

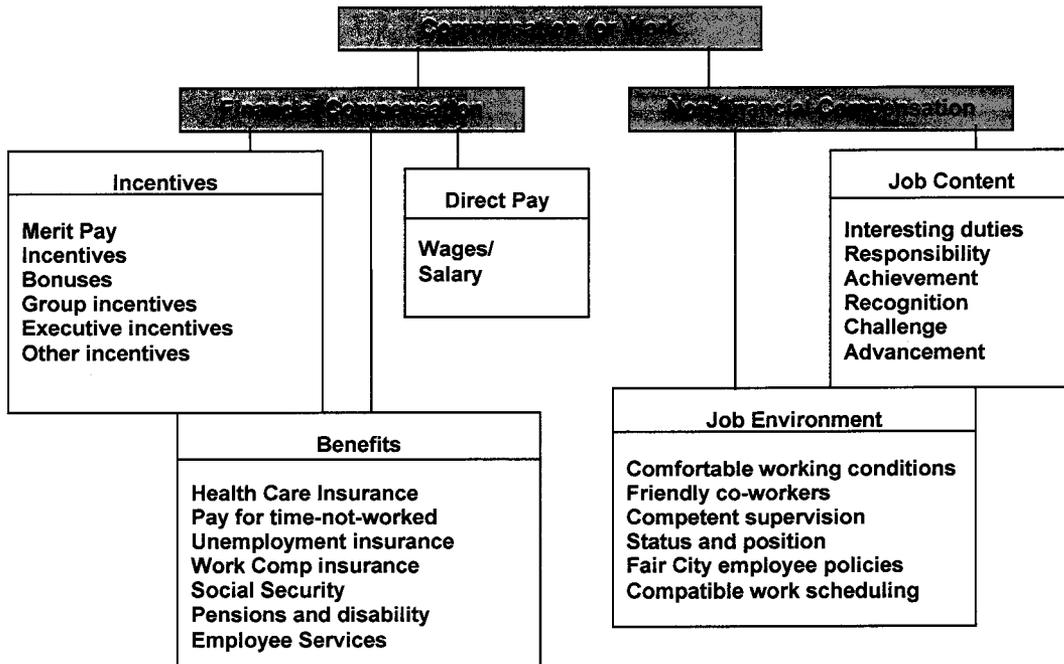
City of Minneapolis Compensation Philosophy Development

Total Compensation Philosophy Defined

What is a compensation philosophy? An organization's compensation philosophy serves as a summary of beliefs regarding work expectations and compensation that are given in exchange for that work. Both the expectations for work performance and approach to compensation can be quite varied among individuals based on their own personal experiences, information that is available to them, and their core personal values and beliefs. There may be as many different individual compensation philosophies in Minneapolis City government as there are hiring managers and elected officials, since all are unique persons. There are certain reasons for developing an organization compensation philosophy. The most significant reasons are to make consistent and defensible decisions regarding:

- *Attracting employees;*
- *Retaining employees;*
- *Motivating employees to expected levels of performance;*
- *Managing performance;*
- *Achieving compliance with statutes and rules;*
- *Addressing constituent concerns as they may relate to the work performance/compensation equation;*
- *And the ability to compensation.*

What elements of compensation for work are included in a compensation philosophy? The following chart shows examples of the elements of total compensation.



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Project Objectives

The specific objectives of the project include the following:

- To clarify what total compensation in the employment relationship means in the City of Minneapolis;
- Define what end-goals the City of Minneapolis wants to accomplish via its total compensation practices;
- To identify and assess compensation best-practices in the public and private sectors and to learn about some of the theories and practices that will best serve to align the city's total compensation philosophy and practices with City goals – specific examples include:
 - If and when to use compensation for performance?
 - What is a best approach to compensation for service time?
 - What benefits are offered and how are costs shared?
 - What is the best way to approach compensation for time not worked?
- To clarify at what level(s) in the market the city wishes to compete for human resources. Questions would include:
 - How does the City of Minneapolis define the employment market(s) for various occupations?
 - Where does the City of Minneapolis want to be positioned in the market relative to other employers?
- To identify which total compensation elements currently in place, or prospective, are valued by city employees and the relative strength and importance of that value;
- To identify legal issues and establish procedures to maintain legal compliance regarding total compensation;
- To communicate the values of the City regarding total compensation to employees, prospective employees and others as needed to accomplish the following:
 - Attract
 - Retain
 - Motivate
 - Manage Performance

Limitations of the project: The following are not included:

- Appointed positions
- Independent board and agency positions
- Specific labor negotiations/strategies
- Implementation of a compensation philosophy
- Classification system analysis or changes

Longevity of the Total Compensation Philosophy

The current Mayor and Council can not bind future elected officials with respect to policy matters such as a total compensation philosophy. However, the creation of a philosophy serves to document an approach that is presumed to be based on sound reasoning at the time it is established. In the future, an active effort and similar sound

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reasons may create a change. Meanwhile, the document provides staff and management with a framework for administration that is consistent, equitable and in line with consensus values and objectives.

Work Plan

The following is a proposed work plan to develop a formal compensation philosophy for non-appointed jobs in the City. The intent of a formal compensation policy is to express the collective values of the organization relating to total compensation in a manner that informs strategic and tactical decisions going forward. The total compensation philosophy provides an overarching framework to guide future strategic and administrative compensation initiatives.

Step 1 – Conduct a work session with the Mayor and City Council to explore the beliefs and values held by decision makers regarding total compensation. The objectives of the session are to: a) explore the meaning of a total compensation philosophy, b) understand the various components of compensation, c) obtain direction for further staff research in specific areas of interest in preparation for a second work session. The first session is expected to require 2.5 to 3.0 hours, depending on the amount of discussion. The session will include the following:

- Introduction of total compensation and total compensation philosophy, including examples of total compensation philosophy statements used by others;
- Exploration of provocative topics designed to elicit responses that reflect individual and group values, organization culture and needs for further research and development of information; the topics will be introduced by a discussion facilitator and discussions will be a combination of small group table discussions and whole group discussions; note takers will assist in capturing comments at each of three tables; topics will include,
 - The City's goal of attracting a qualified and diverse work force;
 - Opinions of the relative importance of compensation as a motivator or de-motivator;
 - Compensation for performance (willingness to differentiate compensation based on relative performance);
 - Compensation for service time (both direct compensation and benefits);
 - Compensation for skills and knowledge development;
 - Retention and turnover;
 - Definition of market;
 - Relative market position desired;
 - The importance of paid-time-off;
 - Benefit levels, cost sharing, and MN Statute limitations;
 - Non-monetary compensation;
 - Recognition/compensation limits under MN Statute.

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- Social concerns such as “living wage” and an income safety net;
- Political considerations such as voter attitudes toward public compensation and service levels and/or relationships with bargaining units;
- Ability to pay.

Prior to the session, participants will receive information related to various compensation components and key questions in order for them to effectively and efficiently participate.

- The facilitator will share compensation information at a high level. Information will be introduced at appropriate times in order to avoid undue influence on expression of opinions; topics will include,
 - Behavioral science studies relating to motivation and worker retention;
 - Pros and Cons of direct pay systems such as step pay, merit pay, combination step and merit pay and variable performance bonuses;
 - Relationships among various components and desired outcomes
 - Approaches used in benefit design and delivery;
 - Approaches used in paid-time-off;
 - Approaches used in non-cash compensation;
 - Pay equity and other compliance issues.
- Obtain direction for more detailed staff research into specific areas of interest to be presented in summary reports prior to a second session;

Follow-up discussions will be offered to individual decision makers who after the work session express a need to have clarification of topics discussed.

Step 1 includes subsequent staff research into areas of interest and preparation of reports. Human Resources will research concepts identified for further study and prepare an executive summary of the pros and cons of each for the benefit of decision makers. Human Resources will consolidate all of the information gathered and present it to elected officials for consideration in development of a total compensation philosophy. Sources of human resource information gathering may include the experiences of other public and private employers, scholarly writings and academic expert opinion, the opinion of employees and labor organizations and legal opinions. This portion of the process is anticipated to require five weeks. Employers Association consultants will assist Human Resources staff with research, input gathering and preparation of reports. All reports will be delivered to the Mayor and Council at least three business days prior to a second session.

- After the completion of this Step and prior to the beginning of Step 2, staff will conduct focus groups to obtain the values and opinions of various other stake holders. Staff will conduct focus groups with department heads and directors, with exclusive representatives of the 23 bargaining units, and with groups of employees. It is anticipated that six (6) sessions will be held: one

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session, two groups, for department heads and directors; one session, one or two groups depending on interest for bargaining unit representatives and/or presidents; two sessions, five groups each, for randomly selected employees.

Step 2 – Open discussion with the Mayor and Council as a means of building consensus and providing input that will inform human resource staff so that they can prepare a draft philosophy statement(s). The focus of this step is on gathering conceptual agreement input from decision makers who have been informed by the first session and subsequent research reports and feedback. The session will provide opportunities for developing statements for inclusion in development of a draft total compensation philosophy statement.

Using information gathered during the first session and subsequent feedback, staff will present a menu of possible statements in order to spur discussion. At this stage decision makers may also want to propose additional directives for consideration in crafting a draft compensation philosophy.

It is anticipated that the second session will require 2.0 to 3.0 hours depending on discussion.

Following the second session, human resources will draft a total compensation philosophy statement(s). The draft may contain alternative language if there is a question about consensus. A draft will be circulated to decision makers at least five business days in advance of step three.

Step 3 – Review a draft of a consensus total compensation philosophy and provide human resources with a direction to prepare a final recommended philosophy statement. It is anticipated that the third work session will require 1.0 to 1.5 hours, depending on discussion.

Step 4 – (Optional) Proceed with the normal process of moving the final version of the total compensation through Committee, City Council and Mayor approval.