A Study of New Pay Compensation and its Implementation at AT&T

Susan Elaine Bastin

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A STUDY OF NEW PAY COMPENSATION
AND ITS IMPLEMENTATION AT AT&T

By

SUSAN ELAINE BASTIN, B. S.

A Digest Presented to the Department of Business & Administration
of Fontbonne College in Partial Fulfillment of the Requirements for the Degree of
Master of Business Administration

1994
The dominant theme of traditional compensation for management employees has been job-based compensation. The primary factor in pay, certainly within an organization, was the job held by the manager. The philosophy of job-based compensation emerged with industrialization and mass production. Job evaluation became the dominant method for assigning compensation to jobs.

Several concerns on job-based compensation have led to the development of non-traditional pay plans. The structure of jobs has changed due to new technologies; therefore job requirements and job skills have changed. The growing service sector demands different types of labor. Also, increased global competition for business in the United States and internationally is creating widespread economic restructuring.

The current buzz word for the non-traditional pay plan is “New Pay.” The compensation plan focuses on business strategies, values, and goals. Focus on productivity, quality of jobs, and employee and organizational relationships must also be emphasized, while keeping an eye on attracting, retaining, and motivating the right resources.

The following steps are required for a successful implementation of New Pay: project definition, involvement process, design, communications and training, and evaluation.
The author conducted a survey on AT&T’s compensation plan to see if corporate goals, teamwork, and pay satisfactions were being achieved. AT&T is in the process of implementing a new compensation plan. Conclusions of the survey indicate shortcomings in employee understanding and satisfaction of the compensation plan.

After reviewing this document, readers should be able to understand different types of pay plans. The reader should also be able to determine if a change in pay plan is needed for their company and how to implement a change that is in alignment with the reader’s company.
A STUDY OF NEW PAY COMPENSATION
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To Mom and Dad
TABLE OF CONTENTS

LIST OF FIGURES ................................................................. iii

CHAPTER

1. HISTORICAL PERSPECTIVE OF COMPENSATION PROGRAMS ......................... 1
   Job-based Compensation
   Output-based Compensation
   Performance-based Compensation

2. THE CHANGING ECONOMY ................................................. 6
   Reasons for Changing from Traditional Pay Plans
   New Pay Definition and Strategy
   New Pay Specifics
   Implementing New Pay

3. NEW PAY IMPLEMENTATION AT&T ........................................ 32
   Research Strategy
   Data Collection Plan
   Data Collection Results
   Summary of Results
   Recommendation for AT&T

4. CONCLUSION ................................................................. 54

SELECTED BIBLIOGRAPHY ...................................................... 57

VITA AUCTORIS ............................................................... 59
<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Data Collection Questionnaire Used to Evaluate Pay Plan</td>
<td>36</td>
</tr>
<tr>
<td>2. Competitive Fair Pay</td>
<td>39</td>
</tr>
<tr>
<td>3. Organizational Fair Pay</td>
<td>40</td>
</tr>
<tr>
<td>4. Incentive Awards - Fairness of Pay</td>
<td>41</td>
</tr>
<tr>
<td>5. Overall Fairness in Pay</td>
<td>42</td>
</tr>
<tr>
<td>6. Pay Satisfaction by Management Level</td>
<td>43</td>
</tr>
<tr>
<td>7. Fair Management Handling of Pay</td>
<td>44</td>
</tr>
<tr>
<td>8. Fair and Honest Performance Appraisals</td>
<td>44</td>
</tr>
<tr>
<td>9. View of the Plan Administration</td>
<td>45</td>
</tr>
<tr>
<td>10. Understanding of the Plan’s Objectives</td>
<td>46</td>
</tr>
<tr>
<td>11. Understanding of Performance Criteria</td>
<td>47</td>
</tr>
<tr>
<td>12. Understanding of the Plan</td>
<td>47</td>
</tr>
<tr>
<td>13. The Plan Attracts and Retains the Best Employees</td>
<td>48</td>
</tr>
<tr>
<td>14. The Plan Fosters Teamwork and Partnership</td>
<td>49</td>
</tr>
<tr>
<td>15. Desire for Change</td>
<td>50</td>
</tr>
</tbody>
</table>
CHAPTER ONE

HISTORICAL PERSPECTIVE OF COMPENSATION PROGRAMS
The definition of pay, or compensation, may be described in the following terms: "Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship (Milkovich and Newman 1990, 3)." Compensation can be received either directly or indirectly through benefits and services. These indirect items can be, but are not limited to, pension, paid vacations, or health insurance. The scope of this thesis will concentrate on the direct portion of compensation.

Programs that distribute compensation to employees can be designed in several ways and in today’s environment will often utilize more than one program. Traditionally, pay programs were based on factors such as how long the employee has been with the organization, what other employees in the organization are paid, what other organizations are doing under similar circumstances, or what the value of the job is in terms of how many people the job supervises.

In McMillan’s article (McMillan 1992), “What It Takes to Be a Caesar,” he states that even as early as 54 B.C., compensation plans were being examined. Caesar sought counsel from his advisors on a new compensation plan. Caesar wanted the advisors to determine the answers to three basic questions: 1) Should pay be increased, 2) Over what period of time, and 3) Should all ranks be treated equally. Ironically, none of the four advisors were in agreement in a decision.
Job-based Compensation

Much has been done in recent years to alter the look of so-called “traditional pay plans” with “non-traditional pay plans.” The basic concept of traditional compensation is job-based compensation. Job-based compensation plans came to the forefront with the advent of industrialization, factory systems, and mass production. Job evaluation provides a calibration means for these jobs in attempt of pay equity. Job evaluations can be very helpful in making judgments, in coping with problems arising from charges of discrimination, and in deciding whether two jobs appear to be substantially equal or comparable. A question still remains as to whether techniques of job evaluation correlate to pay equity (Patten 1988, 137).

A five step process determines the relative value of jobs. The first step consists of a job analyst obtaining facts regarding the duties and responsibilities of the job. The analyst must also seek information on the work requirements for successful performance in the job. The second decision step is determining the criteria that makes one job worth more to management than another. The third step is to choose a job evaluation system for relating the jobs to one another according to the compensation factors selected. The fourth step is to apply the system. This commonly means having a job evaluation committee meet, reach and record decisions, and set up the structure. Obviously, the last step is to price the job structure in order to arrive at the organization’s proposed wage structure (Patten 198, 143-144).
Job evaluation has served as an evolving tool to serve management in rationalizing the internal pay structure. The Equal Pay Act encouraged management to utilize such evaluations to describe and classify positions and to analyze their interrelationships with the intent to prohibit discrimination.

In recent years, job-based compensation has become a matter of concern for a variety of reasons. One obvious concern is that jobs with different tasks may be worth equal compensation. As stated earlier, Patten questions the correlation between job evaluation and pay equity. The determination needs to be made of comparable pay for jobs of comparable value or worth despite the differences in task specifications (Mahoney 1990, 340).

Another concern with job-based compensation relates to the work rules and traditions of the job assignment that inevitably develop when the job is the basis for compensation. Problems exist when there are several different jobs with different pay rates that are associated with work rules. The work rules restrict the performance of workers to a single job and also constrain the flexibility of task assignment (Mahoney 1990, 340).

**Output-based Compensation**

A similar form of “output-based” compensation was the advent of piece-rate and incentive compensation. However, Mahoney cites the difficulty in measuring job output in recent years as the reason for many companies abandoning the piece-rate plans for hourly and/or salary paid job-based
compensation plans (Mahoney 1989, 339). Sales positions are a typical example of the exception where employees' pay depends on their output.

Performance-based Compensation

While job-based compensation has been the traditional foundation for pay, there are supplemental compensation plans supporting job-based compensation. Performance-based compensation may be used as a supplement to job-based pay, for example, when merit pay is provided as an incentive to produce above the boundaries set for a particular job function (Mahoney 1990, 339). Performance-based pay includes merit and suggestion awards that are generally paid to individuals in recognition for a significant contribution.

Experts propose an abundance of so-called non-traditional pay plans. Industry has utilized these plans, but job-based compensation has been much more widely utilized. Today's environment pushes companies to expand their limits and create new avenues to compete in the market place.
CHAPTER TWO

THE CHANGING ECONOMY
Reasons for Changing from Traditional Pay Plans

We are in a period when traditional approaches to pay determination are constantly being questioned. The old pay paradigm was designed for companies twenty years ago; it worked then and reasonably well for some companies into the 1980s.

An underlining theme in the literature research indicates that businesses are facing serious economic pressures to improve productivity, boost the quality of products and services, control labor costs, and compete in the international marketplace. New technology will change how jobs are structured and the types of job that are held. Fewer new employees will be entering the work force so the pool of current employees will need to work longer. Social pressures stem from shifting employee expectations and continued government regulations. As companies re-engineer themselves to respond to these needs in the business, many companies have failed to consider their approach to compensation accordingly. Lowman states that, “The result is that their pay programs often work at cross-purposes with their broader needs--rewarding the wrong behaviors (e.g., empire building and individual performance), or failing to reward behaviors that support key business goals (e.g., quality improvements, better customer responsiveness, and team performances) (Lowman 1993, 37).”

Managers are seeking to better understand how to design and manage the compensation system. Different approaches, some old and some new, are being
examined and reexamined. This process of creative reexamination of old plans allows an understanding of how and why they worked (Lowman 1993, 37). By designing a new system, managers have a new opportunity to make decisions that dramatically affect their organizations. Pay plans can be integrated into the entire strategic management process. Compensation can facilitate effective work behaviors, support equitable treatment of employees, and accomplish organization objectives.

New Pay Definition and Strategy

In his research book, Pay and Organizational Development, Lawler (Lawler 1988, 2) maintains that “widely divergent views exist about what the most effective [compensation] system is.” Lawler found that many corporations spend a considerable amount of time trying to find better ways of administering their management compensation plans. He and others in his field (Kanin-Lovers 1991, Wozniak 1991) believe there is a direct correlation between how employees are paid, what they understand about their compensation, which employees are retained, and the overall effectiveness of the company.

“It was Lawler who gave the name New Pay to reward programs that reflect an understanding of organizational goals, values, and culture and the challenges of a more competitive global economy (Schuster and Zingheim 1992, xi).” New pay provides that organizations effectively use both indirect and direct pay to help them partner with their employees. By partnering with the
employees, companies help them develop an understanding of the organization’s goals, know where they fit in to accomplish these goals, become appropriately involved in decisions affecting them, and receive rewards to the extent that the organization attains these goals and to the extent they have assisted the organization in doing so (Schuster and Zingheim 1992, xi). This obviously creates a strong link between the financial success of the company and the employees supporting the organization. Customer-focused organizations should be interested in forming solid partnerships with customers, but before this can be successful, the internal employee partnership must be solidified.

**New Pay Specifics**

This section has three main objectives: to explore the specifics in setting the strategy, discuss the basic principles of New Base Pay, and discuss the various types of New Variable Pay.

There was not much disagreement about the three consistent objectives of management compensation plans that emerged throughout the research literature review. The agreed upon objectives are that management compensation plans must support the organizations’ goals, attract and retain the best employees, and be delivered through thorough communication and a training policy. New Pay strongly supports all three of these objectives.
The following information in this chapter’s sections and subsections represent the philosophies of New Pay as articulated by Jay Schuster and Patricia Zingheim.

Setting the Strategy

The very foundation of New Pay is setting the corporation’s strategy in alignment with the compensation plan. The strategy should link the compensation plan to the need for flexible responsiveness to new challenges and opportunities. New Pay total compensation strategy has a built-in review that allows for automatic examination of the magnitude to which the strategy continues to match future needs of the business. When basic conditions in the life of the organization change in any way, the total compensation strategy can respond accordingly.

The main advantage to a New Pay strategic view of total compensation that focuses on the organization’s goals is the strong communication of values, performance expectations, and standards. Differentiation between performance consistent with standards of performance and those that are not is accomplished. Equity in pay can be communicated based on performance rather than similar pay without regard for results achieved (Schuster and Zingheim 1992, 35).

The traditional “ready, aim, fire” approach to business is changing to “ready, fire, aim.” In order to compete in today’s marketplace, educated decisions need to be made on the information available. Corporations have to
take risks and not study things to death. Total compensation strategy “aims” pay programs towards organizational goals. New Pay enforces action and experimentation over volume or complexity of the strategy.

New Pay requires that organizations design strategies that are consistent with the following basic principles:

- “World-class” organizations actualize business, financial, and human resource goals that are customer driven.
- Customer-driven organizations form partnerships with customers and suppliers—they are externally rather than internally driven.
- To form partnerships with customers and suppliers, partnerships must be formed with employees.
- Employee-organization partnerships require that employees have a positive vested interest in the success of the organization. Teamwork is required to form this bond between the organization and employees.
- Employee pay is one reward that is valued. Employee pay must vary with the fortunes of the organization. Only new pay is sufficiently flexible to support employee-organization partnerships.
- New pay provides that direct pay is more flexible than indirect pay and should be emphasized. Also, variable pay is more flexible than base pay and should be an organizational priority.

(Schuster and Zingheim 1992, 31)

It is important to remember that compensation is above all an employee-relations concern and that how employees view pay is important to the success of a total compensation strategy. Employees have a need and right to understand the organization’s expectations in terms of behavior and performance. New Pay treats employees as important partners in the operation of the organization. The success of New Pay is dependent upon employee involvement in the development, implementation, and monitoring of total compensation programs.
This allows the employees to become active in the decisions that directly impact their work life, while building the desired partnership relationship.

**Principles of New Base Pay**

Traditionally, base pay is the basic cash compensation that an employer pays for the work performed. Periodic adjustments to base wages may be made to allow for cost of living or inflation, changes in what other employers are paying for the same jobs, or changes in experience/performance/skill of employees (Milkovich and Newman 1990, 4).

The intent of New Pay is to limit base pay since increases are permanent and expensive. Increases in base pay also dramatically increase benefit costs (Schuster and Zingheim 1992, 83).

There are three objectives that reflect how New Pay defines the role of base pay by limiting base pay to what it does better than variable pay and indirect pay. The first objective is to reflect economies of the labor markets in which the organization desires to compete for talent. New Pay focuses on external labor more than internal equity. Organizations interpret competitive practice for the standard of living and pay their employees this amount as their base pay. As certain jobs or skills fluctuate with demand in the external market, base pay can respond accordingly.

The second objective of base pay is to provide the foundation for variable pay. In some cases, corporations will intentionally set base below market while
providing significant variable pay opportunities. Variable pay is used to reward individual, team, business unit, and/or organizational performance results for a given period; therefore, variable pay does not become an annuity.

Lastly, base pay needs to reflect economic value of jobs or skills. New Pay can focus on either the value of the job or the worth of the individuals’ skills. New Pay allows the organization to value the skills the employee applies to perform the job, versus traditional pay recognizing the worth of the job.

Three considerations of New Base Pay are paying the individual, evaluating the job, and determining base pay adjustments.

Paying the Individual

Although organizations have job evaluation systems, many find it difficult to separate the importance of the job from the importance of the employee in the job. Three pay strategies are influenced by the individual. Job families is the traditional pay strategy. Career ladders are less traditional and may be a New Pay solution. Lastly, skill-based pay is a New Pay approach.

Job families are typical of job-based evaluation systems and focus on the content of the job. Jobs in one family are described in terms of several levels of the same job. An example of this would be several levels within an engineering family. The job levels describe job responsibility within the family and usually include experience and educational requirements. Transition from one job level to the next is most often described in terms of years of experience, without
concern for the type or nature of experience. Placement in the job family is dictated more by the employee’s current pay than by the employee’s ability to perform results or provide skills to the organization.

Career ladders are a series of outlined steps within a particular functional area that define organizational requirements at each level. Career ladders define paths of legitimate career growth for employees based on growth in responsibilities and demonstrated performance results. This provides professionals with the knowledge to know what it takes to progress in the organization. They will understand the relationship among jobs, the skills needed to perform the jobs, and the performance results required in the job. Employees clearly know what the organization expects and they know what is in it for them with regard to economic rewards and career opportunities when they provide the expected results. This relationship helps foster a partnership between the employees and the corporation.

Skill-based pay has been around for a few years and fits into the philosophy of New Pay. Skill-based pay assigns differentials of pay based upon differences in skills possessed by the employee rather than the job to which the employee is assigned (Mahoney 1989, 340). Bunning describes skill-based pay as pay based on the employee’s knowledge of how to do different jobs rather than on the scope of a defined job (Bunning 1992, 62).

The foundation of skill-based pay is paying more as employees demonstrate that they are obtaining and applying more skills that are valuable to
the corporation. Skill-based pay allows the flexibility to perform a wider range of
tasks and demonstrate a wider range of skills than is possible in a pay program
that focuses on the duties and responsibilities of the job. Most skill-based pay
organizations are structured into work teams or self-managing work groups.

Listed below are the factors that seem to contribute to a successful
installation of skill-based pay:

1. Employee involvement in the design, administration, and monitoring of
   skill-based pay.
2. Employee perceptions that skill-based pay is fair compared to what others
   outside and inside the organization receive for comparably skilled
   performance.
3. Fair and understandable management of the skill-based pay program.
4. Adequate opportunities for training and rotation.
   (Schuster and Zingheim 1992, 97).

Skills are generally selected by a combination of the employees and a
skills audit. The skills audit consists of a team of individuals who are experts in
identifying required skills. Not only must specific skills be described, but if a skill
exists in varying levels of complexity and application, these levels must be clearly
differentiated. The result will be a list of all needed skills in the area in which
skill-based pay will be utilized, regardless of where these skills are currently
employed among the employees.

The skills are arranged in skill blocks based on how they will be
performed by employees. The skill blocks may have levels within them, however,
caution needs to be taken because the perceived effectiveness of skill-based pay
is related only to the number of skill blocks (Schuster and Zingheim 1992, 99). The more blocks, the less the perceived effectiveness.

Skills change over time, so skill-based pay programs are designed to be flexible in order to stay current and relevant. Retention of skills is ensured either by reassessing employees or by having employees rotate through previously mastered skills.

With both job families and career ladders, employees can be promoted into positions before knowing whether they can perform the skills required to effectively do the job. Skill-based pay can require that a skill be demonstrated, such as supervisory skills, before the promotion. A skill-based pay system may pay only when a skill has been demonstrated.

The pricing of skill-based pay is a relatively new concept and therefore is a challenge because it is not yet possible to exchange pricing information on individual blocks of skills. Until organizations are better able to price individual skill blocks, the preferred way to proceed is by translating skill-based pay systems into job-based pay systems for pricing purposes. This requires identifying the skills associated with a job and taking the different skills between jobs in order to determine the pay of skills.

The advantage of skill-based pay is that organizations can expend pay dollars consistent with the demonstrated ability of employees, and the employees, on the other hand, have the opportunity to enlarge their range of skills and expand their opportunity to be of more value to the organization. This allows
employees the opportunity to earn financial rewards for demonstrating skills within their specific career field without being forced to compete internally with the people in their field and organization.

**Evaluating Jobs**

Job evaluations have been the core of traditional pay systems for decades. As discussed in Chapter One, evaluations have provided a means for coping with problems arising from discrimination charges and has also provided a means to determine whether two jobs appear to be substantially equal or comparable (Patten 1988, 137).

Milkovich and Newman define job evaluation as “a systematic procedure designed to aid in establishing pay differentials among jobs within a single employer (Milkovich and Newman 1990, 103).” New Pay approaches job evaluations with the external labor market and does not try to create total internal equity. It establishes internal equity within broad job functions. “It pays the labor market for these job functions and then develops internal equity for jobs within a job function (Schuster and Zingheim 1992, 116).”

The labor market pay may be increased if the job is closely related to the strategic impact on the organization. Strategically valuable jobs or skills may have higher base pay levels or greater variable pay opportunities. Because strategic values change, this element in job evaluation needs to be revised.
periodically. If the values do change, the job compensation returns to the original market value and is not impaired by the job evaluation system.

Base Pay Adjustments

Because performance needs to be evaluated before it can be awarded, a sound performance appraisal program is required. The appraisal can be a valuable tool for giving feedback about how the employee’s performance fits with the organization’s expectations. Quality performance appraisals are difficult to achieve, however, the following guidelines will help:

- Organizations should limit the number of performance categories.
- Management should be provided with extensive training on conducting the appraisal session and how to actually give the appraisal.
- Organizations should focus on measurable results or observable behaviors.
- Top management needs to support candor in performance appraisals.
- The appraisal system needs to support the base pay increase budget.

Some corporations want to reward individual performance through base pay increases. If the corporation has an effective performance appraisal system, three possible approaches can be utilized. The first option is to realize the total cost of an individual pay increase by using the traditional base pay increase approach. This would be an increase according to better performance. The second approach would be to use lump-sum awards for performance above the competitive labor market rate for the job. The last option is to use a limited number of base pay levels that matches the number of performance levels in the
performance appraisal. This communicates a very clear message about the relationship between base pay and performance.

New Variable Pay

The major thrust of New Pay is in the area of using variable pay for employee groups where traditionally organizations paid only base pay. This means that the corporation does not have fixed costs associated with a portion of total cash compensation. Variable pay measures performance in groups of more than one employee where tradition has dictated individual pay performance. Lastly, variable pay focuses on partnership; the employee and the organization share in the financial success of the organization.

"Variable pay is any form of direct pay that is not folded into base pay and that varies according to performance (Schuster and Zingheim 1992, 154)."

Variable pay will vary from performance period to performance period, and the amount of disbursement will directly correlate to the ability of the organization to pay, according to productivity, performance, and quality.

The organizations that are using New Pay concepts . . . can expect positive impact on how pay is managed. These changes include the following:

- formation of employee-organization partnerships
- improved collaboration between organizations and employees
- primary emphasis on customer interests
- organizational success affecting all rewards
- downplaying of tenure and entitlement
- quality and customer value initiatives

(Schuster and Zingheim 1992, 156)
Forming partnerships requires collaboration. Partnerships are effective only if the mutual interests of all parties can be benefited as a result of the involved parties' efforts. Partnerships depend on communication of mutual goals to be accomplished and sharing the results of attaining these goals.

No single group of employees has all the answers. Shareholders provide capital, management holds a wide-angle view of the organization, and the employees know how to get the job accomplished. Variable pay encourages the exchange of information in order to gain a differential advantage over organizations that do not exchange information.

Partnerships that focus on customers and are founded on collaboration between managers and employees are best suited to produce performance results for a number of reasons. First, since employees are closer to the customer they are good sources of early information concerning customer preferences and attitudes. Employees have the ability to understand the customer needs and practical ways to address them. Second, the employees are best suited to put changes into action concerning the customer needs and can produce results faster than management can. Third, managers control capital allocation and are able to provide the means to accomplish the needed actions.

Once a partnership is formed, the results of working effectively must be shared so that the partners can understand, on an ongoing basis, how their efforts are going. Results must be measured and the financial successes shared for the partnership to become real.
An employee’s tenure and entitlement have little or nothing to do with the results an organization can expect from a partnership. Wherever the performance of employees is important to the success of the organization, the primary focus must be on results achieved. In order to be effective, the results and service should be linked, and the right to stay employed must be a reward for demonstrated, sustained achievement and not an entitlement.

The last change an organization can expect with variable pay deals with quality and customer value initiatives. Organizations are expending considerable effort to implement quality and customer initiatives in order to satisfy customer needs. Teams must work collaboratively to meet these customer demands. New variable pay is the natural tool to reward quality and customer value. It has the flexibility to match each quality and customer value opportunity, uses combinations of measurements to encourage collaborative behavior, and is refreshed annually to ensure that it stays focused on customer issues.

**Variable Pay Alternatives**

The approach to variable pay depends strongly on an organization’s specific business, financial, and human resource environment and the goals developed around the environment. Organizations need to select from the variable pay options, match it to its own environment, and modify the approach as the environment changes.
There are two types of variable pay; it can be based on either past experience or future expectations. If using past experience, the company will evaluate what has been produced in the past to determine what can be produced in the future. However, past experience does not consider variables that may affect future performance, and it also ignores new goals and objectives. Using future expectations ensures the selection of the goals to be achieved, and that the accomplishment of these goals is consistent with a measurable impact on profit and quality improvements. This can be a vehicle to enforce strong communication of direction, mission, and values.

Special recognition awards are one-time awards granted to individuals or teams for accomplishments clearly beyond the requirements of the job. There are two objectives of this type of award. First, it rewards performance that is better than that which might have been expected and accounted for by means of some other reward system. Second, significant unexpected performance that makes a difference in the overall performance of the organization can be recognized.

The importance of special recognition awards comes from visibility for the acknowledgment of the reward. There is a motivational impact not only for the recipient but also for other employees. To increase the effectiveness, organizations communicate to employees the names of recipients and the reason for the award. This facilitates employees’ understanding of what the organization values.
The special recognition awards are often paid from a budgeted pool of money. Organizations should grant the award close to the time of the contribution and with visible fanfare. Recognition close to the contribution encourages similar actions to be taken throughout the year.

**Individual variable pay plans** are intended to reward only individual performance, while **group variable pay plans** are intended to reward group performance, and the individual’s contribution to the group performance may be considered secondary. Individual variable pay plans are a part of New Pay to the extent that they include employees who would not traditionally participate in variable pay plans and that they do not obstruct the teamwork required in an employee-organization partnership. Individual variable pay clearly communicates individual employee expectations, while group variable pay plans encourage employees to work collaboratively to achieve common goals.

Organizations choose **lump-sum awards** to motivate performance each year. They pay a competitive base pay to employees as represented by the market rate, and they do not want the performance of one year to become an annuity. They want the employees to re-earn pay above market rate. Since the organization is not paying the employee an unreasonably low base pay, they view the reward system as fair.

Typically, when a lump-sum award system is put into place, employees who are receiving base pay above market value have their base pay frozen until
the market rate catches up. These employees should receive the full lump-sum award due to them based on performance.

**Profit sharing** is intended to share a piece of the organization’s profit with each employee as a percentage of base pay. This is the original organization-wide variable pay plan.

Non-qualified profit sharing, a less traditional form of variable pay, is used at an individual business unit level that has profit and loss answerability. Non-qualified profit-sharing plans are easier to design, implement, and administer than other variable pay plan designs and are often installed with limited involvement from the employees. The challenge with profit sharing, is that they do not provide specific goals or direction on how to improve profit. A small business unit which communicates how to achieve profits will be motivated more than employees in a large organization.

**Gainsharing** plans share improvement in productivity, cost savings, and quality with employees who are part of a group that is responsible for accomplishing these improvements. Employee selection for participation is based on the largest measurable group were employees can influence performance and quality.

Gainsharing is funded out of cost savings resulting from the improvements. Award distribution is the same to all employees, usually a percentage of base salary. For gainsharing to be the most effective, the
organization should use the shortest period it can to measure meaningful performance.

The main challenge in gainsharing is to provide financial value to the corporation as a result of the awards paid. Organizations need to consider what might be good for the organization, might not be good for the whole company. Issues, such as accounting, also need to be considered when determining if production changes are best for an organization, i.e., consideration of depreciation on machinery.

Winsharing provides variable pay according to the contribution of profitability of a group. While gainsharing focuses on productivity and quality and not directly on profit performance, winsharing focuses on profit, quality, customer value, and productivity performance. Winsharing differs from profit sharing in that winsharing has group measurements that determine its funding.

The advantage of winsharing is that the variable pay is funded out of bottom-line organizational performance; the organization must actually profit from the results of employees’ efforts. This is very important because productivity and quality gains do not always equate to bottom-line performance results.

Winsharing payout is based on group performance against a predetermined goal, which is often a quality modifier. The group needs to have profit and loss answerability and be small enough to have an impact on performance results.
Winsharing differs from profit sharing in that it uses additional measures of at least quality and conceivably customer value or productivity in addition to the profit measure. These performance measures are preset at the start of the performance period based on the organization’s expected circumstances. Winsharing is normally based on a fiscal year and is normally distributed as a percentage of base pay.

Many objectives of an organization require focusing on long-term business issues. Focusing solely on the short-term business may actually harm the longer-term business opportunities of an organization. Because it is believed that the executives of the corporation have the most impact on the longer term, the New Pay perspective recommends that long-term variable pay be limited to the executive team.

Long-term variable pay awards are based on performance results for a period greater than one year. The objective is to sustain performance, while keeping focused on strategic goals and objectives. This program emphasizes the significance of long-range planning and decision making. Also, since the award is normally not distributed until the end of three years, the plan helps retain executive level employees.

Stock option plans offer employees the option to purchase their for-profit company’s common stock within a designated time period at a set price. Employees are given the opportunity to purchase a set number of shares at the price when the purchase opportunity was granted. This price is locked in for the
duration of time the employee is allowed to purchase the set number of the shares.

Many question whether stock options are true reflections of employee performance. The important factor to realize is that the common stock does tie the employee to the organization, and following that, the ownership will tend to cause the employees to be more aware of how the corporation is performing.

Implementing New Pay

As discussed in Chapter Two, the foundation of New Pay is setting the corporation's strategy in alignment with the compensation plan. Once this is accomplished, there are several steps needed for an effective implementation of a New Pay program. The steps can be modified to match the needs of the company, however, the elements of the following five steps are critical to a satisfactory high-involvement process.

Defining Project and Expected Results

Project definition determines whether a New Pay variable pay plan is appropriate for a specific group. This can be accomplished through a feasibility study, a study to investigate the possibility of developing a skill-based pay plan, or a study to design and implement a pay program that has already been determined to be appropriate for a given situation. It is critical to obtain employee involvement for acceptance of the program. Also, time expectations
need to be defined so involvement does not become protracted and fail to generate a timely result.

It is critical when defining the project to establish the desired end results. This helps keep the project focused with an understanding of the direction in which to proceed.

Involvement Process

Involvement has little chance of helping, unless the involvement process begins in the early stages of the New Pay project. Involvement needs to be consistent with the organization’s comfort level with employee involvement.

Involvement level varies from organization to organization. Some organizations involve all levels of employees in the development of New Pay programs and find this to be valuable and successful. Other organizations involve only the managers. The organization must be careful, because if a level is not involved in the development phase, they may not support the program during implementation.

Involvement in determining the funding of the New Pay program varies from only top management participating to a broad group of employees contributing in the decisions. In some organizations, top management provides objectives and the broader group of employees designs the funding consistent with the objectives.
Design

High-involvement design efforts do not work well. Organizations with high-involvement tend to lose focus that the objective is to develop and implement a program that meets specific organizational requirements.

Simpler solutions are more easily communicated and implemented than complex designs. Since New Pay provides for annual review, designs can always add complexity later. The initial goal is success during the first performance period. This means that the initial results of the design effort are practical, workable, and most likely to produce positive results in order that involvement is a rewarding experience.

For each design element, the advantages and disadvantages of various alternatives should be evaluated to determine which alternative is most consistent with the program. The design should also be consistent with other organizations that are not in the program. The resulting program design should have an acceptable relationship between pay costs and results. Evaluators need to analyze costs and expected results on spreadsheets to ensure that the relationship is sound.

Communications and Training

If the decision has been reached to implement New Pay, the change requires thorough communication to facilitate employee comprehension and acceptance. Top management, employees involved in the design, and supervisors
should be utilized to convey the plan to the work force. Top management needs to clarify how the change fits into the organization's mission, strategies, and goals. The employees involved in the design should be a utilized resource to communicate the design, answer questions, and support the change. Supervisors will need to ensure that employees comprehend the change and provide the leadership for employees to accept the program. Communication materials need to supplement the supervisor-employee discussions on how the program impacts the employee. Lastly, communication requires repetition in order for the average employee to retain the information. Typically, the first session will explain the program, and the second will be a celebration kickoff reiterating specific facts.

Monitoring and Evaluation

Plan, do, check, and act is a common quality philosophy. The last step for successful implementation requires a "check" by monitoring, reviewing, and evaluating the program. When a New Pay program is installed based on involvement effort, evaluation provides the opportunity for the organization to review and change the solutions that no longer meet its goals and objectives.

New Pay programs are often reviewed after ninety days of implementation to ensure that the program is on track with the objectives. The annual review provides for a scheduled evaluation and should be done in concurrence with the organization's year-end planning session for the next year. It is important to remember the longer-term objectives to determine if any
modifications need to be made to the program. Evaluation of the measurements are also appropriate at this time. The measurements need to be reviewed to see if they are clearly linked to the new business plan.

Organizations utilize New Pay to lead organizational change or to support organizational changes led by another effort. New Pay is suited for either role. Involvement alone is not enough. New Pay plans must be based upon measurements that relate to result performance. Lastly, New Pay requires involvement and plan designs that are sensible and feasible.
CHAPTER THREE

NEW PAY IMPLEMENTATION:
AT&T
The AT&T Management Compensation Plan is comprised of three main components: salary base increases, individual performance awards provided through a lump-sum payment, and gainsharing awards that are paid in a lump-sum. A written performance appraisal system and internal competitive rating and ranking process determine yearly compensation levels.

The Literature Review performed by the researcher revealed a variety of views about what components and administrative practices best support a corporation’s compensation plan and hence its goals and objectives. However, the common theme that surfaced in this part of the research was the notion of aligning compensation directly with individual performance results, not rating and ranking processes, and providing pay treatment at intervals when objectives are achieved, rather than at designated yearly intervals.

From the researcher’s point of view, the AT&T Management Team wants to see changes made to their Compensation Plan. The researcher bases this on recent conversations with several managers in Network Systems Reorganization Architecture Group. Network Systems’ Business Unit is currently restructuring to become “Customer Focused” in its structure. Just as the researcher discovered during the Literature Review, these managers indicated support for a framework whereby compensation is more closely tied to strategy, performance, and partnering with the employees and customers.
Research Strategy

This research has three main objectives. The first objective is to gather data about the AT&T Management Compensation Plan from a representative sample of the managers who participate in the Plan. The second objective is to evaluate how the sample group of AT&T managers view the components and administration of the AT&T Management Plan. Lastly, the researcher will determine whether New Pay is an appropriate change to the current Plan.

The evaluation will center on three areas. The first is to determine how the managers view their compensation plan. The second will look at whether or not the managers understand the Plan. Finally, the researcher will evaluate the extent to which a change, if any, is desired.

The research model selected by the researcher is a policy proposal. After evaluating the data collected from the AT&T managers, the researchers will develop a position proposal citing recommendations for possible intervention by the AT&T Corporation.

Data Collection Plan

The data collection tool, selected by the researcher for this thesis, is a questionnaire. This data collection tool is expected to provide input for developing future intervention and to assist in the formulation of the results, conclusions, and recommendations.
The questionnaire surveyed a sample population of forty managers, out of 166 managers in the Network Systems Engineering Control Center. Of the forty distributed surveys, thirty-three were completed and returned. The researcher also collected demographic data about the sample population's Management Level, years of service at AT&T, age group, gender, and ethnic origin.

The researcher distributed the questionnaire in September 1993 with a memo attached requesting support and response to the survey by October 1993. The researcher adapted the questionnaire from one found during the Literature Review and field tested it with a few of the engineering managers. The adaptation was made from a research tool developed by Edward Lawler, III in support of a research project he conducted on Pay and Organizational Development in 1981. Three of the managers reviewed several drafts of the Management Compensation Questionnaire developed by the researcher. The field testers recommended wording, question arrangement and demographic data alterations and additions. The researcher found this process to be extremely beneficial to the development of an unbiased non-manipulative data collection tool. The questionnaire employs a Likert-style five category ordinal scale. The chi square method of evaluation is the main tool used in the analysis performed against the data collected.

Figure 1 exhibits the data collection questionnaire distributed to Engineering.
Management Compensation Questionnaire

Please answer the following by marking “x” in the space.

1. What is your Management Level?
   1st level ______  2nd level ______  3rd level or above ______

2. How many years of service do you have at AT&T?
   0-9 _____  10-19 _____  20-29 _____  30 or more _____

3. What is your age group?
   20-29 _____  30-39 _____  40-49 _____  50+ _____

4. What is your gender?
   Female _____ Male _____

5. What is your ethnic origin?
   American Indian _____ Asian or Pacific Islander _____
   African American _____ Hispanic _____ Caucasian _____
   Other _____

Please respond to the following by circling a number.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

6. My pay is fair, considering what other people in this line of work are paid.
   1  2  3  4  5

7. This organization pays a fair wage.
   1  2  3  4  5

8. I am content with the way management handles pay.
   1  2  3  4  5
9. Considering your skills and the effort you put into your work, would you say you are satisfied with your incentive award?

1 2 3 4 5

10. I understand what the objectives of the pay plan are.

1 2 3 4 5

11. The attraction and retention of competent employees is fostered by the pay plan.

1 2 3 4 5

12. The pay plan helps foster teamwork and partnership between you and the company.

1 2 3 4 5

13. I know the criteria used to judge my performance.

1 2 3 4 5

14. Performance appraisals are fairly and honestly done in this organization.

1 2 3 4 5

15. I feel the pay system should be changed.

1 2 3 4 5

16. Please add any additional comments or clarifying statements.

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

Please Return To:
Susan Bastin
NF9600200

Figure 1. Data Collection Questionnaire Used to Evaluate Pay Plans.
The limitations placed on the researcher were the sample size and length of the questionnaire. The researcher would like to expand the number of participants and AT&T locations in the future. Also, the researcher was aware that there were several additional questions that could have been asked. However, the researcher decided that two pages and a selection of the most relevant questions would not be too taxing on the respondents.

Data Collection Results

The summary of results has been divided into three categories for evaluation based on the objectives of the research, types of questions asked, and input gathered from a representative sample of AT&T managers.

The first objective analyzes how managers view the Compensation Plan, both in the fairness of pay and in the fairness in administering the pay. The second objective analyzes the degree to which AT&T managers understand the objectives of the Plan and lastly, the analysis turns to the question of the desire of change.

View of the Compensation Plan

The researcher first analyzed how the AT&T managers viewed their Compensation Plan. The analysis of this objective has been divided into two parts: the fairness of pay perspective and the Plan administration perspective.

Questions six, seven, and nine were designed to capture how the managers view the fairness of their pay. Question number six specifically
addresses competitive fair pay. Figure 2 indicates that 64% of the managers do
Agree that their pay is fair in comparison with other employees in the same line
of work, while 18% of the managers either Disagree or Strongly Disagree.

![Figure 2. Competitive Fair Pay.](image)

Question number seven addresses organizational fair pay. Figure 3
indicates the majority of managers, 79%, either Agree or Strongly Agree that
they are receiving fair pay from their organization. Only 6% of the managers
believe they are not receiving fair organizational pay.
Question number nine asks the managers if they are satisfied with their incentive awards based upon their efforts and skills. Figure 4 illustrates that 55% of the managers stated they Agreed or Strongly Agreed that they are satisfied with their incentive awards. Thirty-nine percent of the managers either Disagreed or Strongly Disagreed that their incentive awards were fair. There is a notable difference between the response to this question and the two previous questions.
When analyzing all managers, an average of 69% responded that overall they Strongly Agreed or Agreed that their pay is fair, when compared with others and considering their respective skills. Figure 5 reflects the overall fairness in pay that was calculated by taking the mean of the answers to questions six, seven, and nine. This includes: competitive fair pay, organizational fair pay, and fairness of pay with incentive awards.
Figure 5. Overall Fairness in Pay.

The researcher decided to more closely analyze question nine along the demographic profile of management levels to see if a difference existed between the lower and middle level managers. Question nine asks, “Considering your skills and the effort you put into your work, would you say you are satisfied with your incentive awards?”. The first line managers were split 45% Strongly Agrees/Agrees versus 55% Strongly Disagrees/Disagrees. However, the second line and above managers overwhelmingly responded Strongly Agree/Agree, 81% (Figure 6). The researcher attributed this to two potential reasons. First, relatively young first line managers may have unrealistic wage payment expectations. Secondly, incentive award funding may not communicated and therefore first line managers do not have the knowledge to know what to expect.
The following three charts explore the second piece of the first objective: the satisfaction level of the Plan’s administration.

Figure 7 displays the results from question eight, revealing that only 36% of the managers are content with the way management handles pay. Forty-five percent of the managers are dissatisfied with the way management handles pay.

Question fourteen asks if the manager feels performance appraisals are fairly and honestly done. Figure 8 indicates that 30% of the managers agree. A significant finding about the handling of performance appraisals reveals that 34% of the managers are Not Sure if they are handled fairly and honestly.
Figure 7. Fair Management Handling of Pay.

Figure 8. Fair and Honest Performance Appraisals.
The researcher took the mean of questions eight and fourteen to determine AT&T managers' views of the Plan Administration. Figure 9 reflects that only an average of 33% responded Agree to fair handling of pay and the appraisal system. An average of 41% of the managers negatively responded, Strongly Disagree or Disagree, to questions about how the company administers the Compensation Plan. Twenty-six percent of the managers were Not Sure if the Compensation Plan is administered fairly.

Figure 9. View of the Plan Administration.

Understanding the Objectives and Performance Criteria of the Plan

The next objective the researcher analyzed was how well the AT&T managers understand the objectives and performance criteria of the Plan.
Question ten asks the managers if they understand the objectives of the Plan. Figure 10 shows that 46% of the managers believe they understand the objectives. There is an amazingly high percentage, 36%, of respondents that are Not Sure if they understand the objectives.

![Figure 10. Understanding of the Plan's Objectives.](image)

Question thirteen asks the managers if they know the criteria used to judge their performance. Figure 11 shows that 39% of the managers understand the criteria, 40% do not understand the criteria, and 21% of the managers are Not Sure if they understand the criteria.

Figure 12 illustrates that an overall average of 43% of the managers understand the objectives of the Plan and criteria used to judge their performance. Twenty-eight percent do not understand, and 29% are Not Sure.
This information was compiled from taking the mean of questions ten and thirteen. This data indicates to the researcher that there is poor communication of the Compensation Plan's criteria and objectives to managers.

Figure 11. Understanding of Performance Criteria.

Figure 12. Understanding of the Plan.
Desire For Change

The last objective in the evaluation of the research is to determine if there is a desire for change in the current Management Compensation Plan.

There were mixed results when the managers were asked in question eleven whether the Plan retained the best employees. Figure 13 illustrates that 36% of the employees agreed and 36% disagreed.

![Figure 13. The Plan Attracts and Retains the Best Employees](image)

However, when asked in question twelve if the Plan fostered teamwork and partnership, the answer was clearly no. Figure 14 shows that 82% of the managers responded negatively, 12% were Not Sure, and only 6% responded positively.
Figure 14. The Plan Fosters Teamwork and Partnership.

When asked in question thirteen, "I feel the pay system should be changed," 73% of all managers responded either Strongly Agree or Agree. As Figure 14 indicates on the following page, none of the managers Strongly Disagreed and only a small population, 6%, responded Disagree.

Summary of Results

The research supports the AT&T Managers' desire for change to the Management Compensation Plan. There are three significant findings within the data analysis and in the respondent's written comments.
Figure 15. Desire for Change.

The first significant finding is that the managers do not feel that the AT&T Compensation Plan, as it is currently administered, helps to foster teamwork and partnerships between the company and the managers.

The second significant finding is that the managers do not view their performance appraisals as being done fairly. This finding was expected by the researcher based on various views expressed in previous discussions with AT&T managers. In addition, previous published research by Lawler and others supports the conclusion that corporations, such as AT&T, that use an appraisal process that is competitive in nature and based on rating and ranking of employees, tend to have employees who become apathetic and disenchanted with
the process. The employees tend to view themselves as being in a political and/or popularity contest as opposed to being evaluated on their abilities and the achievement of corporate objectives.

The third significant finding that probably disturbs the researcher the most, is the abundance of Not Sure responses. The researcher believes there are two possibilities for the large percentages in this category. “Not Sure” could have provided an “easy out” response category. The second possibility is that the respondents are not informed enough to feel comfortable in answering the questions.

Additional findings supported by the data reveal that although the AT&T managers view their pay as fair, more emphasis needs to be placed on altering the administration of the Compensation Plan. The research findings suggest that the Plan is clearly not viewed as meeting the stated objectives of retaining the best employees nor does it clearly tie the manager’s compensation to performance.

The researcher used the respondent’s written comments in the development conclusions. Fifty percent of the respondents provided written statements clarifying their positions on many of the questions, especially the desire for change. The researcher also expected the AT&T Managers’ view of pay being fair. AT&T utilizes the Hay Plan and its market survey reports in an ongoing effort to keep the Management salaries at, or slightly above, competitive market limits.
Lastly, the researcher looked at the demographics associated with the results. Because AT&T's pay scales are based on job grades, it was not surprising that all managers saw the fairness of pay equally. Job grades limit the ability for differences in pay between managers to exist on a wide-scale basis regardless of age, race, sex, etc.

Recommendations for AT&T

AT&T has recently published material out of Corporate Headquarters indicating a directional shift toward Performance Management. This move is clearly in line with New Pay and the findings within this thesis. The managers want to move forward a pay system which pays for performance.

Since the results of researcher’s study indicate a desire for change, the researcher recommends that AT&T follow-up and formally form focus groups to determine if New Pay is a feasible program. Several of the problems uncovered in the study can be resolved by New Pay implementation. Since New Pay supports organizational changes and AT&T is restructuring to become “Customer Focused,” the timing is right to implement a new plan.

The researcher recommends that AT&T boldly move forward with its plans to implement Performance Management. In addition, the researcher recommends that AT&T begin to develop a system where variable pay is distributed at the end of successful large projects to those that are involved with the project’s success. Also, consideration should be given to moving to skill-
based pay. Since skill-based pay works well in technically competent organizations, the Engineering department would be an appropriate organization to utilize skill-based pay for the rapidly changing environment. It is also recommended that the performance sessions with the employees be conducted on the employee’s Net Credited Service (NCS) date. This will eliminate some of the comparisons between employees, as traditional job-based pay dictates. Using the NCS date will also help the manager give the individual attention needed for successful appraisal sessions, since the manager will not be giving the whole organization their appraisal in the same time period.

Since the survey was conducted, AT&T has begun paying supplementary performance awards at both the AT&T level and the Business Unit level. The researcher sees two problems with the administration of these awards. The first problem is that the employees do not receive any communication throughout the year on the level of performance results. Second, the employees have no control over the AT&T award; they do not have answerability for profit and quality over the entire company. The researcher recommends that the AT&T award be given to the executive team, and the Business Unit awards be supported with communication of performance results on a monthly basis as it relates to compensation distribution.
CONCLUSION
The researcher utilized the AT&T survey and evaluation to determine a benchmark of Corporate America’s pay plans. The observed weaknesses of traditional pay plans concur with the study results. Traditional pay plans limit the scope of achieving business objectives and goals. Traditional pay focuses primarily on three strategic statements. First, traditional pay plans focus on attracting, retaining, and motivating highest-ranking quality personnel. Second, traditional pay plans attempt to pay as well as, or better than, other competitive organizations. Lastly, traditional pay plans provide fair and equitable compensation based upon internal equity.

Studies indicate that New Pay implementation can assist corporations in achieving predetermined, measurable goals and objectives. New Pay is flexible in that it encourages experimentation and allows for modifications on a periodic basis. New Pay strongly focuses on performance results, as opposed to, job-based evaluations. External market-based pay determines new base pay, as opposed to internal equity. New Pay allows for the corporation to focus on goals and objectives by using the foundation of New Pay which is variable pay. Variable pay links profit, quality, customer value, and productivity performance with the employee’s compensation. New Pay ensures that organizations focus on customer satisfaction by use of variable pay. Employee involvement in determining the variable pay provides a method to develop a stronger partnership between the organization and the employees. New Pay provides a “common thread” by utilizing collaboration between all levels of employees. Even though
the scope of the thesis centered on direct pay, consideration needs to be given to employee benefits to tie total performance and contribution to compensation.

Many organizations are moving towards New Pay. Both AT&T Network System’s competitors and customers are currently implementing New Pay. Companies are finding that traditional pay solutions are non-responsive to today’s challenging business needs. New Pay allows companies to respond in the present, by adapting to the changing environment.
SELECTED BIBLIOGRAPHY


VITA AUCTORIS

The author, Susan Elaine Bastin, was born February 11, 1962, in Owensboro, Kentucky. She graduated from Apollo High School in 1980 and proceeded to Murray State University. Susan graduated from college in 1984 with a Bachelor of Science degree in Electrical Engineering Technology.

Susan accepted her first job as Manufacturing Technician with American Telephone and Telegraph Company in Shreveport, Louisiana. She married her college sweetheart, Johnny Greer, in March of 1986. Both Johnny and Susan were delighted to be promoted to Engineering in St. Louis in 1989. This was not only a good career opportunity, but a chance to get closer to home. They built a very nice house in St. Charles while settling into their new positions.

Susan’s career progressed quite rapidly with the move to St. Louis. She was given additional engineering responsibilities within a year of moving into the organization. She was then promoted to Installation Supervisor in January 1991. This was the beginning of the ending of her marriage, which was final December 1991. Due to the needs of the business, she took on the position of Installation Quality Manager in January 1992. After turning around the quality rating by the customer, she accepted an Account Manager position in December 1993. She was promoted, in place, less than one month ago.

She currently resides in Clayton, Missouri with her beloved dog, Fred.