2024 NASPEs AWARD

Eugene H. Rooney, Jr. Award Nomination
Innovative State Human Resource Management Program

PROGRAM INFORMATION

Program Title: Compensation Modernization

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Program Summary:

Tennessee State Government must attract and retain best-in-class talent to achieve its goal of effective and efficient operations. With the disruption of COVID-19 and its negative impact on the labor market, it became increasingly difficult for the state to compete for labor. The state transformed its compensation philosophy to successfully compete for high-performing talent in a dynamic/disrupted labor market. Specifically, the new approach was to provide *market-competitive* wages (rather than below-market) while maintaining above-market benefits.

In a revolutionary operational and cultural shift, the initiative provided a sustainable strategy for the state's long-term competitiveness in the labor market. The pay structure was modernized, jobs were benchmarked to market, then placed into the modernized structure, and employees' pay was adjusted accordingly. Rather than across-the-board increases, pay changes were based on individual employee factors (e.g., range penetration, proficiency, performance, supervisory compression). Pay increases were significant for many employees. Remarkable collaboration and support of executive and legislative stakeholders provided the necessary funding. Proficiency is now the critical component for wage decisions. Performance to goals is reinforced as the crucial component for annual increases.

This profound change in compensation philosophy significantly improved key measures, including applicant quantity, quality, and employee turnover. Current employees have expressed heartfelt appreciation for the changes. Former high-performing employees have returned, citing more competitive pay as a key reason. Likewise, recent new employees report that the modernized pay structure removed barriers that previously hindered them from joining state service.

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Program Description:

Tennessee State Government transformed its compensation philosophy to successfully compete for high-performing talent in a dynamic/disrupted labor market. The new objective was to provide market-competitive compensation while maintaining above-market benefits. After an in-depth analysis, the state modernized its salary structure. After benchmarking and slotting jobs into the structure, employees' wages were increased to at least +1% into the new pay ranges. Further adjustments mitigated compression between supervisors and subordinates. This profound change in compensation philosophy significantly improved key recruitment and retention measures.

How long has the program been operational (month and year)?

The program was implemented between November 2022 and January 2023.

Why was the program created?

Through a modern salary structure that pays employees more competitively to market, the objectives were to increase the quantity and quality of recruits, reduce turnover, and more effectively retain high-performing employees. These objectives became even more urgent as the disruption of COVID-19 made it increasingly difficult for the state to compete for labor. An enterprise-wide employee engagement survey confirmed the importance of modernizing wages: scarcely more than half of employees felt 'satisfied with my total compensation for the work I do.'

Why is the program a new and creative method?

Transforming the state's compensation philosophy toward market-competitive compensation is a revolutionary operational and cultural shift in managing employee pay. In other words, it was not a one-time, across-the-board pay increase that perpetuated an untenable legacy approach. Instead, the initiative provided a sustainable strategy for the ongoing modernization of the state's salary structure and for long-term competitiveness in the labor market.

Novel aspects of the approach include:

- Employees have better opportunities to increase their pay based on technical expertise without being 'forced' into supervisory positions while lacking the requisite leadership ability.
- An employee's wage is not capped by their supervisor's wage. An experienced, long-tenured subject matter expert can be paid more than their less experienced (or less role-proficient) supervisor.
- Normalizing the potential use of a full salary range based on proficiency, rather than defaulting toward the range minimum, can have significant implications for annual budgeting and planning.
- Hiring managers and HR staff (centralized and decentralized) require increased skill and ethics as they make and validate proficiency-based wage recommendations.

What were the program's startup costs?

The total startup cost approached $115MM, primarily for employee wage increases. Less than $2MM provided critical consulting and project management services.

What are the program's operational costs?

Several steps are necessary to maintain the salary structure and avoid it becoming obsolete:

- Annual aging of the salary structure by 1%- 3% is common, as indexed to historical inflation rates. Funding allocated for annual performance increases will be incorporated into the planning process.
- As the structure is aged, pay will be raised for employees below the new range minimums.
- An enhanced compensation tool and current market data will cost ~$111,000 annually.
- We will increase the frequency of full-scale benchmarking and market studies. However, we intend to build the internal capacity/skills needed to perform this work.

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How is this program funded?

Budgeted funds were allocated specifically to increase employee pay.

Did this program originate in your state? Yes: ☒ No: ☐

Are you aware of similar programs in other states? Yes: ☐ No: ☒

If yes, how does this program differ?

We are unaware of other initiatives with this combination of novel features described above.

How do you measure success of the program?

YOY ('22:'23) pre-post metrics and impact:

- Reduced turnover by 22%, resulting in fewer vacancies
- Increased overall applicant volume by 56%, indicating improved market competitiveness
- Increased unique applicants by 62%, indicating a broader applicant pool (i.e., not just the same people applying to multiple jobs)
- Increased quality of applicants, as evidenced by 32% fewer 'cancellations' of job postings (These typically occur when a job posting fails to yield satisfactorily qualified applicants.)
- Increased applicants-to-job posting ratio by 120%, indicating improved market competitiveness
- Reduced retirements by 25%, extended opportunity for a strategic succession planning initiative
- Using SHRM methodology, the cost avoidance associated with the observed YOY turnover reduction in the first year was ~$34.3MM. So, conservatively, the initiative will 'break even' in 3.4 years. Considering the former trend of increasing turnover, actual break-even is expected even sooner.

Anecdotal impact:

- Numerous current employees expressed gratitude that the pay changes enabled them to achieve previously out-of-reach goals, including sending a child to university, buying a home instead of renting, and no longer needing a second job to make ends meet.
- Recent new employees said lower wages previously prevented them from considering state employment and that the recent wage changes were key to their decision to join the state.
- Some high-performing former employees have since returned to the state, saying, 'I wish I'd never left so I wouldn't have missed out on the increases when they occurred.'
- Multiple executive and HR leaders across the state affirm that the significant increase in the quality of applicants has led to the successful onboarding of high performers into specialized positions.

How has the program grown and/or changed since its inception?

In 2024, the state further moved employees toward market-competitive wages within the modernized structure, considering their proficiency level. Supervisors completed an initial proficiency assessment for each direct report using a three-level scale. Agency leadership and the state's central Department of Human Resources (DOHR) then validated and approved the scores submitted by supervisors.

Salary adjustments were individually determined using an approach consistently applied across the enterprise. Consideration was given to individuals' placement within the salary range, proficiency level, and historical performance rating. Additional consideration was given to mitigate supervisory compression. Each individual's unique combination of these factors determined wage adjustments. As a result, each wage adjustment was unique to the individual employee. Also, for future pay-related decisions (e.g., promotional and new hires), the state has established a standardized framework for incorporating proficiency into wage assessments.

We expect this further effort to yield further measurable gains like those realized in the prior year.