SENATE FINANCE & CLAIMS
Exhibit No. 6
Date 2-3-11
Bill No. SB 129

Testimony in Opposition of Senate Bill 129

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Before the Senate Finance and Claims Committee
February 3, 2011

We have several concerns with SB 129, chief among them are the damage an arbitrary wage cap will cause to the state's compensation system and the inevitable effect that wage cap will have on our ability to recruit and retain top-quality managers.

The State Human Resources Division is charged with maintaining the broadband classification and pay system for the executive branch. Like most businesses, our broadband system relies on both internal and external considerations. Internally, we classify jobs in one of nine pay bands to build a hierarchy. Lower-skilled jobs are classified in the lower bands; jobs that are more complex and require higher-level skills are classified in higher bands. From there, we measure jobs' external values. We conduct biennial salary surveys to provide an external reference for agencies. Using that data, we recommend competitive pay zones under which our agencies can reasonably expect to compete for workers within the prevailing labor market.

An artificial cap – like the one contained in SB 129 – is a death blow to both our internal and external measures. First, it has no relationship to the prevailing labor market. Second, to maintain internal equity and build incentives for workers to advance, we may need to lower the salaries of workers in every pay band below that cap. That will result in a dramatic change in our ability to recruit and retain competent workers at every pay band in Montana state government.

For two years now, our division's primary initiative has been workforce development. This initiative was implemented in large part because of the looming retirements we're facing in Montana state government. In 2006, 176 employees retired from Montana state government. The same number retired in the last three months alone. Over 25 percent of those retiring between November 2010 and January 28, 2011 were upper-level managers.

Good managers are hard to find. Motivating employees and solving job-and people-related problems is difficult. Not everyone can successfully handle all these responsibilities.

Like any business its size, Montana state government employs great managers, good managers, and unfortunately, we've employed some bad managers. We become aware of management problems when agency HR officers call us to review potential disciplinary action, to conduct investigations or employee attitude surveys to try to find root causes of a dysfunctional work unit, or to seek legal counsel. Fortunately, it doesn't happen often.

A primary goal of our workforce development initiative is to help agency directors better identify, develop, and select state managers. We want to give more weight to hiring people with good management potential and less weight to applicants' technical skills. We're looking for people with emotional intelligence – people who can motivate others and solve complex people problems. That's the best way to affect any business's bottom line. It's the best way to ensure Montana state government is meeting its mission and goals and providing effective and efficient services to Montana's citizens.

Under the methodology proposed by Senate Bill 129, no state manager will earn more than $84,000 a year in base pay. Comparing our recent survey to that cap, the average band 8 operations manager will have their salary capped at 70 percent of the prevailing labor market – with no possibility of a pay raise until Montana's median household income changes.

No employer can compete for competent, high-level managers at this pay level. If this referendum passes, Montana state government will be recruiting from the bottom of the barrel. There will be no career incentive for employees to take on these responsibilities unless, as I stated before, we lower the wages of workers down the line, directly affecting the quality of workers at all levels.

So, what does a bad manager cost an organization? Pick up any popular management book. It will be the prevailing theme. That said, I believe most of us can draw from our own personal work experiences. I'll focus on traits we've seen from bad managers. Every one of these traits has a direct impact on the quality of our services.

- **Bad managers make bad hiring decisions.** They fail to match jobs with employees. New workers quickly discover the job does not meet their expectations, and they leave - usually within two years. Bad managers also fail to conduct reference and background checks. Consequently, they will hire employees who aren't qualified for the job even though their resumes and applications read otherwise.

- **Bad managers don't develop employees.** People need goals and constructive feedback to help them get there and improve their job performance. Bad managers fail to coach and give the feedback employees need to develop their skills. Employees expect job and career growth. If employees don't continually improve, their organization won't either.

- **Bad managers don't delegate; they micromanage.** A manager's job is to get the work done by capitalizing on employees' talents and abilities. Bad managers don't trust their employees to make decisions or to act wisely. Consequently, they create bureaucratic procedures that bog down the organization in its own internal procedures rather than focusing on key goals like customer satisfaction and efficiency.

  Front-line workers see how management decisions affect the bottom line, and they know when red tape is perpetuated for no good reason. Even simple activities like ordering supplies become monumentally difficult tasks. Red tape puts a stranglehold on organizations, reduces efficiency, encourages rule breaking, and fosters an environment where employees feel powerless to get anything accomplished.

- **Bad managers don't communicate.** Communication is the most critically important supervisory skill, yet many supervisors enter the ranks of management because of their technical expertise, not their people skills. By withholding information, they reason the can retain power and influence over employee, trickling down to the workforce and causing further conflict. Without a strong spirit of cooperation and mutual understanding of work goals, employees are more apt to withhold rather than share important information.

- **Bad managers breed disengaged workers.** We all want to take pride in the quality of our work and the reputation of our organizations. We want to hold our heads up high when we talk to others about what we do.

  The day-to-day reality of employees is defined to a large extent by their direct supervisors and managers. Few employees can maintain their motivation and good spirits when they work for someone with poor managerial skills. Employees need to feel respected, appreciated, and treated fairly. Bad managers make employees feel devalued, unappreciated, and unrecognized.

- **Bad managers do not properly discipline employees.** Properly disciplining employees is one of the most difficult jobs of a manager. Weak managers tolerate ineffective performers. They're paralyzed to confront poor performers and, when they do, they usually lack the paper trail needed to legally defend their actions. Good employees know this. That's because they pick up the slack – but they don't do it for long. It's not unusual to see performance levels for good employees suffer when managers don't confront employees who are doing the bare minimum. Then, the good employees leave.

- **Bad managers promote conflict.** Bad managers can cause misery in the workplace. For example, many employees report poor boss behaviors such as receiving the "silent treatment," not keeping promises, making negative comments about employees to others, and blaming others. When managers are mean or rude to their workers, it increases workplace conflict because it makes workers feel angry and frustrated. When employees feel mistreated, they get even. Worker revenge includes everything from griping and gossiping to actually stealing time, money, or other resources.

- **Bad management results in higher absences and turnover.** Montana cannot afford to keep any state manager who drives talent out the door.

  By the best estimates, turnover costs employers 100 percent of the employee's annual salary. The rule of thumb is that in a healthy job market an unhappy employee will bolt from the company for a five-percent pay increase, but it will take at least an increase of 20 percent to compel a satisfied employee to jump ship.

  Good, marketable employees simply do not work for bad managers. Only underperforming employees who cannot get jobs elsewhere stay.

  People who work for bad managers use more sick leave, whether they're sick or not. Bad managers can actually cause illness and heart attacks. Conversely, people who work for good managers use less sick time and suffer from fewer stress-related illnesses.

- **Bad managers affect the entire organization.** Every bureau and division within state government is interdependent on another. Incompetence in one division will spill over to other bureaus, divisions, and agencies, causing the agency to morph into separate silos unwilling to cooperate with each other.

- **Finally, bad management results in poor customer service.** People who work for bad managers tend to emulate those managers. "Mirroring" is the phenomenon in which relationships at the upper levels of an organization spread to lower levels. "It all starts at the top" is a truism, not a cliché.

If you've ever experienced poor customer service, it's most likely because of a bad manager. Sure, there are times when employees act on their own and outside the boundaries of their manager's direction. If bad service is a common occurrence, though, it's because of a weak manager who fails to give adequate direction and fosters a dysfunctional work culture.

There are huge monetary and human costs associated with poor management and poor leadership. Some of the costs are relatively straightforward – increased use of sick leave and high employee turnover, for example. Then there are costs that are not easy to quantify. According to a recent Gallup survey, poorly-managed work groups are 50 percent less productive than their well-managed counterparts.

Montana's citizens cannot afford bad managers, but we will not be able to compete for good-to-great managers at the wage cap contained in Senate Bill 129.

The fiscal note for Senate Bill 129 estimates less than a half-million dollar general fund savings per year. I submit to you that the actions of a few bad managers could offset that savings.

Please vote against Senate Bill 129.