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ASSESSING THE NEED FOR A
CLASSIFICATION AND PAY PLAN FOR THE
CITY OF BOZEMAN, MONTANA

By
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E.S., Montana State University, 1975

Presented in partial fulfillment of the requirements
for the degree of
Master of Public Administration

University of Montana
1977

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June 28, 1977
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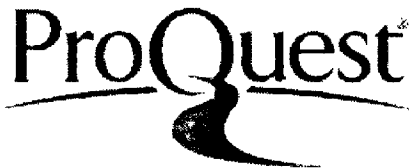


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CHAPTER I

INTRODUCTION

This paper analyzes the need for a classification and pay plan for the City of Bozeman. The research grew out of the Bozeman city manager's concern that serious inequities exist in salary and wage levels of city employees, and his concern that these inequities have contributed to widespread dissatisfaction among employees. The city manager requested a study to determine the extent of employee dissatisfaction and whether a classification and pay plan is needed in the city to improve employee attitudes.

Background

The City of Bozeman, Montana employs approximately 150 full-time and 50 part-time employees with a payroll of 4.5 million dollars annually. Approximately 88 employees are organized into three labor unions--Police Protective Association, Bozeman Firefighters' Association, and Teamsters. The remaining employees are not covered by collective bargaining unit agreements.

Salary and wage levels for union employees are determined through the collective bargaining process. Management, however, has total discretion, within funding constraints,

for establishing salary and wage levels for non-union employees.

The City of Bozeman does not have an established employee classification or pay plan. Nor does it have written compensation policies or plans for its employees. Salaries and wages for the past several years have simply been determined by granting fixed dollar increases or fixed percentage increases to all employees. Exceptions to standard wage increases have occurred sporadically on a case by case basis--without regard to an overall plan.

Previous city managers recognized that there were serious inequities in the compensation levels of employees. In an attempt to improve the situation, they developed their own classification and pay plans. In some instances these were formal written plans, while in other cases, changes were simply made in employee salary levels reflecting the philosophy of the particular city manager. Each time a new city manager was hired, the process repeated itself.

In 1984, the Commission was faced with hiring a new city manager. The Commission, aware of serious inequities in the compensation levels of many employees, decided that this was the best time to effect an overall change in the salary structure. Therefore, the Commission appropriated \$15,000

for a study to develop a classification and pay plan for the city. The appropriation was made at the first Commission meeting that the new city manager attended.1

The Carl S. Becker Co., a management and consulting firm from Denver, was contracted by the city to develop a classification plan, together with a pay matrix based upon local market conditions. The Becker Company interviewed employees, conducted surveys of surrounding businesses and cities, and in 1985 released a final classification and pay plan for the City of Bozeman.

The results of the study were submitted to the city manager in the Fall of 1985. The classification portion of the plan was reviewed by management. At management's request, the consultants made a variety of adjustments to the proposed classification system. However, Bozeman has been unable to implement the pay plan proposed by the consultants due primarily to funding constraints. Information supplied by the consultants revealed that implementation of the plan would cost the city an additional \$114,000 per year. More recent estimates by management indicate adoption of the pay plan would cost in excess of \$150,000 annually.

The structure of the proposed pay matrix has also contributed to Bozeman's inability to implement the pay plan. The proposed salary matrix contains 31 grades and only 3 steps. According to the matrix, employees receive a five percent raise and advance from step 1 to step 2 after successfully completing a six month probationary period. Employees receive an additional five percent salary adjustment and advance to step 3 after another 12 months. Progression beyond step 3 is based upon merit.

The problem facing management is that new employees receive raises in excess of ten percent within the first 18 months of employment, exclusive of any base adjustment to the salary matrix. Given the present economic conditions, the Commission feels it cannot afford employee salary increases of this magnitude. The City of Bozeman, like other cities and governmental agencies, has recently been faced with declining state and federal revenues in addition to local pressures to limit tax increases and the level of government spending. Consequently, the 1986-87 budget developed by the city manager ignored the results and recommendations of the consultants. Based upon the study, some adjustments to employees' salaries have been made in fiscal year 1987-88, however a formal pay plan has not been adopted or implemented by the administration.

City officials have indicated that the lack of an established classification and pay plan, coupled with the inequities built into the current wage and salary structure of the city, has contributed to unnecessary employee turnover, labor/management problems, and dissention among city employees. Furthermore, in May 1986 the Bozeman Local Government Study Commission released its report on the review of the Bozeman city government. The Study Commission offered the following recommendation:

There needs to be developed a complete set of job descriptions with an equitable pay schedule for all employees. Currently, some hourly jobs have very limited requirements and duties and pay more than other jobs requiring professional degrees and experience.²

Classification and pay plans are an important aspect of maintaining an effective public personnel system. Zollitsch and Langsner report that effective wage and salary administration involves developing and communicating wage and salary policies and plans, creating a system of job analysis and classification, and administering and maintaining compensation programs.³ Moreover, Shafritz, Hyde and Rosenbloom report that position classification plans are almost universally recognized as essential for the administration of a public personnel program.⁴ This

literature seems to indicate the need for a classification and pay plan in the city government of Bozeman.

Research Objectives

This professional paper, and the survey analysis it provides, represents a response to the city manager's request. The following research objectives are addressed in this paper:

- 1) Determine whether or not employee pay dissatisfaction does in fact exist in the City of Bozeman;
- 2) Determine the causes of employee pay dissatisfaction, if any, and determine whether or not the implementation of a classification and pay plan would solve or mitigate employee pay dissatisfaction; and
- 3) Make recommendations to management concerning the implementation of a classification and pay plan for the City of Bozeman taking into consideration the survey results, research on the topic of pay, and current economic conditions.

A discussion of how each research objective was addressed is provided below.

Research Objective. Determine whether or not employee pay dissatisfaction does in fact exist in the City of Bozeman.

An employee survey questionnaire was used as the primary instrument to obtain information from employees. Library research on the topic of pay provided the basis for

determining what factors have been found to influence employee pay satisfaction and what potential personnel problems could result from employee pay dissatisfaction. Based on this research, the survey questionnaire was designed to determine whether or not employees were dissatisfied with their current pay.

Research Objective. Determine the causes of employee pay dissatisfaction, if any, and determine whether or not the implementation of a classification and pay plan would solve or mitigate employee pay dissatisfaction.

This question is naturally tied to the first. Results of the study did indicate employee dissatisfaction with pay. Responses were analyzed to isolate the underlying causes of employee pay dissatisfaction. Furthermore, the survey instrument was designed so that employees could identify actions on the part of management which they felt could improve current compensation practices. Employee responses to questions on the causes of employee pay dissatisfaction, and employee responses to what corrective action management would best be advised to take, provided the basis for determining whether or not the implementation of a classification and pay plan would solve or mitigate the problems identified.

Research Objective. Make recommendations to management concerning the implementation of a classification and pay plan for the City of Bozeman taking into consideration the survey results, research on the topic of pay, and current economic conditions.

Through analysis of the proposed plan submitted by the consultants, library research on salary and wage administration, and survey results, recommendations to management were made concerning the implementation of a classification and pay plan for the City of Bozeman.

SUMMARY

In summary, this professional paper presents a synopsis of the research on pay, confirms the existence of employee pay dissatisfaction within Bozeman city government, determines the causes of the dissatisfaction, identifies corrective action to be taken, and, finally, presents a series of recommendations to management necessary to implement an effective classification and pay plan.

ENDNOTES

1 Bozeman, Montana, City Commission, City Commission Minutes (February 6, 1984).

2 Bozeman, Montana, Local Government Study Commission, Recommendations to the City of Bozeman (May 31, 1986).

3 Herbert G. Zollitsch and Adolph Langsner, Wage and Salary Administration. (South-Western Publishing Co., 1970), pp. 7-10.

4 Jay M. Shafritz, Albert C. Hyde, and David H Rosenbloom, Personnel Management in Government. (Marcel Dekker, Inc., 1981), p. 121.

CHAPTER II

A REVIEW OF THE LITERATURE

Research on the theory of pay and its effects developed in the early 1900s and was an integral part of the overall management theory at that time. During this period, virtually all of the research centered around the "economic man" concept advanced by F. W. Taylor. Taylor, founder of the scientific management movement, believed that the chief thing people wanted from their jobs was money and that employees needed strict guidance in order to perform well. Time and motion studies and studies of piece rate incentive plans were conducted in order to demonstrate how changes in the method of payment and the method of accomplishing a task could increase employee productivity. As a result, research on the topic of pay became associated with scientific management.

The focus of the research on pay began to change in the 1930s and 1940s as the result of the Hawthorne experiments conducted at a Western Electric plant between 1927 and 1932. These experiments served to redirect the research emphasis away from pay as the primary motivator affecting employee performance and towards recognizing the social and psychological needs of employees. The Hawthorne experiments

revealed that human beings with their feelings and associations were the critical elements affecting job performance.

These experiments lead to the development of the human relations movement which stressed that humans had a whole range of needs, including security, acceptance, recognition, and growth needs. Employers could best motivate workers by creating a work environment that would help workers to fulfill such needs while contributing to the goals of the organization.

The research on pay by human relations scholars was primarily directed towards demonstrating that pay was relatively unimportant to employees.¹ A survey of sixteen studies by Herzberg et al. (1957), for example, showed that the average worker ranks pay sixth in importance behind such factors as security, job interest, advancement, appreciation, and management.² The findings seemed to confirm the "fact" that pay was relatively unimportant to employees. Consequently, researchers during this period concentrated their efforts on non-pay-related motivational factors.

More recently, however, researchers are again studying pay and its effects on employee behavior. Studies by a number

of researchers, including Adams (1963), Porter and Lawler (1968), Jaques (1961) and Herzberg (1957, 1959), have served to re-ignite research interest in the subject of pay. These studies support the premise that pay is important to employees and does have an effect on employee performance, but to a much lesser degree than originally proposed by Taylor.

Edward E. Lawler III has been the foremost author in the area of pay administration in recent years. Basically, Lawler contends that each employee completes a pay satisfaction equation in their own minds.³ Pay satisfaction, according to Lawler, "is basically determined by the difference between actual pay and the person's belief about what his pay should be."⁴ As an employee's perceived inputs exceeds his pay outcomes, his pay dissatisfaction will increase. When employees are dissatisfied with their level of pay, the consequences can include poor job performance, strikes, grievances, turnover, job dissatisfaction, and absenteeism. In short, widespread pay dissatisfaction can be very costly to an organization.

Lawler argues that numerous factors affect an employee's job and pay satisfaction levels. Some of the factors identified by Lawler include employee evaluations, internal

and external pay equity, communication, trust in management, position classification systems, and methods of pay determination. Each of these factors is discussed below.

Employee Evaluations. The model proposed by Lawler suggests that employee pay satisfaction is directly related to job performance. Employees who perceive themselves as better performers will tend to be dissatisfied with their pay, unless they receive additional compensation for their efforts. As employees raise their self-evaluation of their performance, they also raise their estimation of what their pay should be. Thus, employee evaluations provide the basis for merit based compensation programs.

However, employee evaluation systems can do much more, as Lawler states:

The advantages of this kind of system (employee evaluation systems) extend far beyond pay administration. It can create a situation where superiors and subordinates jointly become much more certain of what the subordinate's actual job duties and responsibilities are. The fact that the subordinate has a chance to set goals and that he commits himself to a certain level of performance may have an impact on his motivation that is independent of rewards like pay. This system also offers the subordinate a chance to become involved in important decisions about his own future and thereby encourages a kind of give and take that seldom exists between superiors and subordinates.⁵

Internal Pay Equity. Internal pay equity relates to employees' perceptions of how fairly wages are distributed

among employees within an organization. That is, employees' perceptions of their pay is influenced by what their co-workers receive. Employees will tend to become dissatisfied with their pay if they see others, less competent than themselves or performing less demanding work, receiving as much or more pay than they do. Lawler states:

Intraorganization pay comparisons are crucial to employees, and because of this, pay differences among employees are important even where pay is high. Thus, just paying everyone higher wages is not the answer to pay dissatisfaction. The answer lies in...establishing differences among people that are perceived by them to be equitable. Job evaluation and performance evaluation are the tools that must be used to establish equitable differences...6

External Pay Equity. External pay equity relates to employees' perceptions of the fairness of their wages in comparison to workers in similar positions in similar organizations. Thus, employee pay satisfaction is dependent, in part, upon salaries and wages of similar organizations.

Salary surveys can be an important tool used in solving problems with external pay equity. Surveys should focus on the organizations and jobs which the employees actually use for comparison purposes and should be done with participation of lower-level employees. Lawler states:

...employees react to their pay in terms of their sometimes inaccurate perceptions of other's pay, not in terms of what other's pay actually is. Organizations try to deal with this problem by releasing the results of salary surveys, hoping that this will correct the misperceptions of employees and convince them that their pay rates are equitable. It is likely to be much more effective if the employees themselves actually take part in the salary survey. Then it will be their survey, and they will be more likely to see the results as valid.⁷

Communication. Effective communication between management and employees plays an integral role in the overall management of an organization and also plays a vital role in determining the success or failure of any compensation program. Many plans seem to fail not because they are mechanically defective, but because they were ineffectually introduced.⁸ Thus, open lines of communication can increase the chances of success of an organization's compensation program.

Trust in Management. No pay plan or compensation program can ever be 100 percent objective. Subjective judgements will always be an important element in any compensation program. When employees distrust management, subjective judgements are routinely questioned by the employees--leading to increased pay dissatisfaction.

The more subjective the compensation program, the more employee trust in management is needed for the program to be accepted by employees. Employers have every incentive,

therefore, to reduce subjectivity in their compensation systems and to search for ways to build and maintain trust.

Classification System. Establishing and maintaining employee trust in an organization leads to the necessity for an effective job evaluation and classification system. Lawler states that the single most important factor in a job evaluation system is involving the people whose jobs are being evaluated. "After all, it is their perceptions that ultimately will determine the success or failure of the system".⁹ Lawler argues that involvement of job holders in the evaluation of their jobs will lead to higher pay satisfaction because the resulting decisions will be improved by the information contributed by the job holders, and because the job holders will be more likely to accept the decisions if they are involved in making them.

Methods of Pay Determination. Studies by Penner (1966) and Lawler (1966) found that employee pay satisfaction increases when pay is perceived to be based upon the criteria that employees feel it should be based upon. Merit pay has often been promoted as a means for increasing job satisfaction.

Penner reported that employees who feel their pay is based upon performance are typically more satisfied with their pay

than employees who do not feel their pay is performance-based. While Lawler concludes that tying pay to performance can motivate employees and increase their pay satisfaction, Lawler stresses the need for a pay system to "fit the human relations climate of the organization".¹⁰ In an organization where trust in management is low and employee performance is difficult to measure objectively, merit based systems are certain to fail.

These factors, identified by Lawler, provided the basis upon which the employee survey questionnaire was designed. The survey questionnaire, which is described in more detail in Chapter III and is included in Appendix A of this paper, contains questions dealing with each of the various factors which have been found to influence employee pay satisfaction. Chapter IV analyzes the responses to these questions.

ENDNOTES

1 Edward E. Lawler, Pay and Organizational Effectiveness: A Psychological View, (McGraw-Hill 1971), p. 8.

2 Ibid., p. 38.

3 Ibid., p. 216.

4 Ibid., p. 215.

5 Ibid., pp. 169-70.

6 Ibid., p. 251.

7 Ibid., p. 261.

8 Ibid., p. 163.

9 Ibid., p. 259.

10 Ibid., p. 276.

CHAPTER III

RESEARCH DESIGN

Questionnaire

An employee survey questionnaire was selected as the most appropriate instrument for accumulating data for this research project. The questionnaire permitted data to be collected for a large sample size which would not have been true of an interview methodology. It also provided for uniform response patterns which facilitated data evaluation and comparisons between sample groups. Furthermore, this methodology permitted anonymous employee responses--increasing the likelihood of honest answers to sensitive questions.

The survey questionnaire was prepared after a thorough review of the literature on the topic of pay and related subjects. The questionnaire was designed to gather information necessary to adequately address the research objectives outlined in Chapter I. Professors Tompkins and Weaver reviewed the questionnaire prior to distribution. In addition, the questionnaire was tested on two volunteers in order to determine the clarity of the questions and to assess potential responses.

To achieve a high return rate, questionnaires were personally delivered to each potential respondent. The purpose of the questionnaire was explained to each individual and a cover letter explained that individual responses would be completely confidential. Respondents were provided a self-addressed envelope in which to return the completed questionnaire.

Sample Size

A relatively large sample size of 65 employees was selected from the population of 150 full-time city employees. The large sample was selected in order to assure that it was representative of the entire population. The large sample size also provided an additional degree of protection in the event of a poor response rate.

Sample Selection

All top level managers and first line supervisors comprised one component of the survey sample. All management staff were selected because of the small number. Due to the fact that responses from management level employees concerning compensation would be expected to differ from non-management employees, questionnaires from this sample group were analyzed separately in order to assess the expected differences. Managers were asked

additional questions related to employee supervision, which also necessitated a separate survey sample. Eighteen management and supervisory personnel were asked to participate in the study.

A second sample component was selected from the remaining population of employees. In order to minimize the risk of drawing an unrepresentative sample, a combination of systematic and stratified sampling techniques was used for this component of the sample. A computer listing of employees sorted by department was used for the sample selection. Two numbers from 1 to 5 were randomly selected for each department. The first number drawn was used to select the first employee. The second number drawn was used to select each subsequent employee. As an example, a 2 and a 4 were drawn for one department. The second employee and each subsequent fourth employee thereafter on the list were selected. The selection process resulted in selecting 47 non-management employees to participate in the study.

Response Rate

Of the 65 questionnaires delivered to potential respondents, 60 were returned. This represents an overall return rate of 92 percent. By category, 17 of the 18 management and supervisory personnel responded, while 43 of

47 responded from the employee group. The high return rate provides reasonable assurance that the sample accurately represents the total population.

CHAPTER IV

SURVEY RESULTS AND ANALYSIS: JOB SATISFACTION

The survey questionnaire and a tabulation of the results of each question are included in Appendix A of this paper. This chapter presents the results of the survey questions related to employee job satisfaction and interprets the data in light of the research objectives stated in Chapter I.

Overall employee job satisfaction is analyzed first, followed by an analysis of employee attitudes specifically with respect to their salary and benefits. To provide an explanation of the causes of employee job dissatisfaction, questions were included in the questionnaire relating to factors which the review of the literature identified as influencing employee job satisfaction. Responses to these questions are analyzed in order to determine the causes of employee job dissatisfaction and to provide insights into possible corrective action.

Employee Job Satisfaction

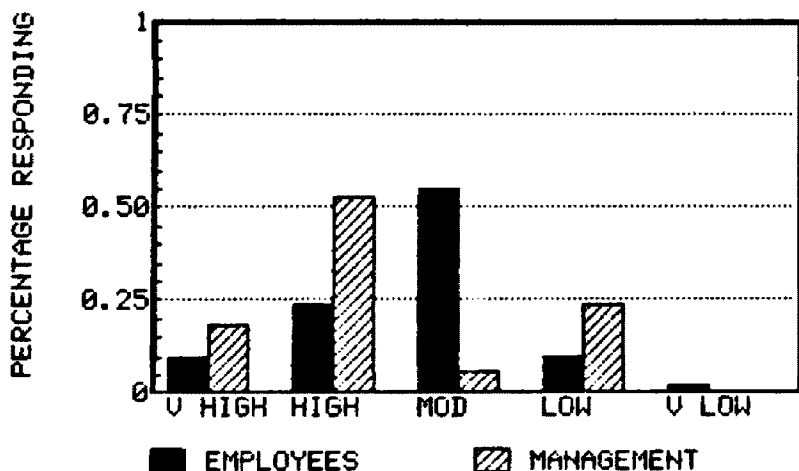
A series of questions were included in the questionnaire in order to evaluate the importance of pay relative to other factors in determining employees' overall level of job satisfaction. The arguments of the human relations school

notwithstanding, the city manager expected that pay would be the most important factor to employees.

Two non-monetary job satisfaction questions were asked of employees. The first of which asked respondents to indicate the level of satisfaction they receive from working for the City of Bozeman. The purpose of the question is to measure employees' overall level of job satisfaction. Possible responses consisted of: very high, high, moderate, low, and very low. Stated below is the question followed by the results.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES THE DEGREE OF JOB SATISFACTION YOU PRESENTLY RECEIVE FROM WORKING FOR THE CITY OF BOZEMAN.

SURVEY RESPONSES



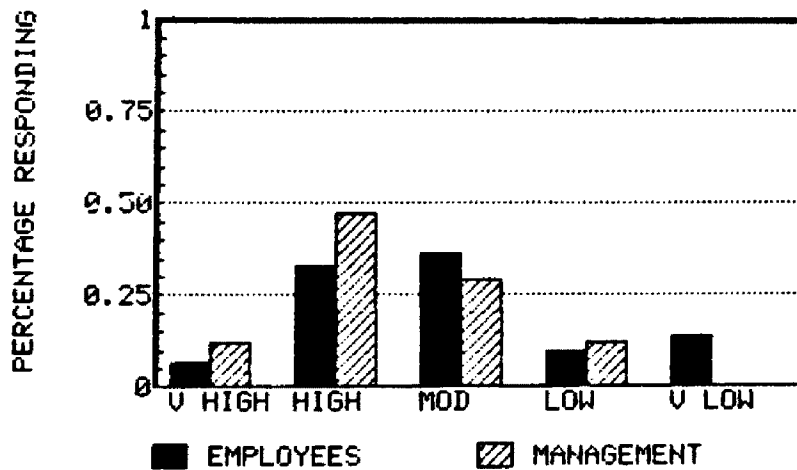
Eighty-five percent of all respondents indicated their level of job satisfaction they receive from working for the City of Bozeman is either moderate, high, or very high. As

shown above, responses of the management group tended to be more disburSED than the employee group. Seventy-one percent of the management group reported either high or very high satisfaction, while twenty-four percent rated their satisfaction low. Responses of the employee group were more normally distributed, with a majority responding that their job satisfaction was moderate.

The second non-monetary question related to the level of satisfaction employees receive from their present working environment. This question was also designed to measure employees' overall level of job satisfaction.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES THE DEGREE OF SATISFACTION YOU RECEIVE FROM YOUR PRESENT WORKING ENVIRONMENT.

SURVEY RESPONSES



Seventy-one percent of all respondents indicated either high or moderate satisfaction with their current working

environment, with the highest level of satisfaction coming from the management group. As shown above, only twelve percent of the management group indicated low satisfaction with their present working environment and none reported very low satisfaction. Among employees, by contrast, ten percent reported low satisfaction and fourteen percent reported very low satisfaction.

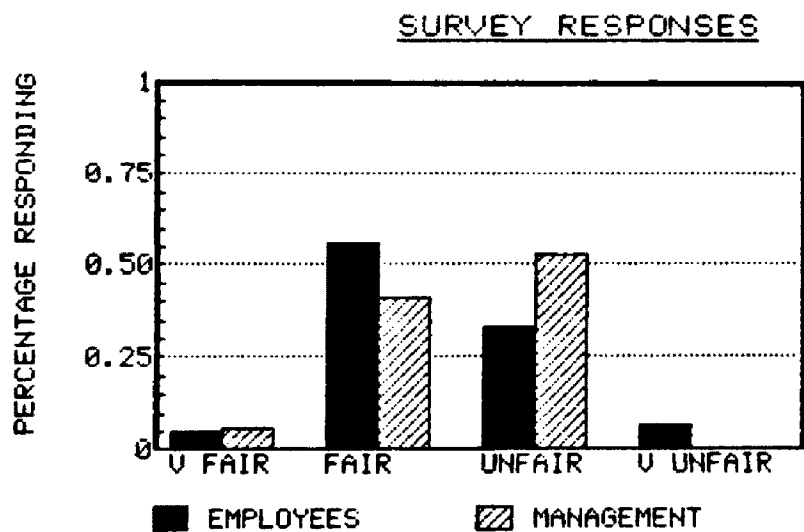
Responses to these two questions indicate that employees are generally satisfied with their job. Eighty-two percent of all respondents rated their satisfaction either moderate, high, or very high to the two questions. The management group was more divided in their responses to the level of satisfaction they receive from working for the city. They appeared to be either highly satisfied, or dissatisfied, as evidenced by the fact that only six percent responded with moderate satisfaction. The employee group was slightly less satisfied with their working environment than was the management group. However, overall respondents generally appear satisfied with the non-monetary aspects of their jobs.

Employees were also surveyed regarding their level of satisfaction with the monetary aspects of their jobs. The purpose of the following questions is to determine whether or not employees were dissatisfied with their compensation

and also to evaluate their responses in light of their responses to the non-monetary aspects of their job. In order to better identify the source(s) of employee dissatisfaction with compensation, if any, questions dealing with compensation were divided into two categories--pay and benefits.

Respondents were first asked how they felt about their current salary. The question is restated below followed by the results.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES HOW YOU FEEL ABOUT YOUR PRESENT SALARY.



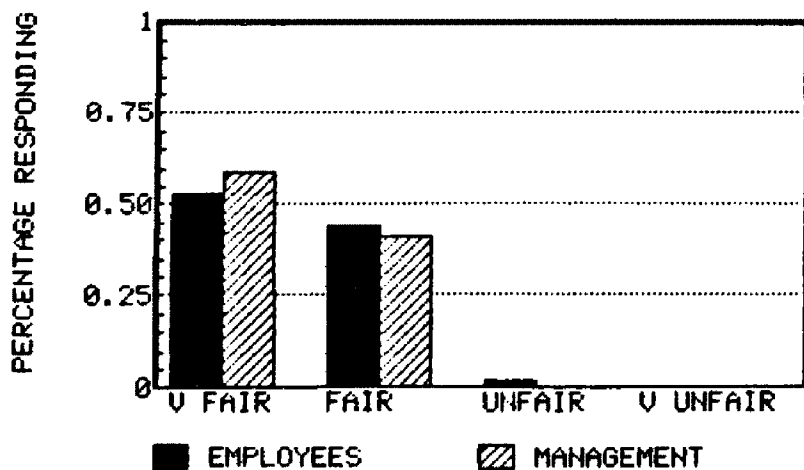
Responses to this question were fairly evenly divided. Fifty-seven percent of all respondents felt their current salary was either fair or very fair, while forty-three percent responded that their current salary was either unfair or very unfair. Interestingly, the management group

was slightly more dissatisfied with their salary than was the employee group. Fifty-three percent of the management group indicated dissatisfaction with their salary as compared to forty percent of the employee group. The fact that forty-three percent felt that their salary was not fair, while not a majority, nevertheless represents a significant proportion of the workforce that are dissatisfied with this aspect of their job.

In a related question dealing with compensation, employees were asked how they felt about their current benefits. The purpose of this question is to more accurately determine which specific aspect of their compensation, salary or benefits, is the greater source of dissatisfaction.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES HOW YOU FEEL ABOUT YOUR PRESENT BENEFITS SUCH AS RETIREMENT, INSURANCE, SICK AND ANNUAL LEAVE, ETC.

SURVEY RESPONSES



As seen above, respondents are highly satisfied with their current benefits. Of the employee group, ninety-seven percent of the employees responded that their current benefits were either fair or very fair, while one-hundred percent of the management group responded similarly. Stated differently, only one out of sixty respondents indicated that they felt their current benefits were unfair.

Based on the two questions dealing with employee satisfaction with compensation, it is clear that employees are highly satisfied with their current benefits, but that a substantial percentage of employees, management and non-management alike, do not feel they are presently receiving a fair salary. In an effort to determine the importance of pay relative to other factors, respondents were asked to rank five job-related factors in order of their importance. These included factors employees in other studies cited as more important than pay. Listed below is the question and the ranking by the two groups surveyed.

QUESTION. RANK THE FOLLOWING FACTORS 1 THROUGH 5 IN ORDER OF THEIR IMPORTANCE TO YOU (1 BEING THE MOST IMPORTANT AND 5 BEING THE LEAST IMPORTANT). RANK ALL FIVE ITEMS.

SURVEY RESPONSES

	<u>Employee Ranking¹</u>	<u>Management Ranking¹</u>
A. Opportunity for advancement	4	5
B. Appreciation by supervisor	5	4
C. Pay	2	2
D. Job security	1	3
E. Interest of the job itself	3	1

As shown above, employees feel pay is quite important; in fact, both the employee group and the management group ranked pay second in importance among the various job factors. Employees ranked only "job security" higher than pay, while managers ranked only "job interest" higher than pay.

Lawler cited studies in which supervisors tended to overestimate the importance of pay to their subordinates. Overestimating the importance of pay can lead to management relying too heavily on financial incentives and the styles of management which have stressed them, e.g. scientific management. Furthermore, overestimating the importance of pay can lead management to treat the symptoms of a problem rather than effectively dealing with the causes. For example, management may simply increase employees' pay with the expectation that higher salaries will eliminate employee dissatisfaction.

In order to determine whether or not the importance of pay was being overestimated, management and supervisory personnel were asked to rank the same job factors shown above in order of their importance to employees who work for them. Consistent with Lawler's findings, management and supervisory personnel felt pay ranked first in importance to their employees. These results are not as pronounced as the results cited by Lawler in which employees ranked pay seventh while supervisors ranked pay first.² However, it does highlight the need for management to adequately identify the cause(s) of job dissatisfaction.

Survey results confirm the research hypothesis that pay is a primary concern of City of Bozeman employees and is one of the main areas of employee dissatisfaction. Results also revealed that job satisfaction, as distinct from pay satisfaction, is moderate to high among employees. The following section examines determinants of job satisfaction generally in order to identify ways in which job satisfaction can be improved still further.

Determinants of Job Satisfaction

Chapter II identified a series of elements found to be important to employee job satisfaction, including employee evaluations, internal and external pay equity, communication, trust in management, classification systems,

and methods of pay determination. The survey instrument contained questions dealing with each of these factors and this section presents the results to those questions.

Employee Evaluations. As discussed in Chapter II, employee evaluations can have an effect on employee job satisfaction. Two questions relating to employee evaluations were included in the survey instrument. Employees were asked how frequently they receive written evaluations from their supervisor and how they felt about the current evaluation process.

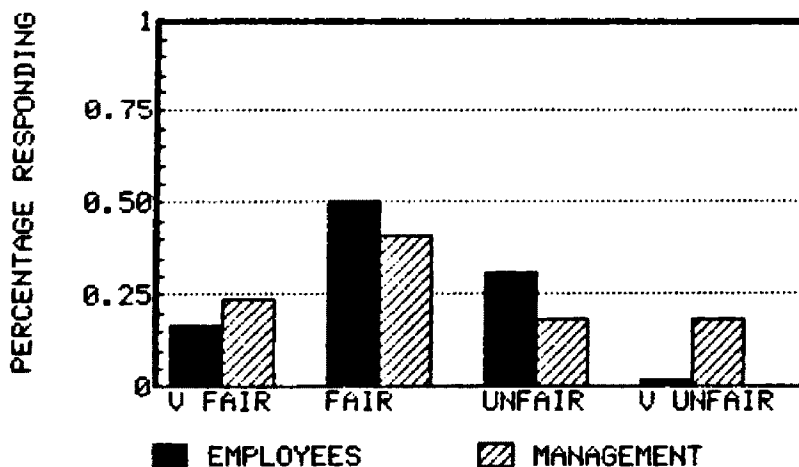
In response to the question concerning how frequently employees receive written evaluations, only thirty-one percent of the employee group and twenty-nine percent of the management group responded that they receive written evaluations on an annual basis. A total of fifty-nine percent of all respondents indicated that they receive no employee evaluations or evaluations were done less frequently than once every five years. In response to the fairness of employee evaluations, only twenty-six percent of the employee group indicated that they felt the present process of evaluating employees was either fair or very fair, while forty-one percent of the management group responded similarly.

Internal and External Equity. Employee pay satisfaction is dependent in part upon employee perceptions of internal and external equity. That is, when determining their satisfaction with pay, employees consider their own pay both in relation to their co-workers pay and in relation to employees in similar organizations. When others, who they perceive to be less competent than themselves, perform less difficult jobs and receive more pay, they will tend to be more and more dissatisfied with their pay.

To address these questions, employees were surveyed concerning their level of satisfaction with how fairly pay was distributed among employees within departments, between departments, and the fairness of wages in the City of Bozeman in comparison to cities of similar size in Montana.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES HOW FAIRLY WAGES ARE DISTRIBUTED AMONG EMPLOYEES IN YOUR DEPARTMENT.

SURVEY RESPONSES

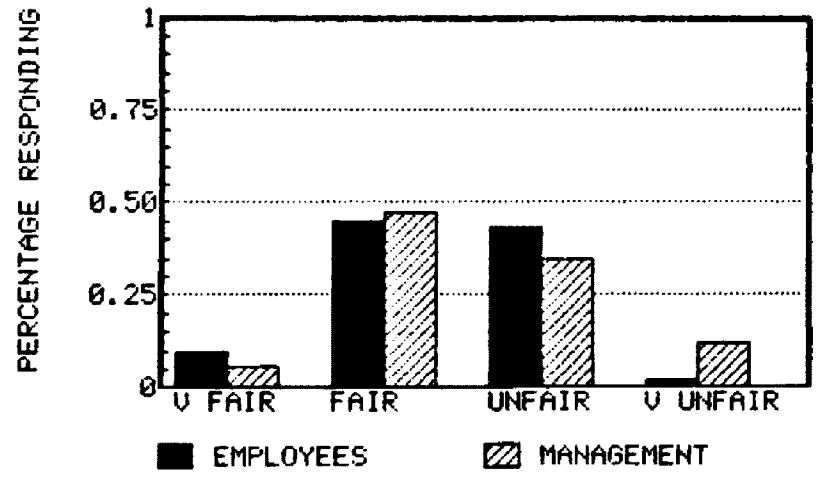


As seen by the presentation above, thirty-three percent of the employee group and thirty-six percent of the management group indicated they felt the current distribution of wages among employees in their department was either unfair or very unfair. The management group was more dissatisfied, with eighteen percent responding that they felt the current distribution was very unfair.

Listed below is the second question dealing with internal equity followed by the results.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES YOUR FEELING OF HOW FAIRLY THE WAGES & BENEFITS OF EMPLOYEES IN YOUR DEPARTMENT COMPARE TO WAGES & BENEFITS OF EMPLOYEES IN OTHER DEPARTMENTS OF THE CITY.

SURVEY RESPONSES

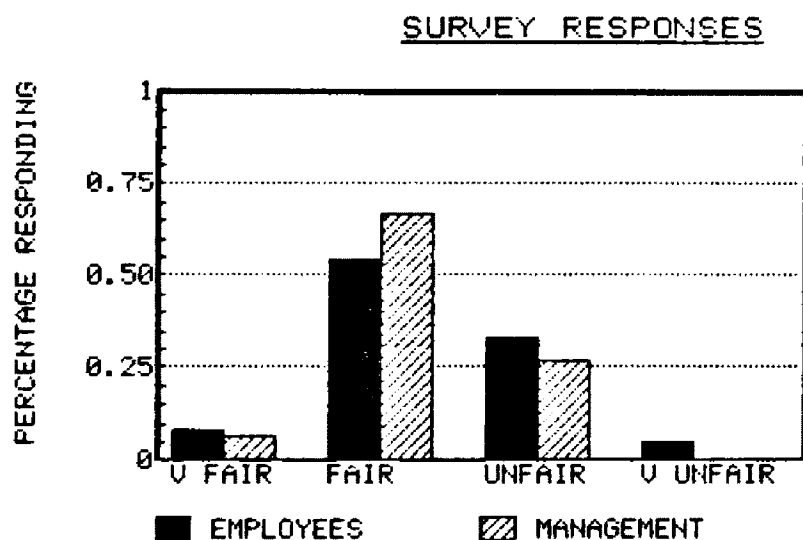


Responses to this question on internal equity were fairly evenly divided. Forty-six percent of all respondents indicated they felt the wages in their department were either unfair or very unfair, when compared to wages of

other departments. Again, a larger percentage of the management group felt the current distribution was very unfair.

The survey instrument also contained a question on external equity:

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES HOW YOU FEEL YOUR CURRENT WAGES & BENEFITS COMPARE TO YOUR COUNTERPARTS IN CITIES OF SIMILAR SIZE IN MONTANA.



A majority of respondents in both groups felt that their wages and benefits were fair in comparison to their counterparts. Nevertheless, thirty-eight percent of the employee group and twenty-seven percent of the management group felt their wages were either unfair or very unfair in comparison to their counterparts. (None of the management group and only two of the employee group felt the current wage disparity was very unfair.)

The highest level of dissatisfaction relating to internal and external pay equity resulted from the question relating to the distribution of wages between departments. Nearly half of all employees surveyed felt wages were not fairly distributed between departments--essentially the same percentage as those responding that their pay was unfair.

Communication. Effective communication between employees and supervisors is another element identified in Chapter II as affecting employee job satisfaction. The survey questionnaire contained two questions relating to the adequacy of communications.

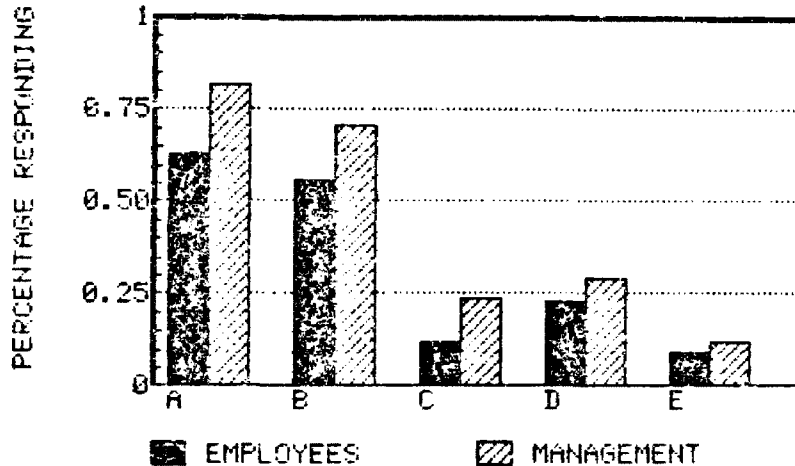
Respondents were first asked if they felt communication between employees and management was good, or if communication needed to be improved. In response to the question, only nineteen percent of the respondents indicated that there was good communication between management and employees. Eighty-one percent felt that communication between management and employees needed to be improved.

In order to determine what methods management could utilize to improve communication, respondents were provided a list of possible management actions and were asked to indicate which actions they felt could improve communication. The results are presented below.

QUESTION. CIRCLE ALL OF THE FOLLOWING ACTIONS YOU FEEL COULD IMPROVE COMMUNICATION BETWEEN MANAGEMENT AND EMPLOYEES.

- A. Regular meetings with employees and management.
- B. Informal visits by management.
- C. Formal visits by management.
- D. Newsletter.
- E. Other (Briefly explain)

SURVEY RESPONSES



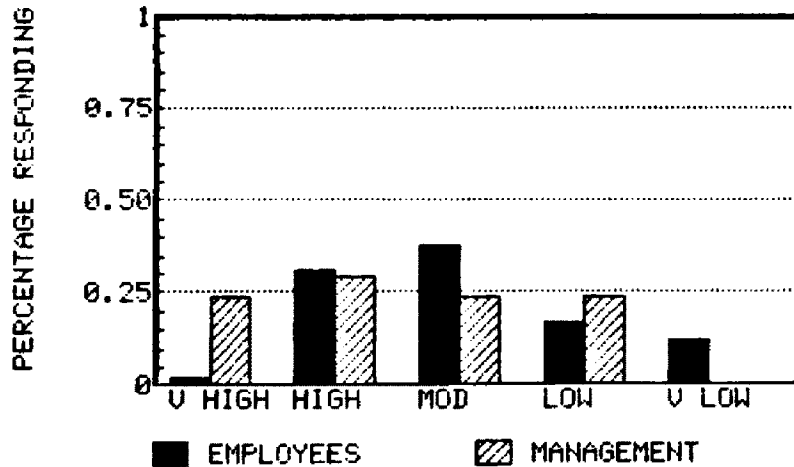
As seen above, respondents generally favored regular meetings with employees and management, and informal visits by management. Other suggestions included the need for evaluations, one on one meetings with employees, and the need to listen to valid complaints. Interestingly, as shown by the graph above, a greater percentage of the management group than the employee group felt each of the possible actions should be implemented in order to improve communication. As the responses to these questions indicate, there is a definite need for increased communication between management and employees.

Trust in Management. Employee trust in management is an important element affecting employee job satisfaction and is also essential for any type of compensation program to succeed. Lawler states: "No plan can succeed in the face of low trust and poor supervision, no matter how valid it may be from the point of view of mechanics."³

The survey questionnaire included a question relating to employee trust in management in order to determine whether or not a lack of trust in management was a contributing factor affecting employee job satisfaction.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES YOUR LEVEL OF TRUST IN MANAGEMENT (YOUR SUPERVISOR AND ABOVE).

SURVEY RESPONSES



As shown above, there is a wide range of attitudes among employees and supervisory staff concerning their level of trust in management. Not surprisingly, management and

supervisory staff responded more favorably than did the employee group. The differences between the two groups, however, are not as pronounced as might be expected.

While there appears to be a wide range of attitudes on the part of both groups, a substantial majority of respondents rated their trust in management reasonably high. Seventy-one percent of the employee group and seventy-six percent of the management group responded that their trust in management was either moderate, high, or very high.

Classification System. Position classification systems provide the means to effectively deal with problems with internal pay equity. As stated in Chapter II, success of a position classification system is dependent upon involving the people whose jobs are being evaluated. As noted in Chapter I, the city had a consulting firm develop a classification system in 1985. The study is yet to be fully implemented by management.

The survey contained a question concerning involvement of employees in the position classification study. The question was intended to assess the likelihood employees will accept the results of the study in light of the research which indicates employee involvement is essential for success of a classification system.

Only seventeen percent of the employee group and twenty-five percent of the management group indicated that they provided information on their job duties and that they were aware of the purpose of the study and what the intended outcome would be. Sixty-seven percent of the employee group and fifty percent of the management group indicated that they provided information used in the classification study, but had no knowledge of the purpose of the study or the intended outcome. Nineteen percent of all respondents indicated that they had no involvement in the study.

Methods of Pay Determination The method management employs with regard to pay administration directly affects employee pay satisfaction. As stated in Chapter I, for the past several years the city administration has simply granted fixed dollar increases or fixed percentage increases to all employees.

The survey contained a series of questions dealing with employee preferences with regard to methods of allocating wage increases. Each of these questions is analyzed in the next chapter. For purposes of analyzing employee acceptance of the administration's current pay policy, respondents were asked which type of pay plan they prefer.

QUESTION. RANK ALL THE FOLLOWING PAY PLANS 1 THROUGH 4 INDICATING WHICH YOU FEEL WOULD BE THE MOST DESIREABLE FOR THE CITY OF BOZEMAN. (1 BEING THE MOST DESIREABLE AND 4 BEING THE LEAST DESIREABLE) RANK ALL FOUR.

	<u>Employee Ranking</u> 4	<u>Management Ranking</u> 4
A. Merit based system	3	2
B. Across the board increases	2	3
C. Pay based on seniority	4	4
D. Predictable pay plan and salary schedule with compensation guidelines.	1	1

As indicated above, the employee group ranked the current method of pay administration (across the board increases) second behind a predictable pay plan and salary schedule with compensation guidelines. The management group ranked the current method of pay administration third out of the four possible methods. These responses suggest that employees are not totally satisfied with the current method of distributing salary increases among employees. The next chapter analyzes employees' pay plan preference in greater detail to determine what elements employees feel the city's compensation program should contain.

ENDNOTES

1 Cumulative rankings were determined by summing the ranking of each respondent and then rank ordering the results.

2 Lawler, Edward E., Pay and Organizational Effectiveness: A Psychological View, (McGraw-Hill 1971), p. 63.

3 Ibid., p. 163.

4 Cumulative rankings were determined by summing the ranking of each respondent and then rank ordering the results.

CHAPTER V

SURVEY RESULTS AND ANALYSIS: PAY PLAN PREFERENCE

Chapter IV analyzed the survey results relating to employee job satisfaction. This chapter presents the results of the survey questions related to employee pay plan preference and interprets the data in light of the research objectives stated in Chapter I.

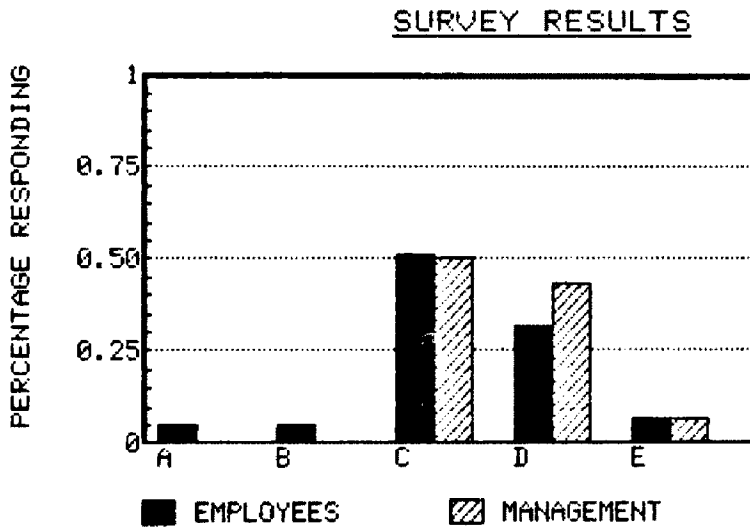
As discussed in Chapter II, studies by Penner and Lawler (1966) found that employee pay satisfaction increases when pay is perceived to be based on the criteria that employees feel it should be based upon. The survey questionnaire contained a series of questions designed to identify the type of pay plan and related elements employees feel would provide the most appropriate pay administration system.

General Attitudes

Respondents were first asked what the the city's overall philosophy should be with respect to wage and salary administration. The purpose of the question was to determine what employees feel should be the primary factor governing salaries and wages of the city. Shown below is the question followed by the results.

QUESTION. WHICH OF THE FOLLOWING STATEMENTS MOST NEARLY DESCRIBES YOUR OPINION ON WHAT THE CITY'S PHILOSOPHY SHOULD BE WITH RESPECT TO WAGE AND SALARY ADMINISTRATION?

- A. Pay city employees as little as possible.
- B. Pay the average salary and wages of cities of similar size.
- C. Pay enough to attract and retain qualified city employees.
- D. Pay a fair and equitable wage to all city employees.
- E. Pay wages comparable to both public and private organizations.



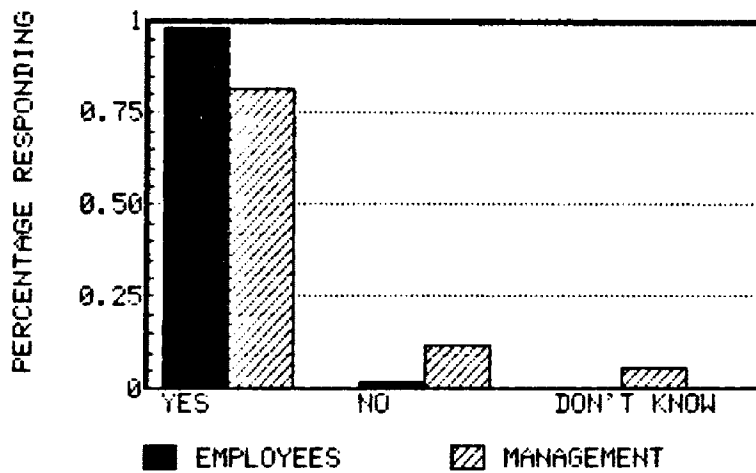
As seen above, half of both groups surveyed felt that the city's philosophy should be to pay enough to attract and retain qualified employees. Thirty-five percent of the respondents felt that the city should pay a fair and equitable wage to all employees. A small percentage felt that the city should base wages on pay of other organizations.

Respondents were then surveyed concerning what factors they felt should be taken into consideration when

determining salary and wage increases for employees. The respondents were asked whether or not annual cost of living and longevity increases should be part of an overall compensation program for the city. Shown below are the results.

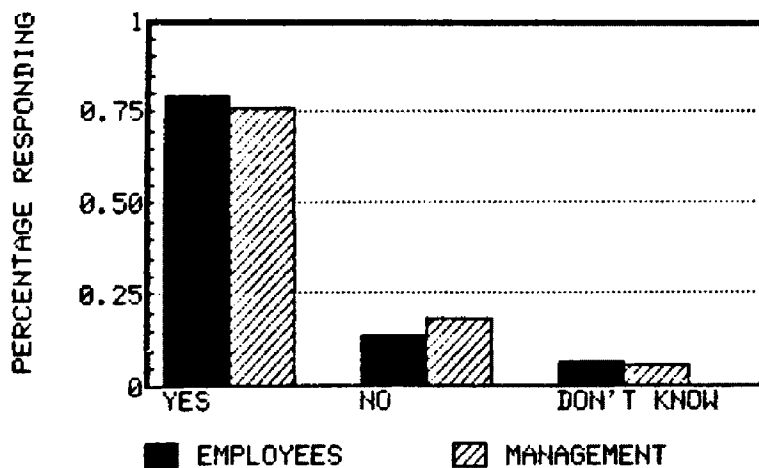
QUESTION. SHOULD ANNUAL COST OF LIVING INCREASES BE A PART OF AN OVERALL COMPENSATION PACKAGE FOR CITY EMPLOYEES?

SURVEY RESULTS



QUESTION. SHOULD LONGEVITY (SENIORITY) INCREASES BE A PART OF AN OVERALL COMPENSATION PACKAGE FOR CITY EMPLOYEES?

SURVEY RESULTS



As shown above, both groups indicated, by a wide margin, that cost of living and longevity increases should be part of an overall compensation program for the city. A degree of certainty and predictability is a common element of both of these factors. It appears that employees and supervisors alike desire some knowledge of what they can expect in the future with respect to their pay.

Aside from two probationary step increases, the pay plan proposed by the consultants did not recognize either longevity or cost of living increases, yet an overwhelming majority of city employees feel these factors should be taken into consideration by management.

Merit Pay

The pay plan proposed by the consultants is based largely on merit. As previously discussed, merit pay can be successful provided certain conditions exist such as high trust in management, objective employee evaluations, and acceptance of the plan by employees and supervisors. Without these conditions, incentive or merit based pay plans can be detrimental to an organization. Lawler states:

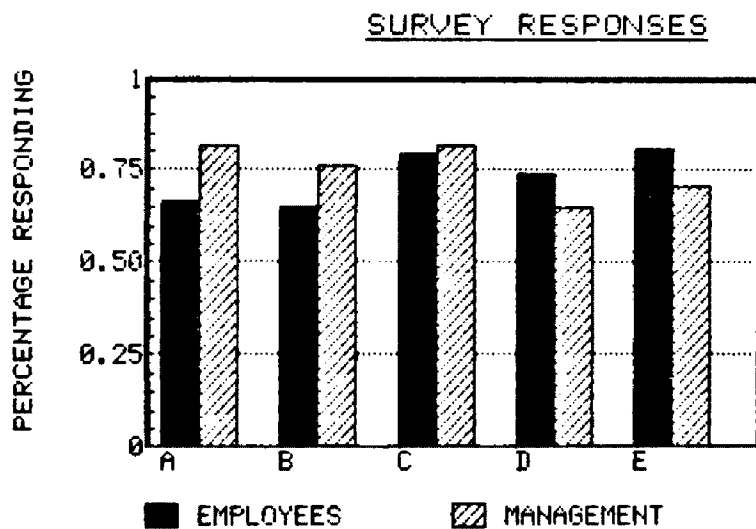
If employees object to seeing their pay tied to their performance, there can be real problems in trying to implement any kind of merit pay system, since it could be and, in fact, would probably be undermined by the employees themselves. One of the clearest findings that comes out of the research on incentive systems like the

Scanlon Plan is that these plans work best when the employees want the plan and when they trust management (Whyte, 1955). Thus, the issue of whether employees in general are favorably inclined toward incentive plans is a crucial one.¹

As previously reported, the management group selected a merit based compensation program as their second preference and the employee group ranked a merit program third. In order to assess employee acceptance of a merit based pay plan, respondents were given a list of five potential problems resulting from the adoption of merit pay. They were asked to indentify each of the problems they felt could result if a merit pay system was adopted.

QUESTION. CIRCLE ALL OF THE FOLLOWING PROBLEMS WHICH YOU FEEL COULD RESULT FROM ADOPTING MERIT PAY IN THE CITY OF BOZEMAN.

- A. Complaints by employees that raises are arbitrary.
- B. Problems in establishing objective criteria for evaluating employees and awarding merit pay.
- C. Problems in administering merit pay fairly and equitably among the various departments or divisions.
- D. Creation of unnecessary problems among employees.
- E. Difficulty on the part of supervisors to objectively rate, evaluate, and administer merit pay.



As shown by the presentation above, an overwhelming majority of both employees and supervisors responded that a merit based compensation program would cause problems. In fact, over two-thirds of the respondents felt that all of the five problems listed would occur if the city adopted a merit based pay plan.

Respondents were then directly asked whether or not they support merit pay. Listed below is the survey question and a tabulation of the results.

QUESTION. INDICATE WHICH OF THE FOLLOWING BEST DESCRIBES YOUR ATTITUDE CONCERNING MERIT PAY (TYING PAY TO PERFORMANCE).

	<u>Survey Responses</u>			
	<u>Employees</u>		<u>Management</u>	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. I fully support tying pay to performance.	9	21%	6	35%
B. I feel this approach could cause problems in the department or division.	16	37%	8	47%
C. I am concerned that my supervisor could not objectively measure and rate performance among employees.	15	35%	2	12%
D. Don't know.	3	7%	1	6%
	----	----	---	----
Total	43	100%	17	100%
	====	====	===	====

As seen above, both survey groups soundly rejected the concept of merit pay because they felt merit pay would either cause problems in the department or they were concerned that their supervisor could not objectively measure and rate performance among employees. The latter concern is supported by responses to a related question. When asked how easily their performance could be measured, sixty-five percent of the respondents indicated that they do not feel their performance could be objectively rated in comparison to their co-workers. Furthermore, as presented in Chapter IV, only 30 percent of the respondents indicated

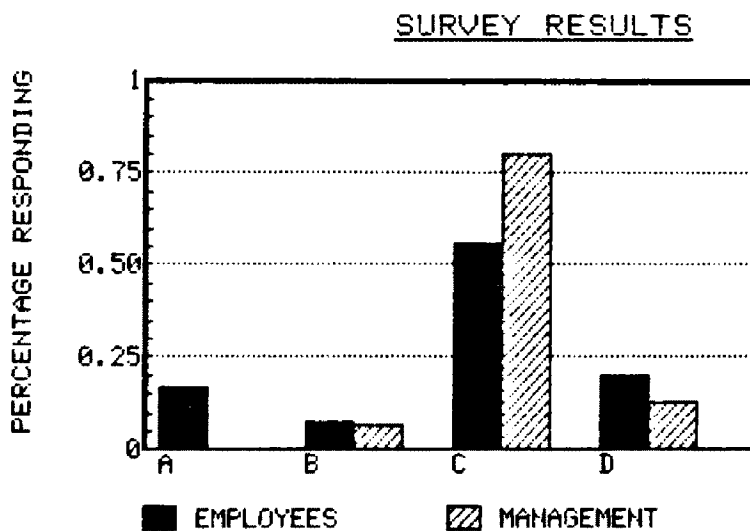
that they receive annual employee evaluations. Without employee evaluations, there would be no objective means for distributing and awarding merit pay.

Future Prospects

The survey instrument contained two questions which allowed respondents to indicate what actions they felt management should take to address problems with employee pay. The first question lists three possible actions available to management and also allows respondents to indicate their own proposed solution.

QUESTION. ASSUMING THERE IS DISSATISFACTION WITH THE PRESENT COMPENSATION LEVELS, WHICH OF THE FOLLOWING APPROACHES SHOULD CITY MANAGEMENT TAKE?

- A. Grant additional salary increases to all employees.
- B. Give department heads control over who should receive a salary increase.
- C. Establish a salary schedule and inform employees what compensation policy they can expect in the future.
- D. Other. (Briefly describe)



Sixty-three percent of the respondents felt that the best approach for management to address employee pay dissatisfaction is to establish a salary schedule and inform employees what compensation policy they can expect in the future. Eighteen percent of the respondents offered their own suggestions, which included merit pay systems, compensation for money saving ideas, a requirement for job evaluations, and cost of living increases. Interestingly,

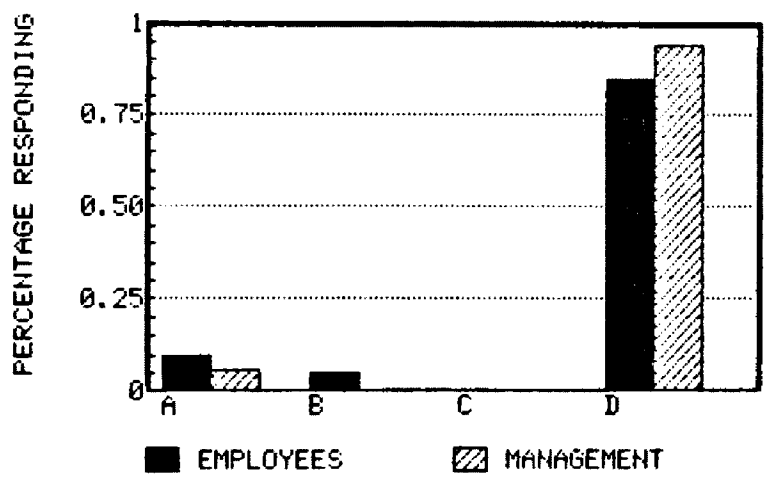
seventeen percent of the employee group felt that the city should grant all employees a salary increase.

The second question, designed to identify actions employees feel management should take to address problems with employee pay, attempted to present the problem in the context of the current financial and political situation. The purpose of the question is to go beyond simply acknowledging that a problem with employee pay exists and should be addressed. The question summarizes the current situation while placing realistic constraints on possible responses.

QUESTION. KNOWING THAT SALARIES AND WAGES ARE DEPENDENT UPON TAXES, AND CONSIDERING THE CURRENT "TAXPAYER REVOLT", HOW SHOULD THE CITY BEGIN TO IMPROVE PRESENT PROBLEMS WITH SALARIES AND WAGES OF CITY EMPLOYEES?

- A. Cut some city employees and give raises to those that remain.
- B. Ignore the taxpayer, increase taxes, and give raises to all employees.
- C. Hold back on salary increases.
- D. Establish a long-range and predictable pay structure, which lets employees know that they can expect in the future.

SURVEY RESULTS



As shown above, when faced with limited alternatives, an even larger percentage of respondents indicated the city should establish a long-range and predictable pay structure which lets employees know what they can expect in the future. An obvious element contained in these responses is the need for some degree of certainty and predictability in determining salary and wage levels of employees.

Chapter Summary

This chapter analyzed a series of survey questions designed to identify the type of pay plan and related elements employees feel would provide the most appropriate pay administration system for the city. By wide margins, respondents strongly favored establishing a salary schedule with compensation guidelines. In addition, an overwhelming majority of respondents felt that annual cost of living and longevity increases should be part of the city's compensation program.

Some interesting and sometimes conflicting responses were received on the subject of merit pay. When asked what type of pay plans respondents preferred, the management group ranked merit pay systems second, while the employee group ranked them third. However, a vast majority of all respondents felt a merit pay system would cause a wide range of problems. And, when asked if they support merit pay, only twenty-five percent indicated they did.

It appears many of the respondents endorse the concept of tying their pay to their performance, and yet were not willing to accept this type of pay system. The higher degree of subjectivity inherent in a merit based compensation program is a possible explanation. Consistent with this theory, respondents opted for more predictable,

and much less subjective, means of administering their pay--a salary schedule coupled with provisions for longevity and cost of living increases.

ENDNOTES

1 Edward E. Lawler, Pay and Organizational Effectiveness: A Psychological View, (McGraw-Hill 1971), p. 159.

CHAPTER VI

SUMMARY AND RECOMMENDATIONS

The impetus for this research project stems from the Bozeman city manager's concern that serious inequities exist in salary and wage levels of city employees, and his concern that these inequities have contributed to widespread dissatisfaction among employees. The city manager requested a study to determine whether or not a classification and pay plan is in fact needed in the City of Bozeman, and if such a plan would improve employee attitudes with respect to their pay. Additionally, he was interested in determining what factors management should consider in order to implement a classification and pay plan, other than simply adopting a pay plan within the financial constraints of the city. This research project was designed based upon these objectives.

The research project confirmed some of management's expectations, disconfirmed others, identified possible corrective actions, and finally, provided insights into issues which did not appear to be a concern of management at the outset. The following conclusions are drawn from analysis of the survey results:

Conclusions

- 1) Generally, employees are satisfied with their current jobs and working environment.
- 2) A significant number of employees are dissatisfied with their pay. Pay equity factors appear most important in explaining the result.
- 3) Virtually all employees are satisfied with their current benefits.
- 4) Employees support the adoption of a classification and pay plan to improve problems with employee pay.
- 5) Employees feel strongly that cost of living and longevity factors should be part of the city's compensation package.
- 6) Employees rejected a merit based compensation program.
- 7) A significant majority of employees indicated communication between employees and management needs to be improved.

Based upon these findings, the following section presents a series of recommendations for addressing the concerns of management and the research objectives outlined in Chapter I.

Recommendations

Based on the research on pay administration, job evaluation and classification systems play an integral role in establishing and maintaining internal pay equity. The first element necessary to address employee pay dissatisfaction is the need for an established job

classification system. The City of Bozeman already has a classification plan, but it has not been fully implemented. As the survey responses indicate, employee acceptance of the classification system is unlikely due to the fact that relatively few employees were involved in the development of the system and understood the purpose and intended outcome of the study. For a classification system to be effective, it must first be accepted by the employees as a fair and objective system which accurately classifies positions according to job demands.

The classification system proposed by the Becker Company could provide the foundation for the city's classification system. It is based on an objective and unbiased job evaluation system which is important for employee acceptance. However, because many of the employees were either not aware of the classification system or did not understand the intended outcome, it is important for management to communicate the results of the study to the employees and seek to their input. The purpose of the classification system and the methods used to classify the positions should be explained to employees. In addition, employees should be provided the opportunity to comment on, and question, all aspects of the classification

system--including its original purpose, methodology, and results.

Management must be careful not take the position of defending the classification plan and the work of the consultants. Rather, management must critically review the results of the plan, and above all, take into consideration concerns of employees and make adjustments to the plan as needed. The final plan should be openly presented to all employees together with procedures for employees to request reclassification of their positions. The important point is for management to listen to employee concerns and deal with them fairly.

Recommendation. Establish an employee classification system taking into consideration employee concerns and communicate the results of the final classification plan to all employees.

The next step toward addressing the problems facing management is to establish a pay plan which compensates employees based on their classification. Again, a pay matrix corresponding to the Becker Co. classification system already exists. However, the city is unable to implement the pay plan due to financial constraints. More importantly, as shown in Chapter V, survey respondents soundly rejected the basic premise upon which the Becker Co. pay plan was based--that being merit.

As the review of the literature revealed, a pay system exists within the context of the total organization, and success of a compensation program is dependent upon employee acceptance of the system. Without their acceptance, employees will likely be dissatisfied with their resulting pay and may even try to undermine the system.

Chapter V identified the elements respondents felt the city's pay plan should contain and the basis on which employees felt pay increases should be awarded. Respondents supported annual cost of living and longevity pay increases by an overwhelming margin. Furthermore, respondents strongly favored a predictable pay plan with compensation guidelines as the most appropriate method by which management could begin dealing with problems in employee pay.

A degree of certainty and predictability in employee pay was the overriding concern of the respondents. Consistent with this concern, respondents rejected the concept of merit pay, despite the fact that merit pay would undoubtedly translate to higher pay for some employees.

Based upon employee attitudes and preferences, management should develop an alternative pay matrix to coincide with the classification plan. The pay matrix prepared by the

consultants could be used as the basic framework needed to establish pay ranges for each grade. Major adjustments would need to be made in the pay plan step structure which presently contains only three steps. When establishing the revised step structure, consideration should be given to two basic elements--longevity and cost of living. Longevity would be addressed through step increases while cost of living increases would be addressed annually through an overall annual adjustment to the pay matrix based upon current economic conditions.

Compensation policies which inform employees of how the pay plan will be administered is also a vital element necessary for employee acceptance of the plan. The policies should identify the overall compensation philosophy of the city and should also provide for operational rules for the administration of the pay plan. To the extent possible, the pay plan and compensation policies should let employees know what can reasonably be expected in the future. The guidelines should identify under what conditions employees would advance from one step to another and under what conditions employee advancement may be denied. Furthermore, the guidelines should identify the factors management would consider for employee promotions and advancement.

Recommendation. Establish a pay matrix and set of compensation guidelines which take into consideration annual cost of living and longevity increases, to be used in conjunction with the position classification system.

The recommendations cited above will provide the means by which the administration can adequately deal with problems of internal pay equity. However, not yet addressed is the issue of employee dissatisfaction with external pay equity. A significant number of employees do not feel their salaries are fair in comparison to their counterparts in cities of similar size in Montana.

There are two possible explanations for employee attitudes on external pay equity. Either pay in the City of Bozeman is substantially lower than comparable cities, or employees are not using accurate information on which to base their conclusions. In order to effectively deal with this problem, the administration, in conjunction with employee representatives, should first obtain accurate pay information from other cities. The information obtained should be presented to all employees.

If Bozeman's pay is reasonably comparable to other Montana cities, the administration, together with employee representatives, should routinely provide employees with this information. However, if employee pay within the City

of Bozeman is in fact substantially below that of comparable cities, the administration and policy makers of the city must determine whether or not the discrepancies should be rectified. The administration and policy makers may determine that other factors justify the differences and the discrepancies in employee pay are defensible, or they may decide that improvements in employee pay cannot be made for financial reasons. If this is the case, the position of the administration and the policy makers should be communicated to the employees and the reasons explained as clearly and honestly as possible. If, on the other hand, the administration and policy makers determine that there is no justifiable reason for the differences in employee pay and the differences should be corrected, a plan as to how the administration plans to deal with the inequities should be developed and presented to the employees.

Recommendation. The administration, in conjunction with employee representatives, should obtain and present to all employees accurate salary and wage information from other Montana cities. The administration should adequately address any inequities which may exist.

Two additional factors identified by the survey results should be considered by management in order to improve the chances of success of the classification and pay plan. These are annual employee evaluations and effective communication between employees and management. As revealed

by the survey results, only thirty percent of the respondents indicated that they received annual employee evaluations while eighty-one percent felt that communication between management and employees needed to be improved.

All too often, employee evaluations are viewed negatively by both employees and supervisors. However, effective employee evaluation systems can be a useful tool to motivate employees, communicate management's appreciation to employees, identify areas where additional employee training is needed, in addition to correcting employee deficiencies. The evaluation program will not be used as a basis for awarding merit pay, yet it is an essential element in developing effective communication between employees and management. While the employee evaluation program can vary from one department to another, some general guidelines are suggested below:

- 1) Employees and the supervisor should agree in advance as to what is expected of the employee.
- 2) Quantitative criteria reflecting those expectations should be established and documented.
- 3) Employees should be evaluated only on what the employee and supervisor agreed to in advance.
- 4) Generally, evaluations should be positive in nature and acknowledge employee efforts in accomplishing the intended tasks and cite corrective action to be taken on the part of the employee if the expectations have not been met.

- 5) The administration should provide funding for employee training when such training would be useful toward correcting employee deficiencies.
- 6) Evaluations should be documented, discussed with employees, signed off by both the employee and supervisor, and maintained in the employees' personnel file.

Finally, the survey presented a series of actions which might be useful for improving communication between employees and management. Respondents generally favored regular meetings between employees and management, and informal visits by management. Regardless of what type of classification and pay plan the city wishes to adopt, effective communication between employees and management is an integral part of the administration of any organization.

Recommendation.

- 1) Establish an employee evaluation program for all employees.
- 2) Take action to improve communication between employees and management.

APPENDIX A

SURVEY QUESTIONNAIRE AND RESPONSES

GENERAL INFORMATION:

1. Indicate which of the following best describes the degree of job satisfaction you presently receive from working for the City of Bozeman.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very high.	4	10%	3	18%
B. High.	10	24%	9	53%
C. Moderate.	23	55%	1	6%
D. Low.	4	10%	4	24%
E. Very Low.	1	2%	0	0%
	-----	-----	----	----
Total	42	100%	17	100%
	=====	=====	====	=====

2. Indicate which of the following best describes the degree of satisfaction you receive from your present working environment.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very high.	3	7%	2	12%
B. High.	14	33%	8	47%
C. Moderate.	15	36%	5	29%
D. Low.	4	10%	2	12%
E. Very Low.	6	14%	0	0%
	-----	-----	----	----
Total	42	100%	17	100%
	=====	=====	====	=====

3. Indicate how frequently you receive written evaluations from your supervisor.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. At least annually.	13	31%	5	29%
B. At least once every two years.	0	0%	2	12%
C. At least once every five years.	3	7%	1	6%
D. No evaluations or seldom.	26	62%	9	53%
	-----	-----	----	----
Total	42	100%	17	100%
	=====	=====	====	=====

4. Indicate how you feel about the present process of evaluating City employees.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very fair.	1	2%	0	0%
B. Fair.	10	24%	7	41%
C. Unfair.	6	15%	1	6%
D. Very unfair.	3	7%	2	12%
E. No evaluations are performed.	21	51%	7	41%
	----	----	----	----
Total	41	100%	17	100%
	=====	=====	=====	=====

5. Indicate which of the following best describes how you feel about your present salary.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very fair.	2	5%	1	6%
B. Fair.	24	56%	7	41%
C. Unfair.	14	33%	9	53%
D. Very unfair.	3	7%	0	0%
	----	----	----	----
Total	43	100%	17	100%
	=====	=====	=====	=====

6. Indicate which of the following best describes how you feel about your present benefits such as retirement, insurance, sick and annual leave, etc.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very fair.	23	53%	10	59%
B. Fair.	19	44%	7	41%
C. Unfair.	1	2%	0	0%
D. Very unfair.	0	0%	0	0%
	----	----	----	----
Total	43	100%	17	100%
	=====	=====	=====	=====

7. Indicate which of the following best describes how fairly wages are distributed among employees in your department.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very fair.	7	17%	4	24%
B. Fair.	21	50%	7	41%
C. Unfair.	13	31%	3	18%
D. Very unfair.	1	2%	3	18%
	----	----	----	----
Total	42	100%	17	100%
	=====	=====	=====	=====

8. Indicate which of the following best describes your feeling of how fairly the wages & benefits of employees in your department compare to wages & benefits of employees in other departments of the City.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very fair.	4	10%	1	6%
B. Fair.	19	45%	8	47%
C. Unfair.	18	43%	6	35%
D. Very unfair.	1	2%	2	12%
	----	----	----	----
Total	42	100%	17	100%
	=====	=====	=====	=====

9. Indicate which of the following best describes how you feel your current wages & benefits compare to your counterparts in cities of similar size in Montana.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very fair.	3	8%	1	7%
B. Fair.	21	54%	10	67%
C. Unfair.	13	33%	4	27%
D. Very unfair.	2	5%	0	0%
	----	----	----	----
Total	39	100%	15	100%
	=====	=====	=====	=====

10. Indicate which of the following best describes the complexity of your present job.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very high.	8	19%	6	35%
B. High.	21	49%	7	41%
C. Moderate.	12	28%	3	18%
D. Low.	1	2%	1	6%
E. Very Low.	1	2%	0	0%
	----	----	----	----
Total	43	100%	17	100%
	=====	=====	=====	=====

11. Indicate which of the following best describes the education required to do your current job.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Less than High School.	1	2%	0	0%
B. High School.	23	56%	2	12%
C. Two Years College.	12	29%	6	38%
D. Bachelors Degree.	4	10%	5	31%
E. Graduate Degree.	1	2%	3	19%
	----	----	----	----
Total	43	100%	17	100%
	=====	=====	=====	=====

12. Indicate which of the following best describes the amount of independence you have in your present job.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very high.	8	19%	7	41%
B. High.	18	42%	4	24%
C. Moderate.	16	37%	6	35%
D. Low.	1	2%	0	0%
E. Very Low.	0	0%	0	0%
	----	----	----	----
Total	43	100%	17	100%
	=====	=====	=====	=====

13. Rank the following factors 1 through 5 in order of their importance to you (1 being most important and 5 being least important). RANK ALL FIVE ITEMS.

	<u>Employee Ranking</u>	<u>Management Ranking</u>
A. Opportunity for advancement	4	5
B. Appreciation by supervisor	5	4
C. Pay	2	2
D. Job security	1	3
E. Interest of the job itself	3	1

14. Indicate which of the following best reflects your level of trust in management (your supervisor and above).

	<u>Employees</u>		<u>Management</u>	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very high.	1	2%	4	24%
B. High.	13	31%	5	29%
C. Moderate.	16	38%	4	24%
D. Low.	7	17%	4	24%
E. Very Low.	5	12%	0	0%
	-----	-----	---	----
Total	42	100%	17	100%
	=====	=====	===	=====

15. Are you currently covered by a collective bargaining unit agreement?

	<u>Employees</u>		<u>Management</u>	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
Yes	23	53%	0	0%
No	18	42%	17	100%
Don't know	2	5%	0	0%
	-----	-----	---	----
Total	43	100%	17	100%
	=====	=====	===	=====

16. Indicate which of the following best describes the current level of effort you are putting into your job.

	<u>Employees</u>		<u>Management</u>	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Very high.	12	28%	8	47%
B. High.	19	44%	6	35%
C. Moderate.	10	23%	3	18%
D. Low.	2	5%	0	0%
E. Very Low.	0	0%	0	0%
	-----	-----	---	----
Total	43	100%	17	100%
	=====	=====	===	=====

THE FOLLOWING QUESTIONS ARE DESIGNED TO SURVEY YOUR OPINION ON HOW THE CITY SHOULD DESIGN AND ADMINISTER ITS COMPENSATION PROGRAM. ONCE AGAIN, YOU CAN BE ASSURED NO INDIVIDUAL RESPONSES WILL BE REPORTED.

17. Should annual cost of living increases be a part of an overall compensation package for city employees?

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
Yes	42	98%	14	82%
No	1	2%	2	12%
Don't know	0	0%	1	6%
	----	----	---	----
Total	43	100%	17	100%
	=====	=====	====	=====

18. Should longevity (seniority) increases be a part of an overall compensation package for City employees?

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
Yes	34	79%	13	76%
No	6	14%	3	18%
Don't know	3	7%	1	6%
	----	----	---	----
Total	43	100%	17	100%
	=====	=====	====	=====

19. Which of the following statements most nearly describes your opinion on what the City's philosophy should be with respect to wage and salary administration?

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Pay City employees as little as possible.	2	5%	0	0%
B. Pay the average salary and wages of Cities of similar size.	2	5%	0	0%
C. Pay enough to attract and retain qualified City employees.	21	51%	7	50%
D. Pay a fair and equitable wage to all City employees.	13	32%	6	43%
E. Pay wages comparable to both public and private organizations.	3	7%	1	7%
	----	----	---	----
Total	41	100%	14	100%
	=====	=====	====	=====

20. Assuming there is dissatisfaction with the present compensation levels, which of the following approaches should City management take.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Grant additional salary increases to all employees.	7	17%	0	0%
B. Give department heads control over who should receive a salary increase.	3	7%	1	7%
C. Establish a salary schedule and inform employees what compensation policy they can expect in the future.	23	56%	12	80%
D. Other. (Briefly describe)	8	20%	2	13%
	----	----	---	----
Total	41	100%	15	100%
	====	====	===	====

21. Knowing that salaries and wages are dependent upon taxes, and considering the current "Taxpayer revolt", how should the City begin to improve present problems with salaries and wages of City employees?

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Cut some City employees and give raises to those that remain.	4	10%	1	6%
B. Ignore the taxpayer, increase taxes, and give raises to all employees.	2	5%	0	0%
C. Hold back on salary increases.	0	0%	0	0%
D. Establish a long-range and predictable pay structure, which lets employees know what they can expect in the future.	34	85%	15	94%
	----	----	---	----
Total	40	100%	16	100%
	====	====	===	====

22. Rank all the following pay plans 1 through 4 indicating which you feel would be the most desirable for the City of Bozeman. (1 being the most desirable and 4 being the least desirable) RANK ALL FOUR.

	<u>Employees</u> <u>Ranking</u>	<u>Management</u> <u>Ranking</u>
A. Merit based system	3	2
B. Across the board increases	2	3
C. Pay based on seniority	4	4
D. Predictable pay plan and salary schedule with compensation guidelines.	1	1

23. Indicate which of the following best reflects how easily your performance can be measured, taking into consideration the type of duties you perform.

	<u>Employees</u>		<u>Management</u>	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. The duties I perform can easily be evaluated and rated in comparison to my co-workers.	16	39%	4	24%
B. The duties I perform cannot be easily evaluated and rated in comparison to my co-workers.	25	61%	13	76%
Total	==== 41	==== 100%	==== 17	==== 100%

MERIT PAY IS PAY BASED UPON PERFORMANCE. IF EMPLOYEES PERFORM WELL, THEY COULD RECEIVE PAY INCREASES, IF THEY DON'T, THEY MAY RECIEVE NO INCREASE.

24. Based on this definition of merit pay, circle all of the following problems which you feel could result from adopting merit pay in the City of Bozeman.

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. Complaints by employees that the raises are arbitrary.	29	67%	14	82%
B. Problems in establishing objective criteria for evaluating employees and awarding merit pay.	28	65%	13	76%
C. Problems in administering merit pay fairly and equitably among the various departments or divisions.	34	79%	14	82%
D. Creation of unnecessary problems among employees.	32	74%	11	65%
E. Difficulty on the part of supervisors to objectively rate, evaluate, and administer merit pay.	35	81%	12	71%

25. Indicate which of the following best describes your attitude concerning merit pay (tying pay to performance).

	Employees		Management	
	<u>No.</u>	<u>Pct</u>	<u>No.</u>	<u>Pct</u>
A. I fully support tying pay to performance.	9	21%	6	35%
B. I feel this approach could cause problems in the department or division.	16	37%	8	47%
C. I am concerned that my supervisor could not objectively measure and rate performance among employees.	15	35%	2	12%
D. Don't know.	3	7%	1	6%
	----	----	---	----
Total	43	100%	17	100%
	====	====	===	====

COMMUNICATION:

26. Indicate which of the following best describes your feelings concerning communication between management and employees.

	Employees		Management	
	No.	Pct	No.	Pct
A. There is good communication between management and employees.	6	14%	5	29%
B. Communication between management & employees needs to be improved.	36	86%	12	71%
	----	----	---	----
Total	42	100%	17	100%
	====	====	===	====

27. Circle all of the following actions you feel could improve communication between management and employees.

	Employees		Management	
	No.	Pct	No.	Pct
A. Regular meetings with employees and management.	27	63%	14	82%
B. Informal visits by management.	24	56%	12	71%
C. Formal visits by management.	5	12%	4	24%
D. Newsletter.	10	23%	5	29%
E. Other. (Briefly explain)	4	9%	2	12%

CLASSIFICATION SYSTEM:

28. Indicate which of the following best describes your involvement with the classification and pay plan study that was done in 1984 and 1985 for the City of Bozeman.

	Employees		Management	
	No.	Pct	No.	Pct
A. I provided information on my job duties which was used in the classification system but had no further knowledge.	28	67%	8	50%
B. I provided information on my job duties which was used in the classification system and I was aware of the purpose of the classification study and what the intended outcome would be.	7	17%	4	25%
C. I had no involvement.	7	17%	4	25%
	----	----	---	----
Total	42	100%	16	100%
	====	====	===	====

29. If the City implemented a classification and pay plan, indicate how you feel your pay would be affected.

	Employees		Management	
	No.	Pct	No.	Pct
A. Substantial increase in salary and wages.	14	35%	5	31%
B. Slight increase in salary and wages.	11	28%	3	19%
C. No change in salary and wages.	4	10%	2	12%
D. Reduction in salary and wages.	1	3%	0	0%
E. Don't know.	10	25%	6	38%
	----	----	---	----
Total	40	100%	16	100%
	====	====	===	====

30. Indicate how frequently you give written evaluations to employees who work for you.

	Management	
	No.	Pct
A. At least annually.	8	47%
B. At least once every two years.	1	6%
C. At least once every five years.	0	0%
D. No evaluations or seldom.	8	47%
	---	----
	17	100%
	===	====

31. Rank the following factors 1 through 5 in order of their importance to employees who work for you (1 being most important and 5 being least important). RANK ALL FIVE ITEMS.

	Management Ranking
A. Opportunity for advancement	4
B. Appreciation by management	5
C. Pay	1
D. Job security	3
E. Interest of the job itself	2

32. Indicate which of the following best reflects how easily you could measure performance of your employees taking into consideration the type of duties they perform.

	Management	
	<u>No.</u>	<u>Pct</u>
A. The duties they perform could easily be evaluated and rated in comparison to their co-workers.	10	67%
B. The duties they perform could not be easily evaluated and rated in comparison to their co-workers.	5	33%
	---	----
	15	100%
	===	====

33. Indicate which of the following best reflects your attitude concerning merit pay for employees under your supervision.

	Management	
	<u>No.</u>	<u>Pct</u>
A. I fully support merit pay, I could objectively evaluate employees and administer wage increases, and the advantages of instituting merit pay would exceed the disadvantages.	6	35%
B. I accept the concept of merit pay, but it would be extremely difficult to objectively evaluate and compare the various workers under my supervision.	6	35%
C. Merit pay would cause more problems than it is worth.	5	29%
D. Other. (Explain).	0	0%
	---	----
	17	100%
	===	====

34. Should the administration have the ability to grant additional salary increases for outstanding employee performance?

	Management	
	<u>No.</u>	<u>Pct</u>
Yes	12	71%
No	5	29%
	---	----
	17	100%
	===	====

35. If the City implemented a classification and pay plan, indicate how you feel pay of the employees who work for you would be affected.

	Management	
	<u>No.</u>	<u>Pct</u>
A. Substantial increase in salary and wages.	2	12%
B. Slight increase in salary and wages.	9	53%
C. No change in salary and wages.	2	12%
D. Reduction in salary and wages.	0	0%
E. Don't know.	4	24%
	---	----
	17	100%
	===	=====

EMPLOYEE TURNOVER:

36. Do you fee there is unnecessary / unwanted employee turnover in your department?

	Management	
	<u>No.</u>	<u>Pct</u>
Yes	3	18%
No	14	82%
Don't know.	0	0%
	---	----
	17	100%
	===	=====

37. Indicate which of the following best describes the level of turnover you have had in your department over the last three years?

	Management	
	<u>No.</u>	<u>Pct</u>
A. Verh high.	2	12%
B. High.	2	12%
C. Moderate.	1	6%
D. Low.	4	24%
E. Very low.	8	47%
	---	----
	17	100%
	===	=====

38. Rank all of the following factors in respect to the degree of influence each has had in causing employee turnover in your department. (1 being most important and 4 being least important). RANK ALL FOUR.

	<u>Management Ranking</u>
A. Low morale	3
B. Lack of advancement	2
C. Low pay	1
D. Poor working conditions	5
E. Job security	4

EMPLOYEE PROMOTIONS:

39. Does the City have adequate guidelines reflecting the criteria and philosophy for employee promotions?

	<u>Management No.</u>	<u>Pct</u>
Yes	2	12%
No	12	71%
Don't know	3	18%
	---	----
	17	100%
	===	=====

RECRUITING:

40. Do you have recruiting problems in your department due to the present pay rates of the City?

	<u>Management No.</u>	<u>Pct</u>
Yes	1	6%
No	12	71%
Don't know	4	24%
	---	----
	17	100%
	===	=====

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