rewards are most often given as a bonus not added to base pay. Respondents were evenly split over whether the plan criteria varied by operating agency or were the same for all operating agencies. Most organizations indicated their program had been in place between three and five years, with a few organizations indicating that their program had been in place more than six years. Three said their programs were in place between one to two years.

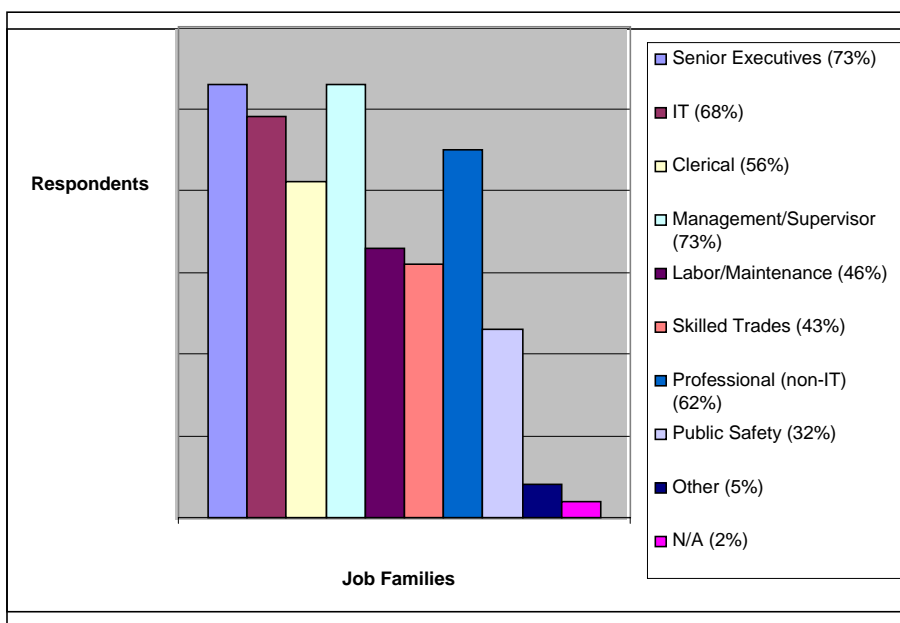
In addition, gainsharing programs are most likely to be organization, rather than department wide. Respondents were evenly split when asked if goals had to be achieved in addition to cost-savings in order for gainsharing to be applied.

Only three of the 13 organizations answered the question about the percentage of cost reductions that is shared with the plan participants as an incentive. Two said that the

organization received 90% and the participants 10%. The remaining participant said the cost reductions were split 50/50. The remaining 10 may have a different arrangement.

## Broadbanding

Approximately 15 percent of respondents said they have broadbanding in their organization. Broadbanding is most likely at the higher levels of the organization with 73 percent of respondents saying their senior executives and management/supervisor levels are broadbanded while 68 percent of their IT workforce and 62 percent of professional employees are also broadbanded. Broadbanding is least likely in labor/maintenance (43%), skilled trades (43%) and public safety (32%), although the numbers are still significant.



When broken down by level of government, the federal government is more likely to have broadbanding at the higher levels of their workforce than cities, counties or states. Cities and counties, however, are more likely to have broadbanding at all levels than is the federal government.

**Percentage of Job Families with Broadbands (for those reporting a broadbanding structure)**

Org Type	Senior Executives	IT	Clerical	Management/supervisor	Labor/maintenance	Skilled trades	Professional	Public safety
County	77%	77%	77%	54%	62%	69%	69%	62%
Federal	100%	67%	33%	50%	17%	17%	50%	0%
Local Municipality/City	81%	74%	59%	89%	56%	48%	74%	37%
Other	50%	38%	50%	88%	38%	38%	38%	25%
State	64%	91%	64%	64%	45%	36%	73%	18%
<b>Average:</b>	<b>74%</b>	<b>69%</b>	<b>57%</b>	<b>69%</b>	<b>43%</b>	<b>42%</b>	<b>61%</b>	<b>28%</b>

Thirty-nine percent of respondents use broad grades, 14 percent use career bands and 45 percent use a combination of both.

When a system is broadbanded, one of the main objectives is to reduce salary ranges within a particular job family. The broadband could be considered unsuccessful if it fails to reduce salary ranges. According to our respondents who have a broadbanded system, the majority have been successful in reducing salary ranges, with the management/supervisor job family being the most successful.

<b>Job Family</b>	<b># Ranges Before</b>	<b># Ranges After</b>	<b>% Change</b>
Senior Executives	12.6	4.4	-65%
IT	19.8	6.8	-66%
Clerical	18.1	6.7	-63%
Management	24	7.2	-70%
Labor/Maintenance	21.7	9.2	-58%
Skilled Trades	21.9	10.1	-54%
Professional	21.7	8.3	-62%
Public Safety	20.1	8	-60%
<b>Average</b>	<b>20.0</b>	<b>7.6</b>	<b>-62%</b>

In contrast to salary ranges, salary range widths increased after systems were broadbanded.

<b>Job Family</b>	<b>% Width Before</b>	<b>% Width After</b>	<b>% Change</b>
Senior Executives	38.6%	75.9%	97%
IT	36.5%	78.5%	115%
Clerical	38.2%	76.2%	99%
Management	39.2%	76.5%	95%
Labor/Maintenance	41.0%	77.0%	88%
Skilled Trades	38.3%	76.9%	101%
Professional	39.2%	79.7%	103%
Public Safety	43.5%	78.0%	79%
<b>Average</b>	<b>39.3%</b>	<b>77.3%</b>	<b>97%</b>

Within the broadbanded system, agencies use different mechanisms to regulate and manage an employee's compensation. Sixty-six percent use merit or budget guidelines, 60 percent use market data, and 53 percent use job evaluation results. The minority mechanisms used to manage compensation was competency levels (28%), skill blocks (18%), and performance maturity curve (12%).

Not all agencies and organizations institute broadbanding for the same reasons because not every organization has the same overall goals in mind. Little more than half (59%) of respondents adopted a broadbanded system to improve flexibility of job assignments and 56 percent in order to move toward market based pay. Forty-three of respondents want to improve lateral movement within or across departments, 32 percent want to flatten the organization and management structure, while 25 percent want to reduce administrative rules and costs. Only 9 percent wanted to improve team focus.

Of the 15 percent of respondents that have a broadbanded system, exactly half (50%) felt their system helps improve organizational performance to a moderate extent, six percent their system helped improve organization importance to a great extent and 24 percent felt their system helped improve organization importance to a small extent. Only 9 percent said that it had not helped them at all to become a higher performing organization.

**How much has broadbanding helped organizations become higher performing?**

Org Type	Not at all	To a small extent	To a moderate extent	To a great extent
County	8%	8%	50%	33%
Federal	0%	20%	40%	40%
Local Municipality/City	12%	23%	50%	15%
Other	25%	25%	50%	0%
State	0%	36%	57%	7%

Org Type	Little	Much
County	17%	83%
Federal	20%	80%
Local Municipality/City	35%	65%
Other	50%	50%
State	36%	64%

In terms of the length of time the system has been in place, 20 percent said they have used it for more than 10 years, 38 percent said they had used it for six to 10 years, 26 percent said they had used it for between three to five years, six percent said they had used it for between one to two years and seven percent had the system in place for less than one year.

# Appendix

## Figure A.

**Grade and Step System:** A pay plan that consists of pay grades, or pay ranges, where employee pay movement through the range from hire rate to the maximum of the range is governed by specified levels within the range. Usually employees move up one step for each year of satisfactory performance until they reach the top step, although other rules for step movement are also in use.

**Grade and Open Range:** A pay plan that consists of pay grades, or pay ranges, where employee pay movement through the range from hire rate to the maximum of the range is not governed by specified levels within the range. Usually an employee's pay movement is based on performance or some other metric and different employees in the same pay range may advance at different rates.

**Steps to Midpoint:** A pay plan that consists of steps up to the midpoint and an open range to the maximum of the range. Usually, in these systems the employee pay movement is based on one step for each year of satisfactory performance up to the midpoint of the range (which is usually considered the market average for the job). Pay movement after the employee reaches the midpoint is based on performance or some other metric where the demonstrated job behavior exceeds expected work performance for the job responsibilities.

**Market Based System:** A pay plan that is based on collecting market data for more than 50 percent of the existing job titles. The pay ranges are based on the market averages for the jobs that are benchmarked to the market. Jobs that are not benchmarked to the market are slotted in to the correct grade based on an analysis of the complexity and difficulty of the work in relationship to benchmarked jobs of: 1. jobs in their own job family, 2. jobs that are judged to be similar in other job families, and 3. jobs that they supervise or are supervised by.

**Broad band, broadbanding:** A pay structure that consolidates a large number of pay grades and salary ranges into much fewer broad bands with relatively wide salary ranges.

**Pay for performance:** A system where an individual or group's work performance is measured and rewarded according to the level of performance. The reward is usually money, in the form of a salary increase, but could be a one time lump sum bonus, or a non-monetary reward such as additional time off, gifts, awards, or other items of value. If cash is awarded, it usually increases the base pay.

**Variable pay plans:** A system where pay in addition to base pay is awarded to an individual or a group based on performance or other factors. The additional pay is not guaranteed and it usually is received in a lump-sum check, and does not become part of base pay.

**Skill based pay:** A person based pay system based on the repertoire of skills an employee can perform, rather than the specific skill that the employee may be doing at the time. Pay increases the base pay and generally are associated with the addition and/or improvement of the skills of the individual employee, as opposed to better performance or seniority within the system. The pay level may not be dependent on whether any of the skills are utilized.

**Gainsharing:** A group incentive plan that directly translates increases in employee productivity into financial (usually cash) rewards. It can employ any number of means to measure productivity, from outputs and outcomes to cost savings and quality, but its overriding emphasis is on the tangible and quantitative. The gainsharing award usually does not increase the employee's base pay.

**Goalsharing:** A variation of gainsharing where the measure is usually less tangible and more qualitative than in gainsharing. For example, an increase in client satisfaction based on scores from a survey that results in a payment of cash to the participants of the group that affected the client satisfaction is a goalsharing plan.

**Competency-based pay:** A form of skill based pay that focuses on demonstrated behaviors, such as leadership, communication, integrity, etc. Pay increases to base pay are based on the demonstration of competency to perform the desired behaviors.

**Spot awards:** Cash, or other non monetary award that is given to an employee at the time of the employee's performance that meets some defined level or standard. Thus, an employee is awarded an "on the spot" award very shortly after the behavior occurs. A spot award is usually small in value and does not increase base pay.

# Figure B.

## Executive

Org Type	Grade and Step	Grade and Open Range	Steps to mid-point, open range to maximum	Market-based system	Broad-Band
County	32%	30%	2%	24%	12%
Federal	29%	12%	6%	12%	41%
Local					
Municipality/City	32%	31%	5%	22%	10%
Other	29%	38%	0%	25%	8%
State	24%	32%	12%	14%	18%
<b>Average:</b>	<b>29%</b>	<b>28%</b>	<b>5%</b>	<b>19%</b>	<b>18%</b>

## Supervisory/Management

Org Type	Grade and Step	Grade and Open Range	Steps to mid-point, open range to maximum	Market-based system	Broad-Band
County	51%	23%	2%	16%	8%
Federal	61%	4%	4%	9%	22%
Local					
Municipality/City	50%	23%	4%	17%	6%
Other	44%	30%	0%	17%	9%
State	39%	31%	4%	12%	13%
<b>Average:</b>	<b>49%</b>	<b>22%</b>	<b>3%</b>	<b>14%</b>	<b>12%</b>

## Professional

Org Type	Grade and Step	Grade and Open Range	Steps to mid-point, open range to maximum	Market-based system	Broad-Band
County	47%	25%	1%	18%	9%
Federal	58%	0%	4%	17%	21%
Local					
Municipality/City	50%	23%	4%	17%	6%
Other	45%	28%	1%	19%	6%
State	42%	30%	3%	12%	13%
<b>Average:</b>	<b>48%</b>	<b>21%</b>	<b>3%</b>	<b>17%</b>	<b>11%</b>

## IT

Org Type	Grade and Step	Grade and Open Range	Steps to mid-point, open range to maximum	Market-based system	Broad-Band
County	47%	23%	1%	18%	11%
Federal	63%	0%	4%	8%	25%
Local					
Municipality/City	51%	20%	4%	18%	7%
Other	45%	29%	0%	19%	7%
State	40%	26%	3%	12%	18%
<b>Average:</b>	<b>49%</b>	<b>20%</b>	<b>2%</b>	<b>15%</b>	<b>13%</b>

**Labor**

<b>Org Type</b>	<b>Grade and Step</b>	<b>Grade and Open Range</b>	<b>Steps to mid-point, open range to maximum</b>	<b>Market-based system</b>	<b>Broad-Band</b>
County	61%	17%	1%	15%	6%
Federal	75%	0%	6%	13%	6%
Local					
Municipality/City	65%	15%	4%	13%	4%
Other	61%	20%	0%	14%	4%
State	48%	27%	2%	13%	10%
<b>Average:</b>	<b>62%</b>	<b>16%</b>	<b>3%</b>	<b>14%</b>	<b>6%</b>

**Public Safety**

<b>Org Type</b>	<b>Grade and Step</b>	<b>Grade and Open Range</b>	<b>Steps to mid-point, open range to maximum</b>	<b>Market-based system</b>	<b>Broad-Band</b>
County	65%	14%	1%	16%	5%
Federal	92%	0%	0%	8%	0%
Local					
Municipality/City	73%	10%	3%	12%	2%
Other	65%	18%	2%	14%	2%
State	52%	23%	2%	14%	9%
<b>Average:</b>	<b>69%</b>	<b>13%</b>	<b>2%</b>	<b>13%</b>	<b>4%</b>