

Addressing Classification and Compensation Challenges in State and Local Governments



Introduction

Classification and compensation challenges are often identified as major pain points for state and local governments.

Aspects of government classification systems, such as job function and family systems, job leveling practices, job title naming conventions, and job descriptions, often do not keep up with the evolution of jobs or capture the ever-changing nature of government services. Similarly, the compensation systems of many government entities, such as pay structures and job evaluation practices, often lag the private sector or have not been updated as markets have progressed.

How are compensation challenges impacting state and local governments?

Deloitte regularly helps government entities address the following workforce concerns:

- ① Pay inequities or unequal salaries
- ① Pay compression (i.e., lack of material pay differentiation between new and experienced employees)
- ① Disconnect between employee pay and performance
- ① Lack of transparency in career advancement opportunities
- ① High turnover costs
- ① An inability to attract and retain a younger workforce
- ① Ineffective workforce planning

While the symptoms of inadequate classification and compensation systems are well documented, the root causes have not been entirely explored.

To determine potential root causes, Deloitte interviewed multiple state and local government officials to discuss their classification and compensation system pain points.

This paper will articulate the potential root causes identified through our interviews, as well as solutions and recommendations to address these challenges head-on.

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Identified Root Causes and Challenges

In this section, we explore common root causes and challenges in classification and compensation systems for state and local governments to help shed light on why many current systems are outdated, incomplete or require major improvements. The challenges and root causes are divided into the following categories:

1. Classification and Compensation System/Structure Design
2. Classification and Compensation System Administration
3. Union Considerations
4. Inter-Agency Considerations
5. Pay Program Governance

Each section provides an overview of the challenges and their potential consequences.

1 Classification and Compensation System/Structure Design

Governments often encounter problems with their classification and compensation systems due to the nature of their organization’s operations and lack of standardization across agencies and departments. Deloitte has also seen where classification systems lack standardized job functions, job families, job titles, and job levels. One common example is a lack of clarity between an employee performing a ‘finance’ job and a ‘budgeting’ job. This can dilute the connection between a job classification and compensation for this classification. Further, as jobs mature and change over time, and government services change, governments often struggle to keep their classification systems up to date.

This disconnect can lead to the following challenges in compensation systems/structures:

- Lack of strategic and cultural alignment
- Lack of connection to the organization’s employee value proposition
- Lack of support for a fair and equitable pay or salary structure

Deloitte identified three areas where classification and compensation system problems often exist: *job titling, career pathing, and salary structures*. The following table provides details.



Root Causes of Challenges in Classification and Compensation Systems and Structure Design

Root Cause	Deeper Understanding	Impact
Job Titling	Deloitte often finds inconsistencies in job titles within many agencies. Title inflation may occur when organizations give employees higher level titles in lieu of salary increases, often due to lack of funding or over-burdensome salary increase processes. An inflated title can accompany a lack of knowledge, skills, or abilities relative to what the title typically requires.	<ul style="list-style-type: none"> • Employee role confusion • Inaccurate and inefficient HR reporting • Internal title inequity • Internal pay inequity
Career Pathing	Deloitte has found that many government agencies do not define their career paths. There is often no clear ‘link’ from one job level to the next or understanding of promotion requirements and opportunities. This can lead to employees seeing little to no opportunity for career advancement. Government leaders have told us that career progression is very important, but the process is often unknown to their employees.	<ul style="list-style-type: none"> • Dissatisfaction with lack of career clarity and opportunity • Undesired turnover • Ineffective recruiting, learning and development, and performance management programs
Salary Structures	Many government leaders often do not know how their salaries align with talent markets. As a result, pay may fall behind market over time. Many agencies lack a formal methodology or process to level and grade jobs. This often leads to salary compression and pay equity issues when new employees’ salaries are higher than existing employee salaries or pay for employees being supervised creeps close to or above that of their supervisor. The result is friction and inequity between long-term and new employees, or supervisors. Deloitte has also found that many government agencies’ pay ranges have not been updated in over 10 years.	<ul style="list-style-type: none"> • Increasing pay inequity and compression • Undesired turnover • Misunderstanding of how employee compensation compares to the market • A pay-for-performance system that is misunderstood, unappreciated, and inconsistently implemented

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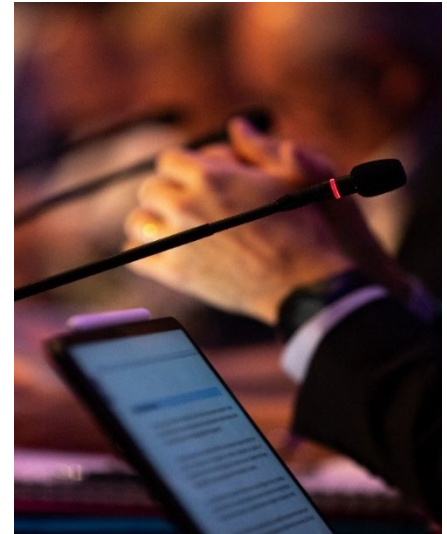
2 Classification and Compensation Systems Administration

This can lead to:

- Persistent delays in obtaining talent for critical roles, and
- A decrease in the overall effectiveness of the classification and compensation system.

Deloitte understands the difficulties state and local governments face administering classification and compensation systems, and the challenges that can arise due to inconsistencies in administrative processes. This can lead to organizations being reactive, rather than proactive, in job creation. Also, some staff may not have the skills they need to complete administrative tasks, further impeding classification and compensation system administration.

Deloitte identified three areas where system administration problems lead to classification and compensation system challenges: *governance, technology, and communications*. See the chart below for more information.



Root Causes of Challenges with Classification and Compensation Administration

Root Cause	Deeper Understanding	Impact
Governance	Deloitte has found that many state and local governments operate with inconsistencies in pay program governance. Often, there are no formal processes or forms to create a new position, reclassify a job, or conduct a job analysis. This lack of governance often leads to inconsistencies in the job re-classification system; for example, a lack of standardized job re-classification processes can encourage some employees to request re-classifications solely to obtain a salary increase. Managers may ask to create new positions or titles because current positions are not eligible to be compensated at the employees' desired pay rates.	<ul style="list-style-type: none"> • Less confidence of the effectiveness of the classification and compensation system • A lack of ownership in classification and compensation processes • Unnecessary requests for reclassifications or titles
Technology	Deloitte has seen many state and local government agencies using outdated Enterprise Resource Planning (ERP) systems to administer and track information related to their classification and compensation system. Consequently, many agencies and departments have created a variety of workarounds to collect pertinent classification and compensation data to guide their decision-making processes. When this occurs, it can cause data integrity issues between different agencies and departments, leading to inconsistent data analyses and reporting. This raises concerns about the integrity and accuracy of the data used to make important decisions and issue associated reports.	<ul style="list-style-type: none"> • Inaccurate reporting of classification and compensation metrics • A lack of data integrity in systems that document employee job levels and hierarchies
Communications	Deloitte found that many state and local governments struggle with communicating position and role expectations to staff. Others are unable to create and provide standardized job descriptions that specify position expectations. Many senior government leaders also struggle to explain and react to employee feedback about total rewards.	<ul style="list-style-type: none"> • Employees that do not understand the classification and compensation system components • Employee distrust of the organization and its HR team. • Weakened impact of salary dollars

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3 Union Considerations

Collective bargaining agreements (CBAs) can dictate when and how jobs and job structures can change in an organization. Government leaders must work closely and collaboratively with union leaders to propose job classification changes and may have to wait until a CBA is up for negotiation to bargain job changes that impact union workers.

Ultimately, the success or failure of a job classification system often depends on the union's acceptance of it. If the union does not approve the job classification system, it will be difficult to implement.

Disagreements about job classifications and compensation can lead to:

- Conflicting classification and compensation systems for union and non-union roles
- An “us vs. them” environment among union and non-union employees
- Delays in implementing desired changes

4 Inter-Agency Considerations

Deloitte understands that state and local government agencies often need to retain a certain level of autonomy in their operations to meet their unique needs. While agencies must operate within overarching state or city guidelines, they often can implement different classification and compensation actions. This level of independence enables

agencies to meet their own needs, but it can also result in:

- A siloed environment where processes, data, and programs vary between agencies
- Little or inconsistent documentation on how agencies classify positions (e.g., job title naming conventions, job leveling criteria, etc.)
- Inconsistent job functions and job families
- Different career progression opportunities
- Discrepancies in compensation levels for positions with similar duties and responsibilities
- Inconsistencies in the role of employee performance on pay

Many agencies that receive outside funding or secure additional revenue (e.g., a Department of Motor Vehicles access a portion of funds obtained through licensing fees) can often provide higher employee salaries, while adhering to overall salary guidelines. This can result in inter-agency “poaching” where well-funded agencies (the “haves”) can lure employees away from the agencies that lack the ability to secure additional funding for salaries (the “have-nots”). In addition to lost productivity among employees continuously job-hopping and participating in onboarding and training activities, the differences in pay levels for similar positions in different agencies can also lead to internal pay inequities.

5 Pay Program Governance

The processes, systems, structures, and tools used to deliver compensation and classification services in state and local governments can be challenging. It can also take time for changes and updates to be implemented. In some cases, change is impeded by laws and regulations or the prevailing mindset that “we have always done it this way.” In other cases, a lack of funding can stall or prevent change.

Administrative matters required for change often involve building consensus among a range of stakeholders with different interests and motivations, while navigating the bureaucracy of government, particularly when funding one area means taking funds from another.

Our discussions with state and local government leaders have shown that it can be difficult for organizations to design and implement systems with guidelines covering the entire entity if individual agencies retain the right to agency-specific guidelines. The competing interests and needs of individual agencies can challenge consensus building, resulting in:

- Job titling inconsistencies across agencies
- Lack of clear career pathways between agencies
- Salary structures that have fallen behind the private sector

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To further complicate administrative challenges, many decisions that impact the entire state or city often require approval of the governor or mayor. We have heard from clients that successful outcomes often require strong relationships and a spirit of bipartisanship.

Summary

Overall, we have seen how legislative challenges and a bureaucratic environment can lead state and local government agencies to struggle with their classification and compensation systems.

An analysis of the root causes and issues identified above shows two key themes emerging among state and local governments that suffer from outdated processes and lack of standardization:

1. The outdated components are reflected in government agencies' *inability to be competitive and on-par with the private sector*. This can negatively affect recruitment capabilities, performance management, the ability to adapt to market changes, and general employee satisfaction.
2. The lack of standardization has been shown to affect *compliance with federal, state, and local labor laws and regulations*. It can also impact relationships with unions and other agencies.

The cumulative impact of these challenges inhibits a high-performing culture within these organizations.

The Solution

To meaningfully address classification and compensation system challenges at the state and local levels, Deloitte suggests reviewing and, where needed, revising the

agency's job architecture system. When state and local governments lack a strategic job architecture, they run the risk of building employee-focused systems, like salary structures and variable pay programs, on a faulty foundation.

A review of internal job architecture and leading market practices can help provide standardization and modernization. Similar to blueprints for the design and construction of a house, a job architecture framework supplies a consistent and well-executed plan for organizing job groups, levels and titles. This results in better classification and compensation systems that address the unique employee talent needs of state and local governments.

Developing a Comprehensive Job Architecture System

Job architecture, which refers to the infrastructure or hierarchy of jobs within an organization, is not a new concept, but the evolved, 21st-century progression of job classification. As previously noted, job architecture encompasses job functions and job families, career tracks and ladders, job levels, job titling conventions, pay grades, and pay for performance programs. Job architecture not only serves as the foundation for effective pay program design, it also provides the infrastructure and basis for total rewards, workforce planning, career pathing, learning and development, and succession planning.

Effective job architecture also provides rigor to systematically realign and harmonize jobs while addressing system requirements; talent management needs; financial controls; and employee strengths, desires, and abilities.

Job architecture should be reviewed and updated during human capital management system implementations. An effective job architecture serves as the foundation of an integrated job catalogue, helping organizations realize the full value of their technology investments.

A solid job architecture system also unlocks the functionality of talent processes. Employees, managers, and HR team members benefit from cleaner, more consistent data that enables informed strategic decision making so:

3 signs of a great job architecture system

- (1) The system is sound and easy to use
- (2) The methodology is consistent, eliminating guesswork of job assignment and promoting confidence in the system
- (3) The system supports career tracks that bring transparency to talent movement and succession

- **Employees** have better insight into future career opportunities that align with their knowledge, skills, and abilities, and greater transparency into the skills and competencies required to further their careers.
- **Managers** can see employee data that helps to identify redundancies, duplication of effort, and accountability overlap. Managers are also better equipped to address inequities and identify employee development opportunities. A robust job structure also helps identify critical jobs, role clarity, and stronger talent analytics.
- **Human resources** team member activities and processes can be streamlined and pay ranges and job postings can be easily updated. This enhances the capabilities of HR systems to deliver actionable insights and guide workforce planning efforts. Additionally, a well-defined job architecture helps to align the external and internal value of jobs.

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Job Architecture System Components

A job architecture system has two primary components:

1. Framework
2. Governance and Communications

The framework aligns the overall design of job functions to salary structures, while governance and communications outline who is responsible, accountable, consulted and informed about the organization's job architecture, maintenance and update activities.

1 Job Architecture Framework

Overall, a job architecture framework consists of the following parts: 1) job functions and families, 2) career tracks, 3) job leveling criteria, 4) job titling standards, and 5) pay structures. Outlined below are the descriptions for each, how each area can be applied to an organization, the necessary steps to reach an outcome, and the benefits to show the value add of a job architecture framework.

Job Functions and Families

Jobs can effectively be organized into systems of job functions and job families based on the nature of work performed rather than organizational structure or reporting relationships. *See the chart below for an overview.*

Organizing jobs in this manner enables state and local governments to create a job catalogue for employees to holistically report on and analyze workforce data.

Career Tracks

The groundwork for defining job levels starts with the development of career tracks. This component of job architecture provides the broadest category to define career mobility. Examples include management, professional, support and technical roles.

Job Leveling

Job leveling is the process of creating hierarchical categories of positions within an organization to establish pathways for advancement. Job leveling guides document the criteria required to successfully perform job duties at every level in the organization. One leveling guide is developed for each career track in an organization.

Each role in an organization is slotted into one level based on how role requirements align to the leveling guide for a career track. According to the Society for HR Management, 80% or greater match to a leveling guide represents a good match. Typical criteria used to level jobs include:

- Scope of knowledge, education, and experience
- Management responsibilities
- Work complexity
- Decision making and impact
- Problem solving requirements

Job Functions and Families

Steps	Challenges
1. Conduct market research and assess current jobs	Leverage best practices and understand the current and future needs of the organization to identify logical job groupings
2. Define each job function and job family	Identify the parameters of each job function and job family based on how it fits within the organization
3. Review the proposed function/family structure with HR and/or designated SMEs	A collaborative and iterative process helps tailor the job functions and job families to the organization
4. Determine owners of job functions and job families	Delegated Points of Contacts (POCs) should have a thorough understanding of the jobs assigned to each function and family to support the effective socialization of this system for grouping jobs

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As described earlier, one of the key reasons for classification and compensation systems is career pathing issues. Job leveling provides consistent criteria for entry and job progression for employees, putting clear language around the factors that make one job a lower or higher level than another.

Additionally, job leveling can be used to supplement job descriptions and provide a foundation to conduct performance management discussions. Overall, a consistent job level structure provides a common understanding of the job levels available, along with the language used to title jobs at each level.



Job Titling Standards

The process of developing standards for the use of job titles refers to setting rules for the use of common terms in job titles. In addition to noting job title use by career track, the rules can also specify the type and level of work the job performs. It is important to balance the job titles needs of an organization with the way in which job titles are used in the market.

Compensation

Developing a strategic job architecture includes making the connection between job structure and job value. This is done by analyzing the market along with the internal value of jobs to determine the optimal combination of salary structures

and pay for performance programs. This starts with a well-designed *compensation philosophy* that identifies the organization’s labor market and talent program goals, key talent strategies, and the connection between the organization’s business and talent strategies.

Understanding and identifying a state or local government’s target market for labor and talent facilitates multiple human capital activities, such as benchmarking and identifying gaps between the organization and its target market. A well-designed compensation philosophy will reflect strategic imperatives that are important to the organization while also communicating the foundational principles and components of a pay program to key stakeholders.

Market pricing, sometimes referred to as benchmarking, allows the organization to compare its pay program practices to external market practices. This includes pay levels along with pay program design and practices. Market comparisons help an organization better understand their

Job Titling Standards	
Standard	Outcome
1. Leverage market titling practices by reviewing industry standards and practices along with survey benchmark job titles	Referencing market standards helps build broader understanding of title standards and garner support for title changes
2. Create a list of common job titles in the organization; develop a short description and guidelines around the use of each title aligned with the organization’s culture	The job title definitions create a common understanding of how various terms within job titles can be used to reflect the nature of a role
3. Document how job title standards will apply to official job titles along with supplemental working titles	Consistent application of standards in job title use across all job functions and job families will help reinforce job leveling guidelines (e.g., an Analyst, such as a Financial Analyst or Compensation Analyst, has similar duties and responsibilities regardless of the job family to which it is assigned)
4. Create policies and/or guidelines to reinforce the use of job titles standards	Policies for job titles ensure the enforcement of job title standards for new jobs and job reassessments

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competitive position, including where the organization “leads”, “lags” or “matches” the desired labor market, and determine where to make the optimal pay program changes.

Organizations can also use market data to review or redesign their *salary structure*. Organization jobs can also be slotted into a salary structure using the market data results along with the internal value of a job. Creating a salary structure and assigning jobs to a grade or range within the structure can be accomplished by benchmarking a sample of jobs and using the data to design a new structure or revising the old. Organizations will also want to estimate the cost of structure updates to ensure viability of the update.

By completing these steps to align employee pay programs with market, an organization can:

- Enhance its ability to recruit and retain qualified employees, thereby reducing the time to hire along with turnover
- Increase employee satisfaction with the pay program
- Address pay equity concerns (internal and external)
- Address compression concerns

2 Job Architecture Governance and Communications

Job architecture governance and communication provides the important guidance needed to properly implement and consistently maintain job architecture updates. Governance can be established through the following activities:

Create and update policies

Organizations should create and maintain job architecture policies, such as:

- Requests to create a new position
- Job evaluation procedures (including job leveling processes)
- The use of business/working titles

- Pay actions associated with internal classification movements (e.g., promotions, internal transfers, etc.)

Each policy should document key essentials, like its purpose, while also defining key terms and concepts and the jobs and employees it impacts.

Create process maps

After policies have been made and updated accordingly, a process map can be created to provide step-by-step visuals illustrating the processes involved in each job architecture area.

Set up a governance council

A governance council can help an organization develop, define and enforce policies and processes. While operating under a defined meeting cadence, they also provide decision-making transparency on job architecture changes. Governance councils generally include members of HR, department leaders, and union representatives (where applicable). Council members typically have a defined set of responsibilities and serve for a limited period of time.

Create a decision-making framework

Decision making frameworks define the stakeholder groups involved in job architecture activities and assign roles and responsibilities for each job architecture process.

Typical roles include individuals who:

- Recommend a job architecture action
- Provide input on a recommendation
- Make final decisions
- Perform or execute a decision

Develop communications and training

The success of a job architecture system depends largely on effective and transparent communication to stakeholders and employees. Many organization leaders, mistakenly assume employees understand job architecture concepts. Likewise, the success of any updates hinge on HR’s ability to administer and maintain the job architecture system.

Deloitte recommends that organizations create the following communication and training materials when introducing job architecture changes:

- A detailed communication strategy that outlines tools, media, audiences, key messages, and timing
- A comprehensive work plan that details the tools and media the organization will use to deliver the job architecture updates and the timing for the delivery of these messages
- FAQs for key leaders to respond to employee questions and feedback
- Training materials for HR that explain the job architecture changes, along with how to maintain the updates.

Conclusion

An effective and strategic job architecture enables a government agency to address its future talent needs, motivate behaviors that support talent strategies, and communicate a consistent language of work for employees. Some of the most visible outcomes of a well-established job architecture are improved workforce planning, a streamlined HR technology solution, and compensation structures that reflect internal equity and competitive market practices. And importantly, an effective job architecture can help state and local governments obtain buy-in from important constituencies – including unions, agency heads, and government leaders.

All of this helps enhance a government’s investment in talent and, in turn, helps employees understand their roles and opportunities for growth and advancement.



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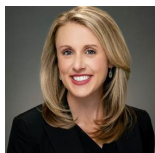
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