

Comments
12/7/88

OTHER ORGANIZATIONS EXAMPLES

Introduction:

NAPA examined the compensation and personnel systems of a number of private and public organizations. This appendix describes the responses of ten non-intelligence private and public organizations to questions addressing compensation practices concerning scientists and engineers (S&Es). Specifically covered are how these firms relate to the market for salary purposes, hiring and salary administration practices, relocation/transfer policies, outplacement programs, short-term practices on borrowing staff, additional compensation for clearances, and premium pay for S&Es for overtime or hazardous duty.

I. The Methodology:

At an August meeting of NAPA staff and senior Intelligence Community (IC) representatives, we identified and prioritized a set of issues (see Attachment 1). Based on this meeting, NAPA developed a questionnaire (see Attachment 2).

The IC participants asked that a number of specific organizations be contacted about their compensation systems. NAPA selected this set of companies because they are similar to the IC agencies -- they had some flexibility within a constrained environment. As a group, the firms were very cooperative. The organizations contacted were:

Brookhaven National Laboratory	DOE laboratory
Digital Equipment Corporation	High tech., private sector
Delmarva Power	Public utility
Federal Reserve Board	Excepted federal agency
Lawrence Livermore Nat'l Laboratory	DOE laboratory
Mitre Corporation	High tech., non-profit
National Institute of Standards and Technology	Federal agency
Martin Marrietta, Energy Systems	DOE laboratory
Oak Ridge, TN	
Sandia National Laboratory	DOE laboratory
Tennessee Valley Authority	Government corporation

For each organization we conducted either a telephone interview, or a face-to-face meeting. In two cases, the questionnaire was sent to the organization for completion after the initial telephone contact. In most cases, follow-up telephone calls were made to clarify specific points, or where necessary to contact other individuals in the organization for specific pieces of information.

II. The IC Issues

1. Approach to integrating the market data for Scientists & Engineers

A. How is market comparability ensured?

All of the non-federal organizations use salary surveys to determine what is happening in what they view is their segment of the market.

As a group, the organizations also seem to have varying levels of sophistication in survey analysis. Because different surveys can lead to vastly different conclusions when comparing to market, the non-federal participants are especially interested in having very good salary surveys and the "right companies" in those surveys. By this, they mean companies they believe they have to compete with for talent. The non-federal participants appear to place a greater emphasis on market relationships, and use a lot of staff and computer resources to try to understand what is happening in the market. They also know about pitfalls in various types of surveys, benchmark and maturity types, /1 and are mindful of these as they analyze them.

The surveyed organizations seem to integrate the survey data somewhat differently into their compensation systems. They also consider other factors such as company profits, the near-term projected economic environment, and internal employee or labor relations issues.

Interestingly, some of the organizations feel strongly that they have to compete in a national market and they survey it. Others believe they are competing in local or regional markets, and they survey these. To the extent it could be determined, no organization believes they are competing nationally and then surveys salaries only regionally or locally. However, in areas which are locally high

/1 Maturity curve salary surveys correlate salary to years of experience or to years since first degree, or occasionally to age. They draw a curve to represent that correlation using time on the horizontal axis and dollars on the vertical axis. The presumption is that, as individuals grow in experience, their value and hence their salary also grows. Maturity salary surveys have been used for many years, particularly in research environments where, because of the uniqueness or confidentiality of the job duties, it has been very difficult to make valid job duty comparisons.

Benchmark salary surveys seek to make the best match of a company's job duties to the most similar ones in a salary survey. Pay rates in the benchmark survey are then compared to those of the company's to build market relationships and pay ranges for salary administration.

paying, organizations surveying nationally express concern about watching the local market very carefully to insure that they do not start lagging behind it; they do not want to hire good people, only to have them soon hired away for better salaries.

Each of the organizations have varying notions of what market parity means. Some want to be tightly tied to the market, or where they think the projected market will be. Others are content to reach the current market level, knowing that their aggregate salaries will fall behind almost immediately after they have their common date salary review (the single date on which most employees receive their annual salary increases).

Some organizations target to be ahead of market because they want the best, most capable, and most productive talent available. They believe that these people's effectiveness and productivity yield far higher gains than the modestly increased salary costs. This approach seems typical of the highly competitive, high tech firms.

Other organizations target to be on market so they can pay top contributors well, and pay less productive but still needed employees consistent with their lower level of contributions. This approach is representative of many non high tech organizations.

Lastly, some firms find they don't need many of the high paying disciplines, or are in a low labor/living cost area and do not need to pay salaries that are as high as market, or so called "below average employees" meet their needs.

2. Hiring--What Works, the Flexibilities, the Common View

A. Pipeline Talent-Entry vs Senior Recruiting Approach

Chy made
All of the companies use whatever means they have to try to recruit the best candidates for their needs, but their needs are not the same. All of the organizations say the challenge of the work and the opportunity to work with the top people and facilities in the field are the most important things in successful recruiting, so long as salary/benefits are not too low. The four organizations that hired above market stressed things such as: cutting-edge technology, entrepreneurial values, a dynamic, caring culture, and the possibility of having an impact on issues of national importance. Salary was way down on the list; where salaries were generally competitive, modest differences have little impact. If salary differences are large, salary becomes a more important issue.

Starting Salaries

Organizations may have different starting rate policies ~~viz~~^S-a-~~viz~~^S market, that is they can hire above, at, or below prevailing market. They may also hire at different levels compared to market for new

graduates than for senior hires. Five of the ten organizations in the NAPA sample have the same starting salary philosophy for entry and senior level hires. Three are more aggressive for senior than entry hires, but none of this group is more aggressive for entry than senior hires. Lastly, two organizations seek to hire new graduates and promote from within; this means fewer senior level hires.

On starting rates for "baseline" or average recruits, four organizations tend to hire above market average. They want to hire and retain the best people, there is more competition for them and they cost more. Three organizations tend to hire people essentially on market. It should be noted that one of these is a federal organization, and another is in a very low cost living area, so that national rates provide a very good life style. Lastly, three organizations tend to hire below market. The rationale for one is their overall salary scale is slightly below market and they don't want to upset their internal alignment. The other two are federal agencies and simply are not able to or do not need to compete at full market levels.

B. Exceptional PhD Talent

Recruitment Approach

skills, ?

people with

Chg made
The approach to recruiting is very different for exceptional and, in many cases, unique ~~people~~. This is the area where the private sector firms and to a lesser extent the non-profit/DOE Laboratories can successfully compete for top talent. For special senior people, typically the technical experts at the organizations discuss the names of candidates with high levels in the management chain. Generally, the initial contact with these candidates is made by high level technical managers, and they work out the scope and details of the position.

Special accommodations offered besides salary include: special research assignments, facilities and support staffs; tenure; allowing part-time work so they can fulfill teaching commitments; and allowing such staff to continuing consulting within the constraints of the conflict of interest rules.

One organization does not hire PhDs, so this question was moot for them. Another said that it has not had to do this type of recruiting and does not want to. Two federal agencies are interested in recruiting exceptional and generally expensive people, but noted they do not have the flexibility from a classification or salary standpoint to effectively compete.

On the issue of classification flexibility, four organizations have little flexibility. The others have varying levels of flexibility ranging from a dual ladder to no classifications structures for their S&Es -- they use a maturity curve approach.

Starting Salaries

All of the organizations said that the challenge of the work itself, and the opportunity to work with the top people and facilities in the field are the most important things in successful recruiting for these people; salary/benefits are much less important so long as they are not too far out of bounds with other opportunities available. But here is where differences really show -- the pay cap for federal agencies is a significant handicap because they cannot get close enough to the salary offers that some of the non-profit/DOE laboratories (\$80-\$100,000), or private sector firms (\$100,000 and up, plus stock options and bonuses) can offer.

From a salary standpoint some of the organizations surveyed really have much more flexibility than the federal government, but they are very judicious about its use.

3. How Salaries are Managed--Pay Flexibility

This is another area where organizational differences and priorities really show. The salary system is a major part of the tangible reward system; the organization integrates the values, the performance and behavior it values and wants to reward into this overall reward system.

All of the sample set of organizations have a merit pay system. However, the differences are vast. At one end of the spectrum, one organization considers a merit system as being able to give two merit steps in a structured step pay system; at the other end, four others view it as managing the increases to target salary levels based on a ladder ranking of each employee's contribution -- a rigorous performance management system.

Other differences include:

Some utilize rate ranges, others maturity curves in their salary administration.

Some combine BSs and MSSs, in their maturity curves, others do not.

Some lump non-supervisors and supervisors together in their management of salaries, others do not.

Some have a general increase plus a small merit increment, others have all of the increase amount as merit.

Some tie the performance directly to the increase amount, others have a less direct tie to performance.

Some distribute merit increases on one common effective date, others use an anniversary date system, typically 12 months after some prior event such as a promotion or the previous annual increase.

Each organization's salary approach has differences which seem to reflect their needs and cultures.

4. Relocation of Staff

Long-term geographic location policies is an area where a special survey focused on private sector employee transfer and relocation policies and practices would be more productive than the NAPA data, because there were only three private companies in this study.

5. Total Compensation Models

Only one organization, a federal agency working on a demonstration project, is working with a total compensation model. Perhaps one reason is that most salary surveys collect base salary data; it is difficult to get truly comparable benefits data needed for the total compensation model. While it is relatively easy to gather cost of benefits data, it is not particularly useful because it does not account for a host of other factors which must be considered.

When discussing with knowledgeable benefits consultants how to best compare benefits in the market place, they advocate comparing an actuarial valuation of an organization's benefits package to those of comparable companies. This involves a detailed analysis of each company's benefits plans plus an actuarial valuation of each facet for sample employees at a number of different salary levels. This is an expensive process and there are only few firms which have the capability to do this type of specialized, in depth analysis.

This approach also presumes that salary dollars and benefits can be interchanged to make an overall compensation package competitive and acceptable to employees. NAPA was concerned that a richer benefits package could be used as a justification for a poorer salary program. Some analysts believe that no matter how rich the benefits package, if salary levels fall too far behind market, the employees will react negatively. While the total compensation approach is intellectually attractive, it has so far seen very limited acceptance.

6. Workforce Concepts

All ten of the organizations in this sample emphasize a long term career approach rather than a duration-of-project approach to tenure. The caveats are that the individual employee continues to perform in a satisfactory manner or better, and there are not catastrophic budget problems. One organization involved in periodic major construction projects does hire construction people for the duration of the specific project.

7. Outplacement/Second Career Support

Only three of the ten organizations have used outplacement consultants, and then only with major layoffs. Two others have used outplacement consultants for special, high-level terminations. One other offered an early retirement program during a period of retrenchment. Only one organization indicated it had used extensive outplacement in the past. The unanimous approach is to hire people and hope they will make their career with the organization.

8. Short-Term Borrowing of Staff

Only one of the ten organizations a federal agency, relies on short-term borrowing of staff. This approach is not commonly used in the private sector.

9. Added Compensation for Passing Security Clearances

Only six of the ten organizations use security clearances, and none of them grant any special monetary recognition for passing security clearance requirements.

10. Premium Pay for Overtime or Hazardous Duty for Professionals

Only two organizations indicated they used overtime pay for professionals. One utilizes it only for supervisors in specific grades where it is necessary to provide supervisory coverage over hourly and weekly salaried employees. The other organization allows vice presidents to approve overtime pay for exempt employees as they deem necessary.

None of the organizations, including the DOE laboratories, use hazardous duty pay for any of their employees. Instead they note there are extensive safety policies, procedures and standards which, if followed as required, eliminate the hazards. Thus, there is no basis for hazardous duty pay.

III. Key Issues to be Learned

A. ~~The Market~~ ^{Employment}

do you want to specify what market you're referring to?
enpl

1. Being competitive in the market, as they define it, is a high priority.

2. The high tech firms place a lot of emphasis and resources on keeping track of the high tech S&E market, generally using separate, specialized surveys.

*Chy
mub*

3. On average, non supervisory S&E positions are better paid than non supervisory administrative exempt positions.

B. Recruiting World Class Talent

1. Non profit/DOE laboratories and private firms have flexibility and will use it when recruiting for world class talent. Base pay levels of \$80,000 to \$100,000 for non-profit/DOE laboratories and \$100,000 plus perks, bonuses and stock options are not uncommon. In addition, universities have the good salaries and perks to aggressively compete in this arena.

2. The federal government, with its pay cap and lack of flexibilities, is not even close to these organizations.

C. Pay System Flexibilities

1. Most non profit and private sector firms have a lot of flexibility built into their pay systems to accommodate special situations, or with special management approval will bend the rules for the right person.

2. The policies, procedures and systems are often implemented with the idea that they should not get in the way of doing the "right thing" when appropriate. There may be a price to be paid, and the managers assess that before proceeding.

3. It is not uncommon to be able to hire anywhere within the pay range or perhaps above the normal range, or in more limited situations to redefine the job for the right person.

IV. Merit System Caveats

If merit salary management is to be implemented, management must be willing to:

- a. differentiate individual performance/contribution,
- b. distribute salary adjustments and pay based on performance differentiations,
- c. strongly support the system, and
- d. hold their subordinate managers accountable for results.

In addition:

A. Compensation/Salary management is more art than science and there is no single set of RIGHT answers -- but there are a lot of wrong answers. For each organization there are a large variety of options, each with some pluses and minuses that have to be explored. NAPA's survey showed a lot of variations in applying the merit theme.

B. All of the organizations in the sample profess to have some sort of a merit system -- there are a variety of ways of defining a merit system.

C. Implementing a merit pay system, especially where there has not been one before, will force a culture change on supervisors, managers and employees.

V. Summary Comments

1. Workforce demographics are changing and this will further disadvantage the IC agencies in their quest for S&Es in the 1990s and 2000s unless there is a dramatic improvement in their ability to compete.

2. The IC agencies do not have the flexibility within the current system to be able to deal with unusual situations.

3. The current pay system environment places the IC agencies at a disadvantage ranging from significant to insurmountable.

4. If the IC agencies want to implement a true merit system they must work to become more competitive in the market.

5. It would be helpful for the IC agencies to develop a network from the non-profit/private sector for compensation practice.

#446 - November 14, 1988

TOP PRIORITIES OF IC REPRESENTATIVES

1. Break cap for high quality staff
Market Pricing - i.e. comparability
Flexibility of compensation policies within agency
2. Pay flexibility
3. Private industry packages on relocating staff
4. Consideration of tax implications of compensation

4
number
missing?

SECOND ORDER PRIORITIES OF IC REPRESENTATIVES

4. Total compensation models
5. Second career support
6. High skill college graduate recruitment
7. Short term borrowing of staff
 - Conflict of interest
 - Compensation packages
8. Added compensation for meeting clearance requirements
 - Incentives for conditions of employment
9. Premium pay - overtime practices
10. Intangible compensation - including working conditions

COMPENSATION QUESTIONNAIRE

I. Compensation System

What is your organization's compensation approach? (How organization manages and why)

- A. Hire at, above, or below market salary rates? Use recruitment bonuses?
 - 1. Entry vs. senior level hires
- B. Geographic vs. national pay schedules and why
- C. What are special compensation programs for supervisors and non-managerial staff?
- D. Pay adjustments - based on market, profitability or?
 - 1. Increase or salary management?
 - 2. Frequency
 - 3. Merit increase distributions (common date or anniversary exceptions or mid-years) based on individual's performance?
 - 4. Amount of increase tied to performance?
 - 5. Can non-supervisory pay equal or exceed executive pay? Do you have a dual ladder, and what do you think of the concept?
 - 6. Lead, lead/lag or lag; market target at X% +/- market?
- E. How important is uniformity of pay across different business lines and organizations?
 - 1. Uniformity
 - 2. Flexibility
 - 3. Problems/issues
- F. Roughly what portion of total compensation is bonuses or other forms of at-risk pay?
- G. What is the purpose of at-risk pay?

- H. Who can make exception to your starting salary rules?
What can they change?
 - 1. National office only? (What can they waive?)
 - 2. Division VP?
 - 3. Manager/supervisor?
- I. Added compensation for passing clearance (lifestyle restrictions - cannot publish, etc.)?
- J. Premium pay (overtime, hazardous duty pay) for professional
 - 1. Do you have it?
 - 2. Who is eligible and under what circumstances?
- K. What do you disclose about your pay system to employees?
 - 1. Classification description
 - 2. Rate ranges
 - 3. Policies/procedures
 - 4. Individual pay rates
 - 5. Other

II. Recruiting Approach

What do you emphasize to recruit new graduates?

What do you emphasize to recruit experienced people?

- A. Salary
- B. Benefits including deferred compensation
- C. Career with firm
- D. Opportunity to work with latest technology
- E. Importance of projects
- F. Profit sharing
- G. Work environment

H. Ability to work with first class organization (yours)

1. best minds
2. at cutting edge
3. anything else?

I. New graduate training program?

J. Any other thoughts/concepts?

III. Special Recruiting - New PhD or experienced?

What would you do to attract a world class talent (Phd in mathematics from MIT)? These questions refer to exceptional talent, not baseline or average talent.

A. Would you make an exception to your normal classification/compensation rules?

B. If so, on what basis?

1. Work environment
2. How much flexibility to retain them?
3. Conflict of interest issues? Competition?

C. How do you pay top people?

1. Pros/cons or problems in your system

IV. Workforce Concept

What kind of workforce concept are you operating under?

A. Lifetime career, no layoff?

B. Only for duration of project

C. Hire cutting edge recruits from school; edge out with slow raises after a few years, or something else?

D. Fully experienced, proven talent from other organizations?

E. Government/military as a source

F. Revitalize burned-out-people? If so what, what conditions?

V. Employee Mobility

Do you require your professional staff to make geographic moves? What levels? (e.g. management only? technical)?

- A. What problems, if any, are you having?
- B. What solutions are you using that work best?
- C. How do you protect transferees from financial loss?
 - 1. Family
 - 2. Spouse
 - 3. Second wage earner
 - 4. Schools
 - 5. Other
 - 6. Additional Services

VI. General Support

- A. Second career support - outplacement activity/consultant
- B. Do you rely on short term "borrowing" of staff from research organizations/universities, etc., for 18-24 months, then person goes back to prior job? Do you consider conflict-of-interest or give sabbaticals?
- C. Do you have flexible benefits (upper mid-level to just below the top echelon?)

#426- November 15, 1988