Problems in the Pay System

Scenario

Denise Nance is the director of the Computer Center/User Assistance (CCUA) department of a large manufacturing company in the rural Southeast. Last year's revenue was $23.5 million. Profit was in line with expectations.

Recently, a serious problem has developed in her division. A growing percentage of her employees have left the company in the past year, which has affected unit productivity and costs. While turnover in her department has always been a problem, things appear to have gotten out of hand. Until now, turnover had run around 20 percent per year for lower division staff personnel and 15 percent per year for middle division employees.

However, in the past 3 months, CCUA has lost five data processors (50 percent of the total) and six (75 percent) computer analysts. Previously, Ms. Nance had no policy regarding exit interviews or turnover control, but informal discussions with the individuals who have left have led to the hypothesis that many employees leave because they feel they are underpaid.

To complicate matters, Ms. Nance's supervisor, Julie Linquist, the vice president in charge of technical services, is becoming increasingly concerned about the costs associated with the human resource function at CCUA. Exhibit 10.1.1 presents a recent memo from Ms. Linquist to Ms. Nance concerning the problem.

Following Ms. Linquist's orders, Ms. Nance conducted phone interviews with 12 former employees (the only ones available) and distributed questionnaires to her current workforce.

The survey results indicated a number of interesting findings, which are summarized in Exhibit 10.1.2. The dominant reason for individuals leaving CCUA was pay. The current workforce also indicated strong dissatisfaction with current pay levels. Although the survey was not limited to data processing IIs and computer analyst Is, both Ms. Nance and Ms. Linquist believe that these two positions are of particular concern. Responses from both current and past employees from both job classifications were similar to those of the entire sample.

The data processor II position currently carries a salary range of $11.00 to $12.70 per hour. The average actual pay of the seven incumbents is $12 per hour ($24,960 per year based on their 40-hour workweek). In addition, employees receive 40 hours of paid leave for the first year with an increase of 5 hours every 1,000 hours of service. Health insurance plus basic life insurance is provided by the company at a cost of $950 per year per employee. CCUA usually employs 10 DP IIs, but the current level is only 7.

The computer analyst I position currently carries a salary range of $25,500 to $32,500. The average actual salary paid to the eight incumbents is $31,500. Paid leave for CA IIs is 9 days for the first year of service, increasing by 2 days for every following year with a limit of 21 days of paid leave. Health and life insurance coverage costs the company $950 per year per employee.

Recruitment costs average $450 for each data processor IIs and $850 for computer analyst Is. Costs are low for the DP IIs because they have been obtained, primarily, from the local marketplace. Entry-level individuals are hired 75 percent of the time, and the organization spends considerable resources to train them. By contrast, the computer analysts are recruited from the regional market. Prime candidates typically possess either considerable experience in a similar position or a college degree in information systems management with light, but related, part-time (or summer) work experience.

Ms. Nance budgets $255,490 for data processing IIs and $293,984 for computer analysts. The company is in the sixth month of its fiscal year. During this fiscal year, the CCUA department has been using a 3.5 percent salary increase budget to reward its performers and to keep pace with the marketplace.

Ms. Nance obtained a pay survey conducted by Decision Sciences, Inc., a reputable information-systems consulting firm. The data are depicted in Exhibit 10.1.3. A compensation analyst at DSI has suggested that, based on the verbal descriptions provided by Ms. Nance, the data processor II position would probably most closely match the survey's "data processor" position, while CCUA's computer analyst I job is most comparable with the survey's "junior analyst and programmer" position.

Exhibit 10.1.1

To: Denise Nance, Director of CCUA
From: Julie Linquist, Vice President Technical Services
Re: Personnel Problems

I don't know what's going on down there but Jon Anderson of placement services just informed me that you requested another listing for a data processing person and another computer analyst. According to my records, that's the fifth DP person and the sixth computer analyst you have lost this year! It costs a lot of money to hire new people. This is obviously not the pattern that I want to see from your department. I want you to investigate this immediately.

I want you to contact the individuals who you lost and find out why they left. I also want you to talk to the employees who are still there and find out what, if anything, could potentially be causing the problem. Let's get this problem cleared up now.

Exhibit 10.1.2 **Survey Results**
All items scaled 1 (dissatisfied) to 5 (satisfied)

Current Employees	Mean	SD
Supervision	3.9	1.6
Working conditions	4.1	1.8
Task characteristics	3.0	2.1
Pay	1.0	0.5
Benefits	1.1	1.1
Work hours	3.1	.9
Physical conditions	4.6	1.5
General satisfaction	2.1	0.7

Employees Who Left	Mean	SD
Supervision	4.1	1.5
Working conditions	3.6	1.7
Task characteristics	3.7	2.0
Pay	1.2	1.1
Benefits	1.5	0.6
Work hours	3.0	2.0
Physical conditions	4.3	0.5
General satisfaction	1.8	1.2

Reasons for leaving:	
Not enough money	83.3%
Spouse left area	8.3%
Child care problems	8.3%

Exhibit 10.1.3 Excerpt From Decision Sciences

	Title	Average Weighted Salary	Mfg/ Consumer	Mfg/ Industrial	Banking	Other Financial Services	DP Services	Wholesale Distribution
	IS Management							
1	CIO/VP	106,864	128,611	100,741	124,318	109,130	157,500	130,000
2	Manager/supervisor End-User Support	65,811	83,333	74,821	76,500	67,143	60,000	57,143
3	Manager end-user computing	56,808	74,167	62,667	57,500	58,500	55,000	48,750
4	Information center manager	54,346	56,667	60,833	56,818	53,500	63,333	49,000
5	PC specialist support	38,058	40,000	48,077	39,211	36,250	37,000	38,636
6	LAN manager	45,880	55,000	52,857	46,000	46,000	52,000	52,000
7	WP supervisor	36,538	55,000	42,500	32,600	34,000	40,000	34,000
	Systems Analysis/Programming							
8	**Manager**	65,357	83,182	63,913	68,611	64,286	66,364	72,000
9	Senior systems analyst and programmer	50,345	50,714	53,333	52,143	51,471	56,250	52,000
10	Systems analyst and programmer	43,220	44,000	43,462	45,250	42,647	48,750	60,455
11	Intermediate analyst and programmer	37,517	40,000	38,571	37,750	38,000	38,125	40,000
12	Junior analyst and programmer	35,156	33,750	40,714	35,000	32,143	37,500	32,875
13	**Application/Operating Systems Programming Manager**	64,481	79,000	67,667	68,529	71,765	68,750	66,667
14	Senior applications/operating sys. prog.	52,434	55,000	55,938	52,353	56,000	55,000	53,125
15	Applications/operating sys. prog.	44,419	48,571	46,250	46,176	46,563	46,429	40,000
16	Intermediate applications/operating sys. prog.	37,150	42,500	40,000	35,000	38,636	35,000	37,500
17	Junior applications/operating sys. prog.	29,709	30,000	32,500	29,615	30,455	30,000	28,750
	Data Com/Telecom/Connectivity							
18	Network manager (LAN-WAN)	57,546	63,750	59,643	59,643	72,500	57,222	58,333
19	Telecommunications manager	57,136	58,750	66,111	59,231	67,500	63,125	60,000
20	Communications specialist	42,276	37,000	43,000	41,667	46,818	40,000	43,750
21	Database manager/administrator	61,077	71,000	60,500	64,643	70,385	52,500	62,000
22	Database analyst	48,194	52,000	55,000	46,000	51,250	42,500	47,500
23	Microcomputer/workstation manager	44,500	35,000	55,000	46,818	43,750	47,500	43,750
24	Data processor	27,500	26,000	29,000	28,000	26,500	26,000	27,000

Exhibit 10.1.3 (*Continued*)

	Government	Medical/ Legal	Trans./ Utilities	Education	Construction/ Mining	Average Salary by Company Revenue ($ Million) Other	Less than $200	$200– $499	$500– $4,999	$5,000– $19,999	$20,000+
1	71,731	64,500	114,167	103,571	76,667	101,600	82,292	84,697	104,844	128,780	129,700
2	51,739	42,500	66,667	51,250	52,000	65,104	50,204	61,094	68,534	75,811	73,269
3	53,750	—	63,462	49,000	43,750	54,310	47,200	46,667	58,871	62,593	60,857
4	47,500	40,000	61,364	46,000	—	51,500	43,529	46,250	56,957	60,741	56,071
5	30,455	27,143	41,071	31,429	30,000	38,250	36,053	31,600	39,405	40,429	40,833
6	42,500	40,000	44,500	34,000	40,000	45,833	42,368	46,667	48,519	46,250	46,172
7	36,667	40,000	40,000	25,000	25,000	38,846	32,500	40,000	36,667	38,235	37,000
8	55,294	40,000	67,105	50,000	62,500	65,814	58,958	53,421	65,288	71,216	68,261
9	45,926	40,000	52,750	40,000	46,000	49,375	46,935	46,250	49,500	53,784	52,843
10	38,571	35,000	42,727	32,500	40,000	41,667	45,000	39,464	42,750	43,663	44,692
11	31,316	25,000	39,000	32,500	40,000	38,448	35,000	38,333	38,256	36,250	38,500
12	32,500	30,000	40,313	30,000	30,000	33,913	37,500	36,000	33,529	33,750	36,667
13	53,333	47,500	66,875	47,500	62,500	62,027	51,667	51,250	66,395	70,789	68,889
14	47,105	—	56,875	45,000	47,500	50,286	43,947	46,667	52,391	55,429	57,206
15	37,500	40,000	47,000	36,000	55,000	43,500	41,500	37,273	44,390	45,571	46,562
16	33,571	—	38,846	32,500	—	36,250	40,000	30,455	38,448	35,556	39,444
17	23,125	—	37,273	25,000	26,000	26,875	30,000	26,875	30,192	29,038	31,176
18	49,231	47,500	68,750	40,000	55,000	60,000	46,154	61,667	54,630	80,000	64,500
19	46,429	—	54,231	43,750	55,000	55,556	41,538	48,333	57,000	82,258	61,852
20	36,786	—	49,000	36,250	55,000	41,071	39,000	33,182	39,189	45,825	47,857
21	51,786	—	69,000	55,033	70,000	55,962	47,778	51,364	60,000	66,818	66,765
22	42,143	—	50,000	40,000	55,000	46,136	46,000	46,429	46,207	48,500	50,781
23	43,000	40,000	47,600	40,000	—	38,848	35,714	43,750	45,000	44,412	47,941
24	25,000	28,000	25,500	25,000	—	28,000	25,000	27,000	28,000	28,500	29,000

Questions:

1. Are the CCUA department's current pay practices concerning data processor iis and Computer Analyst I externally equitable (e.g., competitive)?

2. What specific action(s), if any, do you recommend be taken now? Be specific and justify your recommendation.

3. What specific strategy or strategies do you recommend for the future so that these types of problems can be anticipated and avoided?