



**Final
Summary Report
Compensation Philosophy
Development**

City of Warrenville, Illinois
May 18, 2015



1415 W. Diehl Rd., Suite 400
Naperville, IL 60563
(630) 566-8400
www.sikich.com

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April 24, 2015

Ms. Jennifer McMahon
Assistant City Administrator
Chair, Compensation Study Task Force
City of Warrenville
28W701 Stafford Place
Warrenville, Illinois 60555


Re: Summary Report Compensation Philosophy Development Project

Dear Ms. McMahon:

Thank you for providing Sikich with the opportunity to assist the City of Warrenville in the development of an overall compensation philosophy. This project was unique in that it afforded the City working through an appointed Compensation Task Force the opportunity to consider compensation holistically and strategically. The Task Force sessions offered members both training about compensation as well as facilitated discussions that fostered participation, dialogue, and the exchange of ideas. The end product of the Team's work is a strategic overall philosophy that the City can use as a guide in making a full range of future decisions about employee compensation.

In closing, we would like to thank the Task Force members for their participation, dedication, and keen interest, in producing this final product. We would welcome the opportunity to review the summary report or discuss the outcomes of the Task Force's work should that be helpful to the City's. Should you have any questions, please don't hesitate to contact me by phone at (630) 566-8522 or by email at gkuhn@sikich.com.

Sincerely,



Gregory T. Kuhn, Ph.D.
Director, Government Management Consulting
Sikich LLP



Cristi H. Musser, MPA
Senior Consultant, Government
Management Consulting

Statement of Approach

In October 2014 Sikich, LLP was engaged to assist the City in developing a comprehensive compensation philosophy. It was the City's desire that Sikich receive input from a variety of viewpoints. To that end, the City appointed a Task Force composed of City employees and Council members to work collaboratively with Sikich. The appointed task force included elected officials, senior staff, and front-line employees representing all City departments. The project scope of services, as outlined in the engagement letter, included four key objectives:

- > Develop an overall comprehensive compensation philosophy relative to the marketplace of similarly situated public employers
- > Establish criteria to be used by the City for developing a set of externally comparable communities
- > Develop the criteria for a position evaluation system which considers job duties and responsibilities and that will be used as the basis for developing a classification system that is internally consistent, structured, and equitable
- > Create criteria for establishing wage ranges for all positions as well as performance and economic adjustments both at the plan and the individual employee level.

With these core objectives in mind, Sikich proposed a work plan that would address each of these objectives through a series of Task Force meetings that would not only serve to educate members on the topic, but also encourage members to share their thoughts and ideas about each topic of the core elements that shape the development of a compensation philosophy.

Using the Task Force Method

Task Forces or workgroups are essentially teams with a goal. This assembly of individuals must rely on group collaboration, communications, organizational expectations, coordination, and hopefully shared norms; if it is to achieve optimum success. It is the role of a facilitator to not only provide technical knowledge and support, but also to actively assist the Task Force to move from a collection of individuals to a team that can collaboratively and collectively explore a topic area and achieve the assigned goal.

Sikich has found that the most successful approach for facilitating task force work is to use a highly participative method of small and large group discussions, coupled with an interactive methodology known as *Nominal Group Technique*. These techniques are designed to assure team member's equal opportunities to participate have input, share opinions, reflect on ideas and provide feedback to other team members. Because Sikich has successfully used this approach in with multi-task force settings, we recommended that the same approach be used for this project.

Warrenville's Task Force

As previously mentioned, the City's compensation Task Force was broadly conceived and included both represented and non-represented staff members participants from the City's departments as well as two Council members. Below is a list of Task Force members:

- > Clare Barry, Ward 4 Alderman
- > Fred Bevier, Ward 1 Alderman
- > Jennifer McMahon, Assistant City Administrator – Administration (Exempt)
- > Kevin Dahlstrand, Director of Finance – Finance (Exempt)
- > Natalia Domovessova, Senior Planner - Community Development (Exempt)
- > Ben Elizarraraz, Utility Division Laborer – Public Works (Union)
- > Josh Wittenberg, Patrol Sergeant – Police (Sworn/Union)
- > Jeff Downey, Detective – Police (Sworn/Union)
- > April Garcia, Community Service Technician - Police (Civilian)

Project Preparation and Planning

As a critical part of project planning and discovery, Sikich's lead facilitator met with the Assistant City Administrator and other senior staff to gather relevant organizational information and data. The information gathered included: the current classification and compensation plan; samples of existing job descriptions; the current personnel policy documents, the City's draft 2015 Strategic Plan; City budgets and other background information. The information gathered in these preparation meetings was used to further develop and finalize the Task Force process, sequence of discussion topics, meeting agendas, and workshop discussion materials.

Tasks Force Meetings

In total, the Compensation Philosophy Task Force met on six occasions between December 2014 and March 2015 with most sessions running 2–2 ½ hours. The sessions allowed for the exploration of topics and full discussion and dialogue about the subject at hand. Each session had either a primary topic of focus, was a continuation of a prior session's topic, or addressed carryover or pending questions. Exhibit A is the outline of Sessions and Topics.

Discussion Sessions and Exercises

Before presenting the various study components, it is important to set the stage by defining the term philosophy. As applied to government organizations, a philosophy is a set of basic principles or concepts underlying a particular management or service area (i.e. financial; infrastructure; human resources). As such, a philosophy about a particular matter or issue is composed of overarching concepts and principals that ideally serve as a guideline for handling individual cases or specific problems. Thus the Task Force did not address specific positions and their compensation, but instead was working and thinking at the '30,000 foot' level.

Component I: Laying the Groundwork

In the first session, Task Force members were introduced to one another and the facilitator reviewed the City's charge to the group in the form of goals. In addition, the Task Force was introduced, or in some cases reintroduced, to the basic principals and best practices of public compensation theory. The objectives for this session were twofold: 1) to present the four core questions that frame compensation in the form of subjects that the Task Force was charged with addressing; and 2) to build Task Force members knowledge about public compensation in general. Each of Component I objectives are described in more detail below.

A. The Four Core Questions That Frame Compensation Philosophy

As the first order of business, the Task Force was given its charge from the City in the form of four fundamental questions that comprise any organizations formally stated or informally acknowledged overall compensation philosophy. The four key questions below were used to shape discussions, debate, learn, and eventually, develop group consensus. The answers to the questions below represent the culmination of the Task Force's work and are discussed in the final section of this report.

1. Discuss and Determine: What should be the City's overall target or position in the market or overall competitiveness as an employer?
2. Discuss and Determine: Which approach or method should be used for defining and determining the marketplace and the City's comparables in the market?
3. Discuss and Determine: What method should the City use to assign and align positions with pay grades or pay rates for each job in the City's workforce?
4. Discuss and Determine: What is the best fit for organizational goals in terms of pay plan architecture/design?

B. Foundation Building

The Task Force's sessions began with an overall introduction to compensation in general and included introductory training on compensation concepts, best practices, and public sector personnel frameworks. Special attention was focused on compensation in governmental organizations and their relationship to the broader economy. The objective for the training component was to provide the group with a shared set of foundational concepts and information on compensation approaches, techniques, and principles that were designed to help fill knowledge gaps that might exist among Task Force members. The process also included general team building exercises that encouraged dialogue and the development of Task Force cohesiveness. Topics highlighted during this foundational session included:

- > Exploring and understanding the fundamental elements, historical path, designs and goals of both public and private compensation systems
- > Exploring and considering how compensation and pay programs react, engage, and are impacted by economic and labor market trends
- > Considering and discussing of how a compensation program might be designed to support the City's policy aims, business strategy, and organizational objectives
- > Exploring and understanding various components of existing compensation plans and policies as well as the government regulatory environment surrounding compensation

Component II: Development of City's Market Position and Comparable Market

This component has two major areas of focus: 1) consideration of the City's desired placement in the marketplace for salaries and wages; and 2) identification of the factors, criteria or approach that should be used to develop the City's list of comparable organizations.

A. Market placement-desired position and related impacts

The first step in considering the City's compensation competitiveness was a discussion of where the organization wants to reside in the market place. Market placement is a matter of policy which must be overlaid with important considerations on the organization's overall goals related to personnel management. Those overall goals include the ability to attract, secure, and retain a skilled work force that fits the City's skill requirements, service profile, and quality expectations.

As compensation authors Risher and Fay state in their book, *New Strategies for Public Pay*, “A government organization may choose to pay below the market, at market, or above the market.”¹ Similarly, as the Society for Human Resource Management explains in their training materials, organizations select competitive positions that can:

“Lead: Consciously pay more than the competition.
Lag: Pay less than the competition, or
Match: Pay roughly the same as competitors”² (formatted by Sikich)

Market position represents an expression of competitiveness that is in concert with organizational goals, aims, values, and resources. In the end, it is a matter of both prediction of what may or can be or a reflection, of what has been. Market position is an expression of desired placement in the dynamic elements of supply and demand in the labor market. Risher and Fay comment in their Chapter “Rethinking Government Compensation Programs” that some corporations chose to pay above average compensation to attract and retain, in theory, above-average personnel.³ They continue by noting a point that also applies to government: “Although pay policies are not precisely determined, there is an underlying business rationale” [for selecting specific market positions].⁴

With this background material in mind, the task force explored the topic of market placement at some length and discussed the dynamics, forces, constant changes, and movement in the economy as well as important potential limitations such as available resources, limited budgets, and desired skill levels and quality attributes of the workforce. The topics below were explored by the group in their discussions and considerations of market placement:

- > The City’s preferred percentile placement within the market place
- > The City’s philosophy regarding applicant attraction
- > The City’s policy with respect to internal pay equity and employee perceptions of fairness
- > The City’s philosophy regarding employee retention including the role compensation plays in retention issues
- > The City’s philosophy with respect to fiscal sensitivity and flexibility
- > The degree to which market position can be clearly communicated to employees, elected officials, and citizens
- > Legal influences and regulatory factors that impact employers and compensation programs
- > Philosophical and practical exploration of market comparables (addressing this topic began in Component I and continued and was finalized as part of Component II)

¹ Risher, Howard and Charles Fay, 1997, *New Strategies for Public Pay*. Jossey-Bass, San Francisco, p. 60.

² SHRM Presentation, *Managing a Salary Survey Project*, slide 10 SHRM website, downloaded April 4, 2015.

³ Risher and Fay, p. 11.

⁴ Risher and Fay, p. 11

The selection or identification of a set of comparables is one of the core elements of defining an organization's desired position in the marketplace. While all organizations function and reside in the broader economy, regions of the country and sub-regions around metropolitan areas, create their own market dynamics and influences.

Thus defining the market and then testing the market begins with the determination of a set of comparative organizations, or using the short-hand phrase most often seen in compensation work: 'comparables.'

B. Identifying and Using Comparables

This component continued the discussions of market position, but focused on the comparable organization factors begun in Component II-A. Session facilitators led the group through discussions of external pay equity and the factors to consider in the development of market comparables.

It was important to explore the subject of comparables because of the critical impact the selection of comparables has on any subsequent market surveys the City may choose to conduct. The importance of identifying comparables rests on a simple but powerful premise: If doubts exist as to the worthiness of the comparable organizations, then doubts might exist about the market comparison element and potentially jeopardize any subsequent project implementing of the City's overall compensation philosophy.

The Task Force explored various methodologies in their discussions including techniques as far ranging as using only adjoining communities or perhaps communities that have been considered historic comparables based on perceptions, to more refined techniques that would include and involve empirical measures and multiple factors or variables. The Task Force was also made aware that as a best practice, a comparison group of 12-15 organizations typically provides a solid sample of employers to determine labor market trends and rates.

The Task Force was also given information on an empirically derived multivariate weighted model that can be used to develop comparables. The empirical model approach uses a set of criteria that generally includes elements such as: population; square mileage; median household income; geographic proximity to the City; Equalized Assessed Value (EAV); number of full time equivalent employees; total expenditures; sales tax revenue, and general fund total revenue. These factors and the weighted model were offered as a best practice approach to provide a solid, defensible list of comparable organizations. A listing of potential variables and conceptual weighting values and the limited data for the hypothetical exercise the Task Force considered on this topic, can be found in Exhibit B.

With this information as background, the Task Force was asked to work in small groups to consider a hypothetical list of comparable communities, from the Chicago region. This was a “hands on” exercise to explore the topic. Task Force members were asked to discuss and create a possible list of comparables based on only three pieces of information about the communities: population; geographic distance from Warrenville; and median household income. Using this limited data, and, participants’ own knowledge and perceptions of various communities in the region, the groups were asked to identify communities that they thought might be “comparable” to Warrenville. The exercise generated a good deal of discussion within each group. When the group lists were compared there were both variations and overlap in the communities each group identified. The results demonstrated that a more systematic approach would be beneficial and may in the end, refute or confirm some of the Task Force’s exploratory work on the identification of comparables.

Component III – Measuring Internal Equity and Job Content: Criteria for Position Evaluation Systems

With external compensation factors explored, the Task Force then turned its discussions to the internal elements of compensation and explored the techniques and tools used to address internal job measurement and internal job equity.

This session began with a review of the City’s current classification system’s architecture by a senior City administrator who was a member of the Task Force. The essential element of conducting a methodical and structured review of internal equity includes the use of a job evaluation system known as Job Content Analysis or Job Factor Analysis. These systems are so named, because they use a tool designed to measure each position’s job content and the elements that shape internal equity.

A. Job Factor Analysis Background

To help frame the group’s discussion on this important element of compensation, the Task Force was provided background information and examples on formal Job Factor Analysis systems. There are many such systems available in the marketplace and they range from open-source instruments to proprietary systems from various human resource firms. No matter the tool or the provider, the underlying premise is that Job Factor Analysis processes and tools, when administered by a skilled evaluator, provide a measureable, rational, factor based, methodology to determine the relative job worth (as recognized by the Equal Employment Opportunity Commission [EEOC]) of each position in the organization.⁵

⁵ Code of Federal Regulations Title 29, Labor Volume: 4, 2011-07-01(c) Standards for Determining Rate of Pay; and EEOC Facts About Equal Pay www.eeoc.gov

Most classification and compensation practitioners and the relevant literature agree that three core basic factors are important in determining compensation. These are: 1) skills required; 2) responsibility and accountability; and 3) working conditions. The EEOC recognizes these three basic factors, along with seniority and performance, as valid determinants of compensation. Job Factor tools build on these core factors to provide a measureable, rational, methodology to determine relative job content. Some tools may measure the four core factors above, others use eight factors and sub-factors built off the EEOC framework, and still others use as many as ten or twelve factors and sub-factors. A copy of the background materials provided to the Task Force on Job Factor Analysis and Classification and Compensation System concepts and systems can be found in Exhibit C.

B. Job Factor Analysis Discussion and Use

The goal of job factor analysis is to identify whether a job class is equivalent or different in regard to the factors discussed above and to what extent each job is equivalent or different. It is important to bear in mind that no matter what tool is selected, job factor instruments are designed to be used by an impartial analyst who also uses their judgment, experience, and knowledge of a particular industry. Analysts are typically familiar enough with that industry to apply judgment and interpretation to the various job factors that shape the positions of a particular job to evaluate or score the position. Another key component to an impartial evaluation is that the analyst's focus is evaluating the position, not the person that occupies the job.

After some thoughtful discussion and questions on the concept, Task Force members were split into their sub-groups and given a hands-on exercise that asked them to make a "best judgment" placement of eight positions in a ranking using the concepts of job content and the core aspects of knowledge, skills, abilities, and working conditions. Following this exercise and more discussion, the Task Force better understood the relevance of job measurement in developing a structured classification plan and the necessity of including job content or job factor analysis in their compensation philosophy recommendations.

Component IV: Class Structure and Pay Plan Design Review

In this final discussion phase of the project, facilitators led the Task Force through conversations about the assignment of positions to various pay grades or classifications, using the totality of the information and methods already reviewed (and presented above). Questions the group explored and discussed included the following: what is the appropriate spacing that should exist between the ranges, what are common or best practice patterns for range spreads, and how should employees progress or advance through pay ranges? The Task Force explored the following subjects and elements related to class structure and pay plan designs.

A. Classification Plans and Salary Range Schedule Use As An Integrated Compensation Tool

A position classification plan provides a systematic arrangement of positions into classes. Positions are placed in the system based on two controlling factors: internal job measurement and external marketplace compensation parameters. A position (often referred to as a job), is a set of duties and responsibilities which requires the full or part-time employment of an individual to accomplish. This set of duties and responsibilities is the focus of the classification process, not the person charged with the execution of those duties and responsibilities. To create a classification system, positions are grouped or banded together using internal and external data as guides. Each banding is called a classification or class. To be more precise, a class is a grouping of positions similar in one or more of the following areas: nature of work, principal duties and responsibilities, relative level of difficulty of the work and skills and abilities.

In order for a position to be assigned to a band or pay range, the job factor analysis or scoring of the position's duties and responsibilities must be closely similar to the scoring given to other positions assigned to that same class. When positions are placed together in a band, they will be compensated at the same general level of pay. In total, it is this arrangement of positions (and resulting class structure) that forms the basis for the compensation plan. Again, it is important to remember, that the alignment of positions in the classification plan are based objectively on the components of specific job functions and are not intended to assess individual performance of persons currently holding positions in the organization.

As an inventory and arrangement of duties performed and of responsibilities exercised, a position classification plan is a useful management tool. It provides the fundamental rationale for compensation thereby assisting to establish and sustain the principle of equal pay for equal work. Through proper maintenance of the classification plan, employees are assured that management understands the nature of work that they carry out and that they are being rewarded in the form of appropriate compensation levels and relationships when compared to other positions in the organization.

In addition to establishing internal equity, a well designed and maintained classification plan provides the basis for recruitment, screening, and selection of new employees in direct relationship to job content. Promotional ladders as well as opportunities for lateral career development are also enhanced by the logical grouping of occupational classes and hierarchies. Future analysis of employee performance, advancement, mobility and turnover as well as other special concerns and trends within the personnel system can be dealt with more directly and effectively if a well designed and maintained classification plan is in place.

B. Progression Through Pay Ranges

The next discussion addressed two topics: 1) the means and mechanisms for providing employee growth within salary ranges; and 2) adjustments to the pay plan based on market conditions. Each of these topics that the group explored are discussed below.

A. Mechanisms for Employee Growth

The Task Force then explored various approaches and design features related to personnel policies and practices that encourage employee growth, skill maturation, as well as individual performance and performance management systems. This included a review of the advantages and disadvantages of various approaches to addressing employee growth.

The session on pay plan architecture began with a review of eight conceptual alternative pay structures. The pay plan design concepts reviewed vary in their theoretical design, technical framework, and administrative regulations and requirements. Each pay structure was assessed by the Task Force. The discussion was framed by the following assumption: the same pay grades and salary minimums and maximums determined through external market analysis and internal job factor assessments would apply and be used in any of the variations explored. The review of conceptual plans included everything from pure open merit systems, to modified step and open range systems, to narrowly constructed classic step-plan systems.

As a part of the review of this topic, a senior City administrator who is a member of the Task Force, reviewed the City's current and historical approach to movement through assigned salary ranges. The City's present system reflects progressive thinking and practice in the field. This review and the discussion that followed, was helpful to the group's consideration of the many alternatives that exist in pay plan design and employee movement through assigned salary ranges.

B. Adjustments to the Pay Plan

Developing a well designed pay plan that reflects internal equity as well as external market data is only the beginning. Similar to a capital asset, a pay plan must be regularly updated in order for equity, especially market equity to be maintained. Any pay plan represents only a snap shot in time based on the data collected and applied at the time the plan is developed. In order to achieve pay plan continuity and to maintain market position in the future, the best practice is to adjust salary grades in accordance with changes in the labor market.

In general, a best practice is to make these adjustments on an annual basis. The amount of the adjustment however is a policy decision to be made by the City Council. In order to aid the Council in making this decision, external market data is generally collected from the organization's list of comparable communities and analyzed by staff to formulate a recommendation to Council as part of their consideration which generally includes important internal and external considerations such as the overall financial health of the community.

Conclusion-Group Consensus on Compensation Philosophy

At the conclusion of the Task Force's sessions and discussions, the Task Force was asked to make consensus recommendations to the City's policy-makers on the guiding principles for the City of Warrentville's compensation philosophy. The Task Force's responses to the four central questions started on page 6 of this report, represent the culmination of the group's deliberations and thoughtful work. For the ease of the reader, the question is presented in black with the Task Force's response in green.

1. Discuss and Determine: What should be the City's overall target or position in the market or overall competitiveness as an employer?
 - **Response: The City's Market position should be placed at the 50th percentile (per Task Force consensus: 2-18-15).**
2. Discuss and Determine: Which approach or method should be used for defining and determining the marketplace and the City's comparables in the market?
 - **Response: The City should use an empirical model with weighting of selection criteria for identification of metro area comparables (per Task Force consensus 2-18-15).**
 - **The starting point for the factor (empirical model) variables should include: population; full time employee equivalents; total budget; general fund budget; Equalized Assessed Valuation (EAV); sales tax revenue, median family income; and geographic proximity. (per Task Force consensus 2-18-15)**
3. Discuss and Determine: What method should the City use to assign and align positions with pay grades or pay rates for each job in the City's workforce?
 - **Response: The City should use a formalized point factor analysis tool to determine job content and internal position alignment (per Task Force consensus 2-18-15).**
4. Discuss and Determine: What is the best fit for organizational goals in terms of pay plan architecture/design?
 - **Response: Since many of the approaches reviewed would not fit Warrentville, the City should maintain its current approach and design for range progression. This current approach includes the elements below (per Task Force consensus 3-11-15).**

- > **Apply market adjustments annually based on CPIW for Chicago-Gary-Kenosha to adjust both the pay ranges and individual salary at same time.**
- > **Maintain an open performance-based, merit approach with an overall structure that is a continuation of the current merit quartile matrix model in use.**
- > **The functioning merit system must be accompanied by an increased management commitment to a robust performance assessment system and equitable application of performance measures across all departments and positions.**

In summary, the City's exploration of this important policy question has provided the forum for a thoughtful set of discussions on a topic that influences so many aspects of the City's role as an employer and responsible and responsive unit of government.

Based on the Task Force's review, discussions, and deliberations, the study group is recommending the following tenants compose the City of Warrenville's Compensation Philosophy.

1. *The City's Market position should be placed at the 50th percentile.*

The Task Force was near unanimous in this recommendation. They felt that the 50th percentile was fair, a common choice among public and small employers alike, financially feasible, palatable to employees, and acceptable by residents. In addition, the 50th percentile is a good way to remain competitive in the market for talent, while acknowledging that the City cannot fully fund nor is it the public's expectation to pay, the highest levels to fill City's positions. The City's current market position is at the 50th percentile, which has been accepted by employees and the public alike.

2. *The City should use an empirical model with weighting of selection criteria for identification of metro area comparables. A typical sample set or "survey n" would be 10-15 communities or organizations. The component variables of the empirical model should include: population; full time employee equivalents; total budget; general fund budget; Equalized Assessed Valuation (EAV); sales tax revenue, median family income; and geographic proximity. This exercise would begin with an initial set of definitional criteria, typically consisting of geographic/regional proximity and relational population parameters.*

The Task Force based this recommendation on best management practices presented by the project's public management expert and advisor. It was felt that these component variables represented a good cross section of the City's financial capability against service level expectations of the public, while also considering the unique economic pressures of the Warrenville community. Once the comparables are established, the Task Force recommends conducting a compensation study in order to secure the wage data from the comparables. The City's current criteria is limited to a 10-mile radius of City Hall based on two primary determinants:

- a. These are the communities with which the City competes for employees.
- b. These are also the communities that experience many of the same local economic, political, personnel, and legal pressures as the City.

The Task Force is recommending an expanded and empirical driven approach for taking a fresh look at comparable community identification.

3. *The City should use a formalized point factor analysis tool to determine job content and internal position alignment.*

This was seen by the Task Force as a vital component of the compensation philosophy because the internal equity model is lacking in the City's current pay plan. The City's present plan is guided only by external market data and not internal equity among positions. This has caused questions among employees over the years and led to piecemeal adjustments in wage ranges. The benefit of conducting a point factor analysis would not only add a structured internal equity component to the City's plan (as noted earlier in this report – one of two key components to any formal pay plan), but also allow for benchmarking positions. The City has some uncommon positions that evolved over time based on individual talents of existing staff and unique service demands of residents. Therefore, it is difficult to find similar positions in other communities. By recognizing that one of these unique positions has the same point factor as a more common position and benchmarking it to that more common position, wage data collection is less labor intensive and more accurate.

4. *Maintain the range progression framework in the City's present system, which includes the following:*

- ***Apply market adjustments annually based on Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Chicago-Gary-Kenosha to adjust both the pay ranges and individual salary at same time.***

- ***Maintain an open performance-based, merit approach with an overall structure that is a continuation of the current merit quartile matrix model in use.***
- ***Increase management commitment to a robust performance assessment system and equitable application of performance measures across all departments and positions.***

The Task Force felt that the system in place for range progression is still effective. The Task Force believed it is reasonable to allow for growth in the pay plan consistent with overall economic growth in the cost of goods and services, so it retained using the CPI-W as a benchmark for an annual cost of living adjustment (COLA). CPI is based on the retail pricing of a basket of goods and services.⁶ Since most purchases are done with after-tax dollars, COLA has to exceed the CPI in order to maintain purchasing power. Secondly, the Task Force felt it is reasonable and expected by the public that good performance is encouraged and rewarded. Therefore, the current open merit system should remain in place. This system uses a matrix that rewards new employees more than longer-tenured employees because new employees are developing and learning more in the first years for their employment.

It is typical for employers to have a range spread (the difference between base and top pay) of between 30% and 45%. The City's pay plans for each employee groups are currently at 22% to 38% range spreads.

Next Steps

The City Council should review and consider the recommended compensation philosophy framework presented by the Task Force as an important element of both personnel management and financial planning. The Task Force recommends four subsequent steps should a decision to move forward be forthcoming: 1) undertake an empirical exercise to develop an updated list of market comparables for the City, 2) conduct a point factor analysis of all City positions 3) conduct a compensation study of the newly established comparable communities, and 4) review and update the compensation philosophy, point factor analysis and compensation study every two years.

In conclusion, the work of the Task Force and their recommendations demonstrates their dedication not only to each important component of compensation, but also to the City of Warrenville and the community it serves. Finally, Sikich would like to commend Task Force members for their cooperation and thorough discussion of all topics presented.

⁶ U.S. Bureau of Labor Statistics; www.bls.gov/cpi

Exhibits

Exhibit A – Outline of Sessions and Topics

Exhibit B – Identification of Comparable Market

Exhibit C – Classification and Pay System Concepts

EXHIBIT A

Outline of Sessions and Topics

City of Warrentonville
Compensation Philosophy Task Force

Exploring Compensation Sessions and Topics
December 2014 - March 2015

Topic I - Exploring Governments as Employers

A. Getting Started

1. Reflections on compensation
2. Components of compensation systems
3. Government as an industry and an employer
4. Government Human Resources and pay - What makes it different?

B. Taking Stock of the Current System

1. System history and design
2. Traditional approaches
3. Areas for re-examination or re-design

Topic 2 - External Labor Market

A. The Marketplace

1. Defining the market for talent and skills
2. Impacts of the economy and other employers on the market
3. Market placement and targets - exploring policy choices and decisions

B. Comparables

1. Defining and determining similar employers/organizations
2. Public and private employer comparables
3. Using empirical data to determine comparables
 - ~ Define criteria
 - ~ Practical examples

C. Market Survey

1. Discuss sample size and impact conclusions
2. Define benchmarking

Topic 3 - Internal Job Equity

A. Job Content Analysis - Positions are Different

1. What is Job Content/Job Factor Analysis?
2. Discuss positions, skills, varying roles, and responsibilities in a workforce
3. What factors are used to measure job content?

B. Using Tools and Measuring Differences

1. Mechanics of Job Content/Job Factor Analysis
2. Examples of a Job Factor Analysis process

Topic 4 - Classifications and Salary Structure

A. Exploring Classifications and Salary Range Structures

1. The role of classifications
2. Options for design and approach
3. Strengths and weaknesses of various approaches
4. Examples

B. Discuss Development of Salary Ranges

1. Linking market information with position skills and content
2. Recognizing the differences in positions and spacing
 - ~ Supervisors and subordinates
 - ~ Management and frontline positions
 - ~ Specialists, technical and support positions
 - ~ Collectively bargained positions
3. Market and job content alignment
 - ~ Use of ranges
 - ~ Placement in ranges
 - ~ Examples

C. Discuss Alignment of Performance with Organizational Goals

1. Recognizing talent, skills and accomplishment
 - ~ Salary growth and progression through ranges
 - ~ Skill growth and merit
 - ~ Economic forces and adjustments
 - ~ Examples
2. Combining goals with internal measures and the external market
 - ~ How does the structure take shape?
 - ~ How is the system maintained going forward?

Final Session - Summarize Findings and Direction

The final session will be aimed at pulling together all four topics and the group's discussion session outcomes. The final session will focus on reviewing a draft summary of key decision points that represent the recommendations of the Task Force on each of the topic areas.

The group's findings and determinations will be confirmed and then used to develop a preliminary report, in draft form, for review by the workgroup.

EXHIBIT B

Identification of Comparable Market

PROJECT BACKGROUND INFORMATION

IDENTIFICATION OF THE COMPARABLE MARKET METHODS & APPROACHES

As a first step in the evaluation of a City's compensation plan's competitiveness is the development of a sound list of comparable communities and representative labor market. The selection, or identification, of a set of 'comparables' is one of the core elements of defining an organization's 'marketplace.' While all organizations function and reside in the broader economy, regions of the country and sub-regions around metropolitan areas, create their own market dynamics and influences.

Thus defining the "market" and then testing the market begins with the determination of a set of comparative organizations, or using the short-hand phrase most often seen in compensation work, 'comparables.' The approach to selecting comparables can take many forms. Some communities have had long-standing lists of comparables that have 'evolved' over time, often based on population comparisons, and/or general perceptions of 'similarity' or geographic location. In other cases, communities have developed lists during the course of collective bargaining discussions using dialogue and concurrence. In still other cases, communities have taken a more methodical/empirical approach, using multiple variables and weightings (or point values) in a scaled scoring technique to help 'objectively' identify comparable organizations.

As discussed in a 2009 article on comparing financial profiles of communities, researchers posed this important question and response on selecting comparables and benchmarking communities: *"Where does comparability start? With the selection of a good sample."*¹ Prior to the 2009 article, there was little guidance in the public personnel or public administration literature on the selection of comparables, beyond basic two-dimensional models. However the 2009 piece (referenced here) advocates and describes how to use a multivariate/weighted model that could be applied "to develop an empirically based group of 10-12 comparable cities that 1) had a very similar profile to that of the target city, and 2) would allow for a sufficient analysis to determine financial trends, economic conditions and service profiles."²

The examples that follow present a look at how a modeling/weighted determination approach for comparables can be used. The example pages that follow employ a sliding scale of weighted variables that correspond to the measured (potential comparable) community's relative relationship/similarity to the target City for the particular variable being applied. In reviewing the example pages that follow, you will find various weightings for several variables (data in a particular category) including population, full-time employees, geographic size, total expenditures and other variables. By way of example, if a community's total expenditures were within a factor of 25% when divided into target City's total expenditures, then that community received the maximum points (15) for that criterion. If they fell between 26% and 50% of target City's total expenditures, they received 10 points; between 51% and 75%, 5 points; and finally, if their total expenditures fell outside of 75%, the community received no points for that criterion.

An example of how such a process and method can be used to develop a comparative "market" to measure against when analyzing compensation, can be seen in the following pages.

¹ Shannon Sohl, C. Wood, M. Peddle, G. Kuhn, and K. Thurmaier, "Measuring Financial Position of Municipalities: Numbers Don't Speak for Themselves," *Public Budgeting & Finance* 29(3) 2009: 74-96.

² Sohl, Wood, Peddle, Kuhn, Thurmaier, 2009. For further discussion on comparables and selection approaches/criteria, please refer to the article's narrative and exhibits.

**EXAMPLE OF COMPARABLE MARKET ANALYSIS
VARIABLES AND CONCEPTUAL WEIGHTING**

<u>Criterion</u>	<u>Source</u>	<u>Weighting</u>
1. Municipal Fire Department	Illinois State Fire Marshal List	Yes/No
2. Square Miles	U.S. Census	5%
3. Population	U.S. Census	15%
4. Median Household Income	U.S. Census	10%
5. Proximity in Miles	Municipal GIS	10%
6. Equalized Assessed Value (EAV)	Illinois State Comptroller Database	10%
7. Number of Full-Time Employees	Illinois State Comptroller Database	15%
8. Total Expenditures	Illinois State Comptroller Database	15%
9. State Sales Tax Revenue	Illinois State Comptroller Database	10%
10. General Fund Revenue	Illinois State Comptroller Database	10%

ANYVILLE
EXAMPLE OF RESULTS FROM A COMPARABLE COMMUNITIES MODELING EXERCISE

	City	Total Score	Population
	Anyville	100	27,822
1	PP	93	21,949
2	N	92	24,784
3	F	89	28,655
4	C	85	23,520
5	E	85	18,775
6	Y	85	19,463
7	QQ	85	22,374
8	O	84	19,832
9	Z	82	15,487
10	EE	82	18,270
11	RR	82	16,637
12	BB	79	15,606
13	LL	78	22,489
14	A	77	19,192
15	P	77	14,245
16	HH*	68	14,678
18	J*	Missing CAFR Data	16,401

*Contiguous communities

EXHIBIT C

Classification and Pay System Concepts

Discussion Memo
Task Force Review Draft
(shortened for final report exhibit presentation)

January 20, 2015

City of Warrenville Compensation Philosophy Project
Classification and Pay System Concepts

SECTION 1

The Classification of Positions: Joining Job Content Measures With the Market

A position classification plan provides a systematic arrangement of positions into groupings and categories called 'classes' that encompass job function/skill levels, and, assigned pay ranges that reflect a combination of both market targets and job content.

A position, often referred to as a 'job', is a set of duties and responsibilities which requires the full or part-time employment of an individual. It is this set of duties and responsibilities that are the object of the classification process, not the *person* charged with their execution. A class is a grouping of positions similar in one or more of the following areas: nature of work, principal duties and responsibilities, relative level of difficulty of work, and successful work performance. Positions allocated to classes should be sufficiently comparable with respect to the types of factors enumerated above to be placed together in a class, to be compensated at the same general level of pay, and to require common standards for recruitment and selection purposes.

It is this arrangement of positions and resulting class structure that form the basis for a structured compensation plan. It is important to remember, however, that the alignment of positions in a classification plan are based on an objective review of the components of specific job functions, and not the unique personal attributes of individuals currently holding positions in the organization or their performance.

As an inventory and arrangement of duties performed, and of responsibilities exercised, a position classification plan is a useful organization-wide administrative tool. It provides the fundamental rationale for the organization's compensation plan by aiding in establishing and sustaining the principle of equal pay for equal work. Through proper maintenance of the classification plan, employees are assured of continuing management attention to the nature of both the work that they carry out and its reward in the form of appropriate compensation levels and relationships.

Similarly, as a basic inventory of work and responsibilities, a classification plan provides the basis for recruitment, screening, and selection in direct relationship to job content. Promotional ladders

as well as opportunities for lateral career development are also in evidence by the logical group of allied occupational classes and hierarchies.

Design and Development of a Classification Plan

In the development of a classification plan, the major steps undertaken by a study team of staff members or an outside consultant would include:

1. The analysis of duties, responsibilities, and requirements of all positions included in the study. Some studies include all employees and others may include only certain groups of employees. The information needed is typically obtained through several steps. Employees are invited to complete a job analysis questionnaire, in which they describe their job and job's content in their own words. The classification questionnaire allows an employee to note any discrepancies with their existing position description and also directs employees to answer questions regarding the necessary requirements needed to fulfill the duties of their position.

The questionnaires are then reviewed by the employee's supervisor, who indicates whether the statements were accurate and complete. The completed questionnaires are then read, in their entirety, by the third-party consulting team. Individual questionnaires are then annotated to indicate areas or statements where additional information or clarification is required.

2. Interviewing a cross-section of employees and supervisory personnel covered by the study to gain additional first-hand information about each position and to clarify any statements on the questionnaires needing amplification or additional context. For a medium sized organization, approximately 30-40 hours of interviews and follow-up sessions would comprise this component.
3. Based upon the information developed through the steps described above, a framework of classes (groupings) of positions would then be established with appropriate class titles and working pay ranges.
4. Implementation-related and administrative issues should also be identified by the study team to be considered by the organization for congruence with policy objectives. Upon completion of this scenario planning and refinement process, a classification schedule would be prepared for final review.

Other Modifications To Be Considered During A Study

During the course of a study, a consulting team usually encounters certain positions where changes in position titles would be appropriate to more accurately define position duties, reporting relationships, levels of responsibility or best practices. In addition, study teams may also identify areas where future positions might be contemplated or likely needed as the demands for City/Village services continue to be reshaped by growth or community change.

Based on the evaluations of job analysis questionnaires, interviews, and subsequent discussions with staff, below are examples of position title changes recommended in a previous study. For the Village of Anyville, the following titles were recommended to be added or modified for clarity and consistency in the organization:

<u>DEPARTMENT AND POSITION</u>	<u>PROPOSED CHANGE/NEW TITLE(S)</u>
<i>ADMINISTRATION</i>	
Assistant Village Administrator	NEW
IT/Network Specialist	NEW
Human Resource Coordinator	NEW
Executive Assistant/Personnel Asst.	NEW
Administrative Assistant	REVISED
<i>FINANCE</i>	
Assistant Finance Director	NEW
Accounting Manager/IT Manager	BLENDED
Accounting Manager	NEW
Accounting Technician	NEW
Fiscal Clerk (Accounting Clerk)	REVISED
<i>BUILDING AND ZONING</i>	
Building Commissioner	NEW
Permit Clerk II	NEW
<i>PUBLIC WORKS</i>	
Public Works Director	NEW
Street Foreman/Lead worker	NEW
Public Works Crew Leader	REVISED
Mechanic	NEW

In the example above from a previous study, positions that were felt to be considered for title changes fell into one of the following categories:

1. The present title did not conform with, or was reflective of, the predominance of the positions current duties.
2. The present title was confusing or required additional clarity.
3. Similar duties were found in other positions with different job titles which prompted adding new positions, splitting existing positions or blending multiple positions into a single position.

Occupational Index of Classes

Once a final pay structure and grid is developed, an occupational index of classes should be established to facilitate eventual implementation of the pay plan. For quick reference, a brief sample is replicated on the following page. The eventual full occupational index of classes serves as an index of the titles of the various classes arranged by department. This arrangement provides a 'table of contents' by which the descriptions of various kinds of work may be located in salary administration documents. Normal index design would have positions progress from low to high from the beginning to the end of the classification plan. Gaps should be left in the numbering sequence allowing for future inclusion of any necessary new classes. The numbers could also be used as code numbers for simplifying payroll and accounting records, if so desired.

Sample Selected Occupational Index of Classifications

Existing and Proposed Positions Example

Position Description	Department	Classification/Pay Grade Index Number
01XX	ADMINISTRATION	
0100	Village Administrator	025
0102	Assistant Village Administrator	018
0103	Asst. to the Village Administrator	016
0104	Human Resources Coordinator	013
0106	Executive Assistant	011
02XX	BUILDING	
0202	Chief Building Inspector	016
0204	Building Inspector	009
0206	Electrical or Plumbing Inspector	009
0210	Permit Clerk II	003
0210	Permit Clerk I	002

Note: Above is for example only

As described at the beginning of this narrative about position classification plans, these schedules of positions and pay ranges provide for the systematic arrangement of positions into groupings and categories called 'classes'. It is this arrangement of positions and resulting class structure that form the basis for a structured compensation plan.

SECTION 2

Description of Various Approaches to Classification and Pay Plan Design

The following discussion provides an overview of the major conceptual approaches/types of pay plan models that will help to provide a basis for consideration. It should be noted that this review explores a range of compensation alternatives from the structure of the traditional 'step plan' on one end of the spectrum to fully 'open' or performance reward-based plans like gain sharing, on the other end of that spectrum.

Included in the discussion and illustrations that follow are these types of plans:

- Step
- Defined Merit
- Open Merit
- Modified Open Merit
- Merit Pool

Also included in a review of public pay approaches are:

- Skill-based pay
- Gain sharing
- Broad banding

Examples and discussions of these various types of compensation plan approaches are presented below. Public organizations continue to consider pay system designs and alternatives that meet the desires for compensation systems that are competitive, reward top performers, are understandable from an employee's perspective and able to be administered by the organization's staff and administrative systems.

- a. **Step Plans** were the backbone of public pay systems and provide for a set progression through the assigned range of minimum pay and maximum pay (classification) for a particular position. These increments are structured and predictable, and based on the assumption/criteria that the employee performs at a "meets expectation" level. The value of plans such as these is their stability and predictability both from employees' standpoint and from a budgeting standpoint for the organization.

The challenges are that a step plan has a limited ability to reward exceptional performance and may, indeed, move overall employee performance to a common level of modest performance since employees may not see the value of extra effort in the performance of their daily responsibilities and a corresponding adjustment in pay.

- b. **Defined Merit** has aspects of a step plan in that there are specified rewards at each level. It differs from the step plan in that the rewards are tied to the achievement of specific objectives, performance goals and other objective criteria. The benefit of a Defined Merit plan comes from the predictability of the reward, assuming the attainment of specific levels of performance.

The challenge of this type of plan, as with any type of merit-based plan, is the necessity to have clear, communicated performance standards that support the goals of the organization. It also requires precise and regular communication from supervisors and managers regarding each individual employee's progress against set goals and other performance criteria.

- c. **Open Merit** brings in a wider variation of both reward and progression within a position's/employee's assigned pay range. This type of system allows supervisors greater latitude in relating the size of reward to the employee's performance. This type of compensation plan provides a range of possible increase percentages rather than a single set percentage as in the Defined Merit system. Supervisors can tailor the increase amount to the level of performance attained by the employee.

As mentioned earlier, this type of plan requires clear, measurable performance standards that are communicated to all employees on a consistent basis and that supervisors provide regular feedback against established/known performance standards. Even more than the previous alternative, this type of plan requires a very active and soundly constructed performance appraisal tool tailored to the needs of both the organization and the position.

- d. **Modified Open Merit** provides another alternative by utilizing a combination of defined and open merit systems. For the first few years, the employee who performs at a "meets expectations" level can look forward to the predictability of a set increase. This system rewards employees at a critical time in their careers as they continue to gain additional skills. Once this agreed-to period has passed, the employee is moved into a fully merit-based system that will reward the employee strictly based on his/her level of performance. In effect, the individual employee determines his/her increase based on the demonstrated performance.

This type of system provides a good transition point for many organizations because it has initial predictability as the new employee acquires the skills necessary to effectively perform his/her position. It then provides a transition to a fully merit-based program. The challenges are those mentioned earlier including the need for clearly communicated, appropriate performance expectations that support the goals of the organization. It requires supervisors and managers who regularly and clearly communicate against those performance expectations. Lastly, it requires an active and soundly designed performance appraisal tool to support the process.

- e. **Merit Pools** are a concept that allows the organization full control over the amount spent on merit increases as the organization dictates that amount on cyclical basis' (usually annually) and then allocates the dollars between various organizational units in either an equitable or competitive manner. Typically those allocations of dollars are made based on head count within a unit, but could also be made based on the relative impact and/or accomplishment within the units. Department heads are responsible for allocating their merit pool to individual employees based on the level of performance exhibited.

As mentioned throughout this section, the merit pool concept needs to be supported by a sound, well-designed performance appraisal system that allows supervisors to appropriately differentiate between various levels of employee performance. It requires strong communications from supervisors regarding the basic performance expectations and goals for a particular position and then regular feedback around the attainment of those expectations and goals.

- f. Other systems that can be considered but have had more limited use in the public sector include:
- Skill-based Pay
 - Broad-banding
 - Gain sharing

As a quick overview, skill-based pay links compensation progression to the acquisition of additional demonstrated skills. This system has a high level of complexity and is not as effective in smaller organizations where the addition of infrequently used skills serves to increase pay rates without an added benefit to the organization.

Gain sharing compensation plans are group incentives that are tied to specific increases in productivity, efficiency and service. Again, this system has a high level

of complexity and requires the ability to accurately define, measure and track the various organizational aspects that could potentially contribute to increases in productivity, etc. This system is challenging to communicate and without effective communication and definition, is subject to employee misunderstanding and suspicion.

Broad-banding is a classification approach that represents a consolidation of traditional narrow pay ranges into fewer, wider ranges. Even more than the various merit-based alternatives mentioned, this type of system requires the accurate measurement of performance against expectations and a skilled supervisory team who can appropriately move individuals within the broader ranges.

Additional information regarding these compensation methods are presented as illustrations and exhibits that follow. Many compensation systems seen as innovative or 'non-traditional' have met with varying levels of implementation success and use in public sector organizations. In the present context of many local governments, they tend to be ill-suited for the size and breadth of many government's overall size and staffing structures. Each of the above approaches requires the creation and ongoing use of substantial administrative processes and procedures to be used effectively on an organization-wide level. In the end, the Study Team's assessment is that they would be very costly to implement without adding significant value to the compensation practices of the City, Village, County or other unit of local government.

- **Merit Pools**

The merit pool approach anticipates setting aside 'x' % of wages for merit pay; this is a policy, decision-rule and resource based approach to funding merit

- **Skill-Based Pay**

- Skill-based pay is predicated on acquiring, demonstrating and continually improving the skills necessary to effectively perform a given position. The intent of this system is to reward employees who continue to acquire new and higher level skills within the position requirements.
- This approach is aimed at technical positions and is typically best suited for positions that have a clear progression of knowledge required to perform the functions of the positions.
- This system requires that the organization be very clear about the types of skills required for various positions and then be prepared to put together appropriate skill blocks with the training required.

- Limited success in implementation (VDOT).

- **Gain Sharing**

The gain sharing model is an example of merit pay where compensation adjustments/rewards are tied to group incentives that allow employees to share jointly in any “gains” from efficiencies, innovation or economies of scale.

- **Broad Banding**

- The concept of broad-banding is the consolidation of traditional pay structures that often consist of many, narrow pay ranges into a fewer, wider ranges or bands. Broad-banding is intended to support more agile, flatter and faster-paced cultures that desire greater flexibility for supervisor decisions related to pay.
- The US Department of Personnel Management defines broad banding as “the use of a salary structure divided into fewer, broader pay ranges than traditional grades” (USOPM 2011). The USOPM identifies two types of broadband structure:
 - "Broad Grades" – a structure with several, moderately wide pay ranges.
 - "Career Bands" – a structure with one or few very wide pay ranges.
 - Broad-banding typically facilitates internal movement because there are fewer salary “grades” and there is more flexibility in how new opportunities are perceived. No longer do employees have to look only at whether a job is in the same grade or a higher grade because under broad-banding there is a great range of movement and more flexibility in terms of salary.
- Broad banding has been selectively implemented in many educational organizations as well as large/complex public organization (i.e., some state governments, public universities, large cities, schools).

Summary: What’s The Right Approach to Pay Plan Design?

Any public organization’s migration to a new compensation system or pay plan design for existing employees will be dependent on the creation of the necessary administrative systems and attendant training of management and supervisory staff members. A variety of alternative implementation approaches should be considered in tandem with organizational readiness and the development of necessary administrative tools and staff orientation.

No matter the scenario (or variation thereof) that is eventually selected, implementation of a new approach would likely require 12-18 months of planning and pre-requisite steps by the organization. Changes in compensation systems are complex organizational undertakings that require the consideration of multiple factors and scenarios.

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