



HayGroup®

Prepared by:

Neville Kenning
Vice President

Brenda Danenhauer
Consultant

and

Lisa Bailey
Associate Consultant

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Executive summary

- As an outcome of an audit of 10 components of the Classified Employee Compensation Plan, the Legislative Council contracted with Hay Group to partner with the State in the work to be done to implement the recommendations made and adopted by the Government Services Committee as an outcome of the Audit
- This report summarizes the work completed in this project which provided the Legislature with the financial information it needed by April 15, 2011 to enable the Legislature to determine if implementation would be with effect July 1, 2011
- Due to the Legislative decision to not appropriate funds for implementation, the new grade and salary structure developed will be implemented with effect July 1, 2012
- However, other components of this project have been adopted and/or implemented
- The work done on each component of this project will enable the State to have a sound, defensible and current Classification and Compensation Plan for classified employees, based on the principles set out in the Compensation Philosophy adopted in HB1031
- While there were 10 components in which recommendations were made in the October 2010 audit report, some of these have been consolidated in terms of project work undertaken

Executive summary (cont'd)

- This report has been prepared in accordance with the requirements as set out by the staff of the Legislative Council and the contract, and it should be read in conjunction with the report to the Budget Section dated September 14, 2011 and presented on September 15, 2011

Project component initiative

Initiative	Work Completed	Expected Outcomes
A State compensation philosophy statement	<ul style="list-style-type: none"> • Adopted by the 62nd Legislative Assembly in Section 1 of HB 1031 (NDCC 54-44.2-01.2) • Implementation and administration of the Compensation Philosophy is covered in the initiatives in Section 2 of HB 1031 	<ul style="list-style-type: none"> • This Compensation Philosophy will provide the overarching framework within which compensation policy, design, funding and implementation can be managed and administered

Project component initiative (cont'd)

Initiative	Work Completed	Expected Outcomes
Adjust the methods used to determine classified state employee classifications by:	<p>Preliminary process redesign and forms done by Hay Group in December 2010</p> <p>Meeting held with HRMS and Agency HR leaders and classification staff in January, 2011</p> <p>Feedback from Agencies in January, 2011</p> <p>Consolidation of feedback from Agencies</p> <p>Hay Group reviewed feedback and determined what changes should be made to the process and forms</p> <p>Hay Group made modifications to preliminary process and forms per feedback</p> <p>HRMS staff and Hay Group finalized process and forms in August, 2011</p> <p>Roll out of the new process and forms to the Agencies is ongoing by HRMS</p>	<p>This will simplify the classification process and place a greater emphasis on utilizing the job evaluation methodology as the basis of classification decisions</p> <p>There will be greater partnership between staff in the Classification unit of HRMS and Agency HR staff in classification decisions</p> <p>The simplification of the process will also shorten the time taken for classification decisions</p>

Project component initiative (cont'd)

Initiative	Work Completed	Expected Outcomes
Minimize salary inequities both within an agency and within state government by:	<p>Formation and training of Job Evaluation Committee consisting of 7 HRMS staff and 8 Agency HR staff</p> <p>Purchase of the Hay Job Evaluation Manager (JEM) technology to enhance the speed and efficiency of the job evaluation process</p> <p>Evaluation of benchmark classification job evaluations by Hay Group completed by early January</p> <p>Review of benchmark job evaluations and slotting of the remaining classifications by the Job Evaluation Committee</p> <p>Review of the job evaluations for all 900+ classifications by Hay Group and the Job Evaluation Committee</p> <p>Development of a new grade structure</p> <p>Allocation of classifications to the new grade structure</p> <p>Plan developed by HRMS to implement the new grade structure effective July 1, 2011; subsequently deferred to July 1, 2012</p> <p>Ongoing work by HRMS to address classification issues identified during the job evaluation process (e.g. consolidation of selected direct care classifications)</p>	<p>The State will now have:</p> <ol style="list-style-type: none"> 1. A current, defensible and methodologically sound job evaluation process 2. The use of technology through the purchase of Hay Group JEM to both speed up the job evaluation process and have a means by which to record the basis of both job evaluation and classification decisions 3. Through the work that will be done by HRMS staff in the period July 2011 - June 30, 2012, there will be classification consolidation, the elimination of unused classifications and the enhancement of job family classification structures 4. There will be greater acceptance of the job evaluation and classification decisions through the Job Evaluation Committee membership being a mix of both HRMS staff and Agency HR staff

Project component initiative (cont'd)

Initiative	Work Completed	Expected Outcomes
Develop appropriate market comparisons and methods to set pay grade minimums, maximums, and midpoints by:	<p>Identification of major sectors of employment and employers in North Dakota for participation in salary survey (112 employers)</p> <p>Selection of salary survey benchmark positions (103 benchmark positions)</p> <p>Reviewed survey data from other sources such as: Central States Compensation Survey; Job Service Survey; Hay Group PayNet Database; Healthcare Survey for a total of 162 benchmark positions</p> <p>Analyzed data from all surveys</p> <p>Reviewed benefits analysis (done as part of the 2010 review) for complete total pay competitive comparison</p> <p>Development of new salary structures options and costing implications of new salary structure options</p> <p>Presentation of impact of costing to SECSOC in April 2011</p> <p>Legislative decision to not appropriate funds for implementation</p> <p>As a result of this decision, the new grade and salary structure will be implemented effective July 1, 2012</p>	<p>While the expected outcomes will be influenced by which of the two salary structure options developed are implemented with effect July 1, 2012, the adoption of a new grade and salary structure will:</p> <ol style="list-style-type: none"> 1. Have a midpoint which is based on the principles of the definition of the compensation philosophy which takes into consideration the market definition of both selected other States and greater emphasis on the in-State public and private sector employers 2. The basis has been established for a greater number of sources of data from which to make sound and defensible decisions on the extent to which salary ranges should be moved in the future and the funding for future salary movement 3. The strengthening of basis of pay movement based on two key factors, being an employee's performance and their current pay relative to market. The sample pay/performance matrix as set out in this report can be used as the means by which to deliver pay and such a matrix is flexible to be able to be adjusted based on funding

Project component initiative (cont'd)

Initiative	Work Completed	Expected Outcomes
Expand recruitment and retention tools by:	<p>Further analysis has been completed and given the degree of volatility in the employment in North Dakota, it is the conclusion of Hay Group that the current statute, policies and practices are allowing Agencies to address recruitment and retention bonuses</p> <p>NDCC 54-06-31 sets the established framework within which Agencies can develop programs</p> <p>54-06-31. State employee recruitment and retention bonus programs - Criteria - Limitations.</p> <p>State agencies may develop programs to provide bonuses to recruit or retain employees in hard-to-fill occupations.</p> <ol style="list-style-type: none"> 1. State agencies may pay recruitment and retention bonuses under this section only if: <ol style="list-style-type: none"> a) The agency has a written policy in place identifying eligible positions or occupations and provisions for providing and receiving bonuses; b) The agency has filed a copy of the written policy with the North Dakota human resource management services; and c) The agency reports to the North Dakota human resource management services each bonus provided to an employee under the program. 	<p>The current process is effective both in terms of intent and process. It has the appropriate balance of providing opportunities for meeting specific market needs in terms of recruitment and retention of employees for which there are specific market conditions, particularly those created by the Oil Industry, while also having the appropriate "controls" through Agencies having to file their policies with HRMS and HRMS having to report to the Legislature on a regular basis</p>

Project component initiative (cont'd)

Initiative	Work Completed	Expected Outcomes
Expand recruitment and retention tools by: (cont'd)	<p>54-06-31. State employee recruitment and retention bonus programs - Criteria - Limitations. (cont'd)</p> <ol style="list-style-type: none"> 2. State agencies must fund bonus programs from within the agency salaries and wages budget. 3. The North Dakota human resource management services shall report periodically to the legislative management on the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs. 4. Bonuses paid under this section are not fiscal irregularities under section 54-14-03.1. 5. As used in this section, a hard-to-fill occupation includes an occupation or position in which demand exceeds supply, special qualifications are required, competition with other employers is the strongest, there is a risk of losing an incumbent with rare skills, the position is filled by a highly skilled employee who is in high demand in the marketplace, loss of the employee would result in significant replacement costs, the position is filled by key personnel, or the position has other unique recruitment or retention issues identified and documented by the appointing authority. 	

Project component initiative (cont'd)

Initiative	Work Completed	Expected Outcomes
Expand recruitment and retention tools by: (cont'd)	<p>Agencies must file their policies with HRMS and HRMS reports to the Legislative Committees on a regular basis. (e.g. in the past 2 years, one third of retention bonuses have been paid in the Department of Mineral Resources)</p> <p>To the extent to which pay ranges are set at the market average, the need for recruitment and retention bonuses may be reduced</p> <p>The same commentary on recruitment and retention bonuses also applies to performance bonuses</p>	

Project component initiative (cont'd)

Project Component	Work Completed	Expected Outcomes
Develop a consistent long-term salary increase administration policy by determining the funding request for salary adjustments using a single funding allocation method that includes performance and equity components	<p>The Compensation Philosophy adopted in HB 1031 provides for setting salary ranges at a competitive level in the relevant labor market and pay movement to be primarily based on performance</p> <p>HRMS will continue to provide recommendations regarding by how much the salary ranges should move and the amount of funding for salary changes</p> <p>The intent of the compensation philosophy is that funding should be at a level greater than the amount by which the salary ranges change so that employees can move through their pay range, based on performance</p> <p>Each year, HRMS will prepare a Pay/Performance Matrix that will be the basis for pay change. An example of this matrix is set out on page 14</p>	<p>The key expected outcome will be that while the means by which changes in salary ranges should move and the funding for changes in salaries will be determined based on percentages, the appropriation of salary funding by the Legislature and the communication of that funding to Agencies should be done in dollars, not as a percentage amount</p> <p>This will help overcome the mindset of "3% was appropriated for salary changes and so I should get 3%" and will reinforce pay for performance as the primary vehicle by which pay will be delivered</p>

Example matrix

Sample Pay/Performance Matrix

Relativity to Market Policy Position	% Increase	+	Level of Performance	% Increase	= Increase
100% or Above	0%		Exceeds Expectations	4%	
92.1 – 99.9% of Market Target	1%		Achieves Expectations	2%	
Less than 92% Below Market Policy Position	2%		Needs Improvement	0%	

Further implementation

- The presentation to the Budget Section set out timelines for project tasks that have been completed
- As stated, there are some outcomes that have yet to be implemented, They are listed below:

Initiative	Planned Date of Implementation
New grade and salary structure	July 1, 2012 (prior to implementation, the salary ranges will be updated to be effective July 1, 2012)
Classification Review and Consolidation	Already commenced but will be ongoing
Roll out of new Classification process to Agencies	Already commenced but will continue between now and June 30, 2012

Supplement

Supplement

As requested following submission of the Final Report dated October 2011, set out in this Supplement section are responses to additional information requested. This request was for an explanation of the development of the grade and salary structure and the use of the salary survey sources in developing the recommended salary ranges

- The reason for the development of a grade structure is primarily for ease of classification and compensation administration
- A grade structure places jobs of similar job content as measured by the job evaluation methodology and process into the same grade and all jobs within that grade will have the same salary range, with the exception of what is known as a "premium pay position"
- A premium pay position is one where, while its job content as measured through the job evaluation process, places it in a grade with positions of similar job content, there is a premium in the market for that particular position. This is sometimes also known as a hot skills position. Example in today's economy are Nursing positions and Truck Drivers/Equipment Operators in the Oil Patch
- The basis of the recommended grade structure as set out in Section 7 of the Appendices has as its genesis the implementation of the Hay Job Evaluation methodology in January/February 2011 and the application of that methodology to all classifications. The result was a ranking of all classifications sorted by total points

Supplement

- Once sorted by total points, then a grade structure was developed in which there is a point spread of 15% between the minimum and maximum points within a grade and a 15% point spread between grades
- What this means is that as a result of the job evaluation process, using Grade K as set out in Section 7 as an example, all classifications that have a total point value of between 316-362 points will be placed into Grade K
- The reason that letters were recommended is that the current grade structure uses numbers (1-20) and when the recommended grade structure has less or more grades, if the same numbering pattern is used, employees tend to do a "crosswalk" of "old to new" which may be irrelevant
- For each grade, the salary range has been established based on a policy position which sets the midpoint of the salary range. As stated in Section 9 of the Appendices, two salary structure options were used for Costing purposes; one with the market policy position (MPP or midpoint) set at the average of the market and one set at 98% of the average of the market

Supplement

- For each salary range, the minimum represents 75% of the midpoint and the maximum represents 125% of the MPP. This salary range allows placement in the salary range to reflect experience when making a hiring decision and movement through the salary range to be based on performance
- The minimum sets a level at which the State would not pay less than that for an incumbent in a position in that salary range and the maximum sets the maximum above which the State would not pay an incumbent in a position in that salary range
- In establishing the recommended MPP, market data was collected for 162 benchmark positions from a number of sources. These included:
 - A Custom Survey as set out in Section 8 of the Appendices
 - Central States Compensation Association Survey
 - ND Job Service Salary Survey data
 - NDHA Survey data
 - Hay Group data for companies that have employees located in the State of North Dakota

Supplement

- Data was reviewed for each benchmark and by Occupational Group and grade and was “tested” against key questions such as:
 - From where do we attract/to whom to we lose employees?
 - Where do we find like-kind jobs?
 - Geography: in-State vs Regional?
- For the reasons as stated on the previous page, there was no specific formula for weighting used. What was done was the use of “best judgment” by Hay Group as to the likely response to the questions posed
- An example of this “best judgment” is for Nursing positions. “Weighting” was given to data from the Custom Survey and the NDHA data and less to the Central States survey
- Overall, more weighting was given to in-State data for positions which are not State Government specific positions. For these latter positions which are only found in State Governments, the “weighting” was given to the relevant data from the Central State Compensation survey