A Review of the Civil Service Grading and Pay System

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A Review of the Civil Service Grading and Pay System

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FOREWORD

This paper is the thirty-eighth in a series undertaken by the Committee for Public Management Research.   The Committee is developing a comprehensive programme of research designed to serve the needs of the future developments of the Irish public service.   Committee members come from the following eight   departments: Finance; Environment, Heritage and Local Government; Health   and   Children;   Taoiseach;   Transport; Communications, Energy and Natural Resources; Social and Family Affairs; Office of the Revenue Commissioners and also from Trinity College Dublin, University College Dublin and the Institute of Public Administration.

This series aims to prompt discussion and debate on topical issues of particular interest or concern. The papers may outline experience, both national and international, in dealing with a particular issue. Or they may be more conceptual in nature, prompting the development of new ideas on public management issues. They are not intended to set out any official position on the topic under scrutiny. Rather, the intention is to identify current thinking and best practice.

We would very much welcome comments on this paper and on public management research more generally. To ensure that the discussion papers and wider research programme of the Committee for Public Management Research are relevant to managers and staff, we need to hear from you. What do you think of the issues being raised? Are there other topics you would like to see researched?

Research into the problems, solutions and successes of public management processes and the way organisations can best adapt in a changing environment has much to contribute to good management, and is a vital element in the public service renewal process. The Committee for Public Management Research intends to provide a service to

people working in public organisations by enhancing the knowledge base on public management issues.

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General information on the activities of the Committee for Public Management Research, including this paper and others in the series, can be found on its website: www.cpmr.gov.ie; information on Institute of Public Administration research in progress can be found at www.ipa.ie.

Background

The Irish civil service has a common pay and grading system. This means that all departments and offices have the same approach to grading, with pay levels in respect of each grade determined centrally. The traditional rationale for these arrangements is to promote and preserve an independent and impartial civil service. However, a fundamental question for HR policy is the extent to which they are still relevant and desirable. This issue was noted in *Towards 2016* (2006), the national social partnership agreement, which states (Para. 29.6) that 'the parties agree to engage in discussions to identify and explore the full range of issues involved in rationalising grade structures'.

Grading and pay structures

Grade structures are needed to provide a logically designed framework within which an organisation's pay policies can be implemented. Structures enable an organisation to determine where jobs should be placed in a hierarchy, to define pay levels and the scope for pay progression and provide the basis on which relativities can be managed, equal pay can be achieved and the processes of monitoring and controlling the implementation of pay practices can take place. A grade and pay structure is also a medium through which the organisation can communicate the career and pay opportunities available to employees (Armstrong and Murlis, 2005, p.196).

What clearly emerges from a review of the literature in this area is that no perfect framework has been developed within which an organisation's pay policies can be managed. In many organisations broad graded structures (8-12 grades) have come to the fore as the most pragmatic option. However, more pertinent than the number of grades is the manner in which a grade structure is implemented. In particular it is critical to ensure that grades are well defined, thereby making it easier to differentiate between them, and to evaluate jobs carefully to ensure the best fit between individual role profiles and grades.

The Irish system

All organisations in the Irish civil service have the same grades, to which in general the same pay ranges and incremental levels apply. Pay ranges are determined centrally and there is a high level of transparency in relation to these. Many departments also employ what are referred to as professional and technical staff (e.g. economists, vets, agriculture inspectors etc). The salaries of these 'specialists' (as distinct from the 'generalists' appointed to general service grades) are also determined centrally.

This system can be described as a 'narrow-graded' structure. It consists of a sequence of job grades, sixteen in the case of the general service, into which jobs of broadly equivalent value are placed. Employees are positioned at an appropriate point (their incremental level) within a salary range where the maximum point is around 30-50 per cent higher than the minimum point.

Within this kind of system, a large number of grades are required in order to accommodate a wide range of salaries. Critically, it is also a system that reflects the fact that promotion to a higher grade is almost the only form of reward for good performance.

Summary of findings

The civil service is facing ever-increasing demands, to produce more and better results, to deliver higher levels of efficiency and effectiveness and meet customer expectations. The way it organises, manages and rewards its staff is critical in this regard. We therefore need to ask whether current grading and pay procedures are optimal.

In respect of grading, key questions to ask include, how are jobs evaluated; how is internal equity defined; are there reasons to preserve the existing hierarchical structure? It would appear that job evaluation – the systematic process for defining the relative worth or size of jobs in an organisation – is done in a largely ad-hoc way in the civil service. While the number of grades (sixteen) does allow for distinctions to be made between different levels of responsibility, it is questionable whether there is an adequate, objective basis for categorising jobs within the grade structure.

Furthermore, the evidence in this paper suggests that while no grading system is perfect, narrow-grade structures like the Irish civil service model are likely to have disadvantages emanating from their excessively hierarchical nature. Firstly, it can lead to excessive bureaucracy, with work being checked and rechecked by staff at successive grades. Secondly, narrow grade structures reinforce the importance of promotion as the only means of progression. This can lead to constant pressure for upgrading, in some cases without justification (grade-drift), and also reduced emphasis on other, perhaps lateral, developmental opportunities.

The implication for the Irish civil service is that some amalgamation of grades, both within the general service grade structure and also between professional and general service grades might be considered. However, this would require extensive consultation, in particular with the civil service unions who would have concerns about any moves that would either result in a loss of members to another union or the possibility of diminished promotion opportunities for their members.

In respect of pay, the pertinent questions to emerge in this report are, what does the Irish civil service pay for – individual performance, team performance or tenure; can we afford to ignore performance; what is the relative importance of the labour market and prevailing pay levels?

Broadly speaking the Irish civil service pays on the basis of tenure. In theory salary increments are linked to satisfactory performance but in practice only in very rare cases are increases withheld.

The principal alternative available is to pay, at least in part, on the basis of performance. However, the evidence in this report suggests that while performance related pay (PRP) can be justified on ideological grounds (there should be a direct link between performance and reward) or as a catalyst for other changes (for example, its introduction can lead to an improved and stronger focus on effective performance management and appraisal processes), it does not necessarily lead to higher levels of performance.

Other HR practices have been shown to have a more significant impact on performance including, opportunities for career advancement, having influence on one's job, opportunities for training, working in teams, work-life

balance and having managers who are good at leadership. For the Irish civil service, it would therefore seem desirable that resources are dedicated towards enhancing these aspects of HR policy rather than PRP.

Labour market trends and private sector pay rates are reviewed by the Public Service Benchmarking Body. The report of the 2002 Body indicated that it had collected data in respect of over 3,500 jobs in the private sector. However, detailed information in respect of the nature of these positions was not made available. In this regard it has been announced that the current Benchmarking Body, whose report is due in the near future, has updated its processes. This is important, as a central feature of job evaluation should be a high degree of clarity and transparency in respect of job comparisons and relativities.

Ways forward
The conclusion of this research is that fundamental changes in respect of the centralised nature of the grading and pay system are not warranted. However, some reduction in the overall number of grades and greater integration of general and departmental grades should be on the agenda. Reform in this area would mitigate against the disadvantages of a very hierarchical system, afford organisations greater flexibility and provide many staff with increased career opportunities.

Performance related pay is not regarded as desirable. Instead resources should be dedicated towards initiatives that research now shows have a greater impact on performance and motivation levels.

The commitment in *Towards 2016* in respect of the civil service grading system states that 'the parties agree to engage in discussions to identify and explore the full range of issues involved in rationalising the grading system'. There are several reasons why such engagement would be timely including, the changing and ageing profile of the civil service, the government's decentralisation initiative and the increasing demands on the civil service to deliver a better and more effective service. It is also the case that the civil service grading system has remained largely unaltered during over a decade of public service modernisation. While change for change's sake is not to be recommended, an organisation's grading and pay structure is a very

significant expression of its culture and values. It is therefore important that its impact is monitored and reviewed on an ongoing basis.

This requires consultation with a wide number of stakeholders including, public representatives, trade unions, partnership groupings, senior management and staff in general, who would expect to have their views taken into consideration.

Introduction

1.1 Introduction

The Department of Finance Censis database of civil service employment (2003)[1] indicates that the almost 33,000 civil service employees are spread over 726 different job roles and are incorporated into the following categories: general civil servants, industrial grades, professional and technical grades, and services staff. Administering this system is a major bureaucratic exercise and involves considerable staff resources.

In addition, the civil service has a common pay and grading system, reflecting the traditional public service model. This implies that all departments and offices have the same hierarchical approach to grading, with pay levels in respect of each grade determined centrally.

The traditional rationale for these arrangements was to promote and preserve an independent and impartial civil service. However, a fundamental question for HR policy is the extent to which they are still relevant and desirable.

1.2 Research background

HR reform across the OECD, at its core, has been based around the concept of 'individualisation'. In other words, evolving from a situation whereby government employees are seen as part of a collective entity or grade classification to one where staff are managed as individuals, according to the changing needs of the organisation and the performance of individuals.

The implementation of this concept has had a wide-ranging impact. This includes reforms in respect of methods of entry into the civil service, employment tenure, promotion, pay, pensions, industrial relations

arrangements and methods of dismissal. This evolution towards practices more typical of the private sector is sometimes represented as switching from a 'career-based' to a 'position-based' system.

The Irish civil service has gone some way towards greater individualisation in respect of terms and conditions of employment, principally through the introduction of the Performance Management and Development System (PMDS). It identifies the roles and responsibilities of individuals in respect of the work of their department and also provides a forum through which individual performance can be managed.

However, a 'career-based' system still applies. Civil servants are usually hired at the beginning of their career and typically remain in public service throughout their working life. Promotion is linked to a system of grades rather than to specific positions. Lastly, there are limited possibilities for entering the civil service at mid-career.

1.3 Grading and pay structures

As noted above, this paper will focus specifically on the appropriateness of the current grading and pay structures. Grade structures first and foremost provide the framework for managing pay. However, they are also used as a process for mapping career paths without any direct reference to the pay implications

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed. Traditionally, organisations had one, single structure with a sequence of perhaps eight to twelve narrow grades. A grade structure becomes a pay structure when pay ranges or brackets are defined for each level.

Grade and pay structures are needed to provide a logically designed framework within which an organisation's pay policies can be implemented. They enable the organisation to determine where jobs should be

placed in a hierarchy. They define pay levels and the scope for pay progression. They provide the basis on which relativities can be managed, equal pay can be achieved and the processes of monitoring and controlling the implementation of pay practices can take place. A grade and pay structure is also a medium through which the organisation can communicate the career and pay opportunities available to employees (Armstrong and Murlis, 2005, p.196).

1.4 Study terms of reference

This study is being initiated to review the approach to grading and pay structures in the Irish civil service. It is anticipated that the findings of the research will inform future debate in relation to the Irish system. Consequently, the following terms of reference were proposed:

- An overview of the current grading and pay system in the Irish civil service.
- A review of the literature in respect of job evaluation, grading and pay structures.
- An overview of reforms in OECD countries and a particular focus on the experiences of the UK civil service which has implemented significant reforms in relation to pay and grading.
- A review of lessons learnt and recommendations in respect of how experiences elsewhere might inform debate in relation to the reform of the Irish civil service grading and pay structures. Particular focus will be given to the possible impact of various arrangements on individual and organisation performance.

1.5 Report structure

Following this introductory section, the layout of this report is as follows.

Chapter 2 provides an overview of current civil service

arrangements and reviews the extent to which pay and performance have been linked. It concludes by noting that *Towards 2016* (2006), the most recent national social partnership agreement, proposes discussions in relation to the possible future rationalisation of civil service grading structures.

Chapter 3 provides an overview of recent initiatives in respect of grading and pay structures. Drawing on the literature in the area, the concept of job evaluation is discussed and different approaches to grading are reviewed. The final section considers some of the challenges involved in implementing reforms in this area.

Chapter 4 provides details of the trend across OECD countries towards treating civil service employees as individuals rather than part of a collective entity. Particular attention is paid to the experiences of the UK civil service where a centralised approach to pay, grading and other HR policies was replaced by a decentralised regime, whereby departments have autonomy to establish the arrangements most suited to their needs. A case-study of grading and pay systems reform at Cornwall County Council is also included.

Chapter 5 provides a review of findings and conclusions and also indicates possible ways forward in reviewing the Irish civil service pay and grading system.

The Approach to Pay and Grading in the Irish Civil Service

2.1 Introduction

This chapter reviews the approach to pay and grading in the Irish civil service. Section 2.2 provides information in relation to the organisation of civil service grades, while Section 2.3 provides an overview of the pay determination system. Since the late 1980s pay bargaining for the public sector has been conducted centrally with standard pay agreements applying to all but top-level civil servants. A performance-review aspect has been incorporated into these agreements since 2000. However, incidences of individual performance related pay remain rare. These developments are discussed in Section 2.4. Lastly, Section 2.5 considers possible future directions indicated in *Towards 2016*, the new social partnership agreement, ratified in August 2006, and a HR discussion paper being developed by the Department of Finance.

2.2 The civil service grading system

The Irish civil service has a common pay and grading system. This means that all organisations have the same grades, to which in general the same pay ranges and incremental levels apply. Pay ranges are determined centrally and there is a high level of transparency in relation to these. Many departments also employ professional and technical staff (e.g. economists, vets, agriculture inspectors etc) referred to as specialists. Salaries for these employees are also determined centrally.

This system can be described as a 'narrow-graded' structure. It consists of a sequence of job grades, sixteen in

the case of the general service[2], into which jobs of broadly equivalent value are placed. Employees are positioned at an appropriate point (their incremental level) within a salary range where the maximum point is around 30-50 per cent higher than the minimum point.

Within this kind of system, a large number of grades are required in order to accommodate a wide range of salaries. Critically, it is also a system that reflects the fact that promotion to a higher grade is almost the only form of reward for good performance in the Irish civil service.

2.3 The civil service pay determination system

Pay bargaining in the public and private sector has been conducted centrally since 1987. Successive three-yearly national agreements on pay have been negotiated between national employer groupings and the Irish Congress of Trade Unions. The major factors considered in determining pay increases during the negotiation of the national agreements are the competitiveness requirements of the economy, the state of Exchequer finances including the prospects for a trade-off between budgetary concessions on personal taxation and the level of pay settlements, growth prospects and the projected rate of inflation.

Civil servants are paid according to a salary scale. A pay spine is the technical term given to the series of incremental pay points covering all jobs. Grades are superimposed onto the spine. Basic salary in most cases represent 100 per cent of total pay, though allowances for the performance of higher duties are occasionally paid if these duties are to be carried out on a prolonged basis. Salary increments are generally paid annually providing the employee's performance has been satisfactory

The Department of Finance controls the administrative budget and staff numbers of all central departments and offices. The administrative budget, which is negotiated annually, includes pay and remuneration, day-to-day office management costs and other headings such as travel,

expenses and consultancy services. The budget attributed to each organisation is determined by the budget of the previous year, general pay increases agreed at central level, planned productivity gains and changes in numbers where an increase has been sanctioned by the Department of Finance

2.4 Pay and performance

Pay awards in the public sector have been linked to greater efficiency and effectiveness, industrial peace and modernisation initiatives under the terms of each of the national social partnership agreements. However, under the *Programme for Prosperity and Fairness* (2000), this was made more explicit, with certain pay increases linked to the achievement of sectoral targets in respect of public service modernisation. Quality assurance groups (QAGs) were established to oversee and independently assess progress. If not satisfied with progress in any one organisation the QAG may look for further clarification and information.

Linking pay to performance, and the validation process involved in assessing this, were further developed under the public service benchmarking process and in *Sustaining Progress* (2003), which states that public sector pay awards are

> …dependent in the case of each sector, organisation and grade, on verification of satisfactory achievement of the provision on cooperation with flexibility and ongoing change, satisfactory implementation of the agenda for modernisation…and the maintenance of stable industrial relations and the absence of industrial action… (para. 26.1)

Performance Verification Groups (PVGs) were established for the main sectors of the public service (the civil service, local government, health, education, and justice and equality) in order to oversee the process. PVGs have independent chairs and equal numbers of management,

union and independent members. Organisations are required to submit progress reports in respect of modernisation objectives and primarily on this basis the PVG will make a recommendation in relation to whether or not payment should be made.

In the vast majority of cases, the judgment of the PVGs to date has been that progress has been sufficiently satisfactory to merit payment of the salary increases. However, there have been a number of instances where the recommendation has been that payment should not be awarded at the time of the assessments or where further information has been sought. A comprehensive review of the performance verification process was carried out by Boyle (2006).

2.4.1 Individual performance management

In May 2000 the Performance Management and Development System (PMDS) was introduced in the civil service.[3] The implementation of an effective process for managing individual performance is central to the achievement of the public service modernisation goals set out in *Delivering Better Government* (1996) and subsequent national social partnership agreements. The overarching goal of PMDS is to contribute to the continuous improvement in performance by all departments and offices.

The first phase of PMDS involved the holding of annual objective setting and review meetings between managers and their staff. According to the evaluation of PMDS conducted by Mercer Human Resource Consulting in 2004, a majority of staff found the process useful, in particular indicating that it had resulted in greater role clarity and helped them understand better how their work contributed to the overall objectives of their organisation. In addition, it was agreed that PMDS had resulted in improved communication between managers and staff in organisations, leading to better overall planning and

business performance.

The second phase of PMDS, negotiated during 2004/5, involved reaching agreement between management and unions on the development of an integrated PMDS model.[4] It was regarded as critical to the effectiveness and credibility of PMDS that it be linked to other HR processes, including decisions on increments, promotion, higher scales and other career assignments.

While payment of salary increments has in theory always been linked to satisfactory performance, the new PMDS model should make this more explicit as managers will be required to rank employees according to a five point rating scale. Only employees receiving a rank of 2 or over will be entitled to their increment. It is further suggested that in order to maintain the credibility of the rating system it should reflect the full spectrum of performance typically found in departments and offices. On this basis it is suggested that the broad pattern of grades might be: between 0-10 per cent of staff rated as 5; between 20-30 per cent of staff rated as 4; between 40-60 per cent of staff 3; between 10-20 per cent of staff as 2; and between 0-10 per cent of staff as 1. In addition it is indicated that only staff receiving a rank of 3 or over in their most recent PMDS review will be eligible to apply for promotion or higher scale posts. These arrangements were to be implemented by departments during 2007.

2.4.2 Merit awards

According to a Department of Finance provision, departments may reward exceptional performance by civil servants in grades below assistant secretary level by means of ex-gratia payments or other awards provided the expenditure involved can be met within a department's administrative budget allocation and does not exceed 0.2 per cent of payroll in any calendar year. The operation of this scheme is entirely at the discretion of the secretary general of each department and money has been

distributed in different ways. While many departments have used the resources to provide a gift for all staff, for example at Christmas, or to hold a social event, a number of organisations have used the fund to financially reward exceptional performance.

Within the Department of Social and Family Affairs, a partnership sub-committee makes a short-list of nominees, with the final award recipients being chosen by a committee comprising the secretary general, the partnership committee chairperson and one other committee representative. In the Department of Enterprise, Trade and Employment, the secretary general can make exceptional performance awards on foot of nominations at any stage in the year. A similar arrangement applies in the Department of Defence where managers (via the division's assistant secretary) make nominations to the secretary general in respect of staff members who have performed exceptionally. Typically, the secretary general accepts the nomination and an award in the region of €500 is made. Lastly, within the CSO, a portion of the merit pay budget is traditionally distributed to all mangers to make small local level performance awards (vouchers or lunches) at their own discretion throughout the year.

2.5 Future trends

Towards 2016 (2006), the seventh national social partnership agreement ratified in August 2006, continues the process developed in previous agreements, of establishing an agenda in relation to reform of HR arrangements in the civil service. In particular, the implementation of the new phase of PMDS, the impact of the Civil Service Regulation (Amendment) Act 2005[5] and the greater use of open recruitment at management grades are highlighted. The agreement on open recruitment will allow the civil service to fill approximately 20 per cent of vacancies at principal officer, assistant principal officer, higher executive officer and equivalent professional and

technical grades from outside the service. This will enable departments 'to attract staff with the wide range of skills and experience needed in a modern public administration' (para. 29.3). In addition, a brief reference is made to the rationalisation of grade structures (para. 29.6). It is stated that 'the parties agree to engage in discussions to identify and explore the full range of issues involved in rationalising grade structures'.

Some indications of possible future directions in this regard are set out in a HR consultation paper developed by the Department of Finance during 2006 and still under review.[6] Based on consultations across the civil service, the paper makes three central suggestions in relation to grading and pay.

- *The common pay and grading system should be retained at present.*

The current system has a high level of support due to its transparency and objectivity. For each civil service organisation to devise its own system would be extremely resource intensive and demanding to implement. However, respondents did desire greater flexibility in relation to the recruitment of highly skilled or experienced new recruits into the general service and the possibility of rewarding exceptional performance.

- *The number of specialist or departmental grades should be reduced*

Reducing the number of departmental grades was perceived as desirable as it would reduce the administrative burden, in terms of pay-roll, while also providing for greater levels of mobility.

In this regard the successful integration of Customs and Excise staff with general Revenue grades provides a good example. This initiative has proven mutually beneficial to management, who are given greater flexibility in relation to the deployment of staff resources, and staff, for whom mobility, transfer and promotion opportunities are

enhanced.

● *Some simplification of the grading structure*

It was suggested that some reduction in the number of grades would have several advantages. This could be achieved through the amalgamation of certain grades (examples might be staff officers with executive officers or higher executive officers with assistant principals). Possible changes of this nature would simplify the increasingly burdensome tasks of payroll and pension administration. Secondly, it would reduce current levels of bureaucracy (e.g. the same job being done several times due to different levels checking and re-checking certain tasks).

Furthermore, it would be hoped that a more streamlined structure would lead to improved levels of performance. A very hierarchical organisation can lead to an emphasis on grades, rather than ability and may undermine initiative and potential. In addition, and typical in a union environment, multiple grade structures can lead to over strict demarcation in respect of the tasks that can be carried out by different grades.

These ideas are revisited in the final chapter of this report in the context of the research findings.

A Review of Grading and Pay Reform Initiatives

3.1 Introduction

The purpose of this chapter is to explore changes in private sector grading and pay structures as documented in the human resource (HR) literature. The first part of the chapter details the motivation for reforms (section 2.2) and the core characteristics of the private sector model (section 2.3). The second part of the chapter describes in greater detail the concept of job evaluation (section 2.4), while section 2.5 reviews different types of grade/pay structures. Section 2.6 concludes by noting some lessons from private sector practice.

3.2 Drivers of change in the private sector

Interest in more innovative forms of grade and pay structure emerged in the 1980s, though it was primarily in the 1990s that significant numbers of private sector companies reformed their grade and pay structures. Research carried out on behalf of the Chartered Institute of Personnel and Development in 2000 found that only 10 per cent of organisations surveyed retained traditional multiple grade structures (Armstrong, 2000).

A number of factors contributed to the high levels of interest in new grading and pay models (Risher, 1994). Principal among these were economic and financial pressures and a desire to increase productivity. Linking pay to performance, a common feature of many new programmes, was believed to have a high motivational value, while also being perceived as a means of keeping payroll costs under control. In many organisations, where business need – the so-called 'bottom-line' – was used to justify quite significant changes, it was hoped that the new

structures would result in employees in effect earning their pay increases through higher productivity.

A further driver was the emergence of the concept of quality management and related changes in the way work is organised and managed. Total Quality Management advocates were very critical of traditional appraisal and pay systems and this prompted many companies to consider new approaches. However, despite the increasing reliance on teams and team performance, few organisations' policies have evolved to the extent that they reward on this basis rather than for individual performance.

Finally, 'pervasive organisation changes have introduced a compelling need for policies and practices that are more flexible and responsive to the needs of the business unit' (Risher, 2004, p.652). Hierarchical organisation structures were rapidly disappearing and within a new organisation environment greater flexibility was required in respect of grade and pay structures.

3.3 Core characteristics of the private sector model

The specifics of new grading and pay structures in private companies vary considerably. However, it is possible to note a number of core characteristics of the private sector model.

● *There is a shift from 'paying the job' to paying the person*
Traditionally, the grade and salary attached to a job were determined by its value, as defined in terms of duties and responsibilities. HR personnel would make this assessment and consequently assign the job to a given grade and salary range. Such an approach had a number of shortcomings. It was time consuming and demanding from an administrative perspective as jobs had to be individually evaluated; it was difficult to change job descriptions in line with business needs and the focus on documented tasks and responsibilities meant that employees could resist requests to carry out other duties; lastly, the approach emphasised the notion of hierarchy in organisations, which

was frequently contrary to a reality of team based working.

The alternative, which is central to the new model, is to base pay decisions on the value of the person. This is sometimes referred to as skill or competency-based pay. Essentially this sends a message that the more you can do or the more you contribute to the organisation the more value you have. This approach also assists employees to identify what skills, knowledge and experience they need to acquire in order to progress within the organisation. From a management perspective, competency frameworks effectively tie together core aspects of HR policy and support a consistent and logical approach towards staffing decisions, career management, performance appraisal and development planning.

In addition, private corporations are increasingly designing separate grading and pay practices for different employee groups, for example graduates, employees with high potential or those with highly sought after skills. Organisations are trying to develop arrangements that 'fit' their business needs and culture rather than adopting 'off the shelf' programmes.

- *There is a shift towards de-layering organisations with a significantly reduced number of grades*

The traditional corporate structure involved a series of overlapping grades and salary ranges into which jobs of broadly equivalent value were placed. The maximum salary for each grade was typically between 20 per cent and 50 per cent above the minimum.[7] The pay range provided scope for progression, with perhaps eight or more points on the scale.

The advantages of these narrow-graded structures from an employee's perspective was that they were transparent, while from managements' point of view they provided a framework for managing relativities. However, for many organisations multiple grades, possibly twenty plus, meant constant pressure for re-grading, leading to grade and salary drift. Hierarchical systems were also seen to reinforce

the importance of promotion as a means of progression, which may run counter to the needs of the organisation for flexibility and the need to move people laterally to enhance their skills and capability (Armstrong and Murlis, 2005).

In order to avoid these significant shortcomings many organisations introduced banded structures. This involved all jobs being re-categorised into perhaps five to six bands (for example, director, manager, senior specialist, specialist, support) with perhaps as much as 100 per cent difference between the minimum and maximum salary paid within the band.

- *A search for new, more effective methods of appraising performance*

The move away from traditional pay systems with automatic pay increments was associated with an increased emphasis on performance management. However, in many instances appraisal systems focused on last year's performance and were little more than a 'fill out the form' exercise and consequently of little benefit to the employee or organisation. More innovative systems involving '180-degree' reviews (where employees have the opportunity to comment confidentially on their manager's performance) and '360-degree' feed-back (might also include peers, subordinates and internal and external customers) have generally proven more effective. Similarly, pro-active and forward-looking performance management programmes that result in meaningful objective setting and performance/career development conversations between managers and their staff are more effective.

- *A shift in responsibility away from HR/personnel departments to line managers*

The concept of strategic HR – that HR policies and procedures were not developed in isolation but rather in the context of business objectives[8] – was a dominant theme in private companies at the end of the 1990s and start of the 2000s. One consequence of developing a more strategic

approach to HR is the increasing emphasis on line managers being held accountable for the performance and development of their staff. In some organisations this extends to the determination of appropriate salary ranges, starting salaries and merit increases.

3.4 Job evaluation

Job evaluation underpins judgments on appropriate grading and therefore pay decisions. It 'is a systematic process for defining the relative worth or size of jobs within an organisation in order to establish internal relativities and provide the basis for designing an equitable grade and pay structure' (Armstrong and Murlis, 2005, p.112).

Initially emerging out of the need to guarantee equal pay for equal work, particularly for female employees, interest in job evaluation has increased generally, in line with a growing awareness of its benefits. Armstrong and Murlis (2005) summarise these as:

- assisting organisations to meet ethical and legal 'equal pay for work of equal value' obligations

- establishing the relative value or size of jobs, i.e. internal relativities based on fair, sound and consistent judgments

- producing the information required to design and maintain equitable and defensible grade and pay structures

- providing as objective as possible a basis for grading jobs within a grade structure, thus enabling consistent decisions to be made about job grading

- enabling sound market comparisons with jobs or roles of equivalent complexity or size.

The conventional view of job evaluation is that it is concerned with the job not the person. In other words, the

only concern is the content of the job in terms of the demands made on the job-holder. The main perceived benefit of properly devised and applied job evaluation is that it allows for consistent decisions to be made on job grades and rates of pay. In addition, such decisions are far more likely to be accepted by employees as fair and equitable as compared to informal, ad-hoc approaches.

However, criticisms of the concept have also been made (Gunnigle et al, 2006, p.173). It has been suggested that job evaluation leads to a situation whereby the job is perceived as more important than the person in the job and more particularly their performance. This can lead to excessive weight being given to promotion within environments where opportunities in this regard may be limited. Related to this is the inability of many formal job evaluation schemes to effectively address the issue of knowledge workers whose performance is based on specialised applied learning rather than on general skills and, also, its inability to keep pace with ever changing roles which are a common feature of many dynamic organisations.

There is also the possibility of schemes decaying overtime through misuse. People learn to manipulate them to achieve a higher grade and this leads to the phenomenon known as 'grade drift' – re-gradings that are not justified by a sufficiently significant increase in responsibility (Armstrong and Murlis, 2005, p.127). Lastly, is the fundamental problem of the possibility of error in the human judgements that form a central part of the process. Perhaps the biggest pitfall in this regard is making a priori judgments, whereby decisions in relation to job evaluation are influenced by preconceptions about relative worth.

However, not withstanding these potential shortcomings, job evaluation is in a sense unavoidable. As Armstrong and Murlis (2005) note, it could be claimed that every time a decision is made on how to categorise a job or what it should be paid, a form of job evaluation is required. 'The issue is how best to carry it out analytically, fairly,

systematically, consistently, transparently and, so far as possible, objectively, without being bureaucratic, inflexible or resource intensive' (p.130). Using a tested and relevant job evaluation scheme, monitoring and reviewing its implementation on an ongoing basis and providing appropriate training to all involved in the process can enhance the process of designing grade structures, grading jobs, managing relativities and ensuring that work of equal value is paid equally.

3.4.1 Approaches to job evaluation

Approaches to job evaluation are commonly classified as analytical or non-analytical. The former involves jobs being broken down into a number of critical factors that are then analysed and compared using a quantitative measure. It involves making decisions about the value or size of jobs, typically on the basis of the extent to which various defined factors or characteristics (e.g. knowledge, initiative, responsibility for people) are present in a job. The extent to which they are present will indicate relative job value. Non-analytical job evaluation represents more of a general overview of the job as indicated by the role profile, without consideration of the constituent parts (Gunnigle et al, 2006, p.167).

Analytical job evaluation is generally seen as more rigorous – the relative size or 'value' of jobs is determined on the basis of factual evidence drawn from a structured framework of criteria – it is therefore the standard of job evaluation required for legal cases, for example, equal pay claims. Appendix 1 gives examples of different types of analytical and non-analytical schemes.

3.5 Types of grade and pay structures

The literature on grade and pay structures (Armstrong and Murlis, 2005; Armstrong and Stephens, 2005; Armstrong and Brown, 2001) identifies five general categories: narrow graded, pay spines, broadbanded, career families and job

families. These are discussed in this section.

3.5.1 Narrow graded structures

In the past the almost universal type of structure in the private sector was the conventional, single-graded pay structure (Figure 3.1). It consists of a sequence of job grades, at minimum probably around eight, into which jobs of broadly equivalent value are placed.

Figure 3.1: A Narrow Graded Pay Structure

€
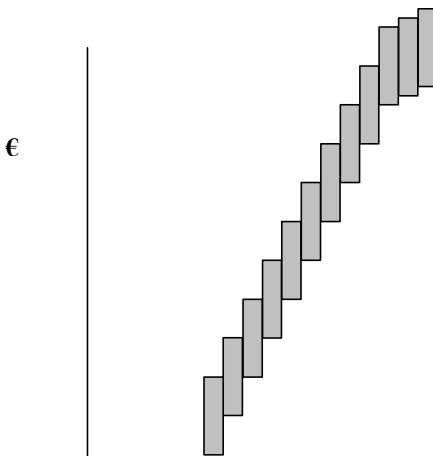
Source: Armstrong and Murlis, 2005

A pay range is attached to each grade, with the maximum of each range typically between 20 per cent and 50 per cent above the minimum. Differentials between pay ranges are typically about 20 per cent and there is usually an overlap between ranges. This overlap provides some flexibility to recognise that a highly experienced individual at the top of

a range may be contributing more than someone who is still in the learning curve portion of the next higher grade. The pay ranges provide scope for progression, which is usually related to performance, competence or contribution.

Narrow graded structures provide a framework for managing relativities and for ensuring that jobs of equal value are paid equally. Armstrong and Stephens (2005, p.185) note that 'in theory they are easy to manage because the large number of grades enable fine distinctions to be made between different levels of responsibility'. They also help to define career progression and staff may favour them because they offer opportunities for increasing pay through upgrading.

However, the disadvantages from an organisation's perspective can be significant. If there are too many grades there may be constant pressure for upgrading leading in some cases to unjustified regrading ('grade drift'). They can represent an extended hierarchy that may no longer be appropriate in de-layered, team and process-based organisations. Lastly, they reinforce the importance of promotion as a means of progression, which may run counter to the needs of organisations to be more flexible and also the needs of individuals, who may as a result forgo opportunities for developmental lateral moves.

3.5.2 Pay spines

Pay spines are broadly similar to narrow graded structures and are found in the public sector or in organisations that have adopted a public sector approach to reward management. Pay spines consist of a series of incremental pay points aligned to job grades. Typically pay spine increments represent a salary increase of 2.5 to 3 per cent. Increases may be standardised from the top to the bottom of the scale or may vary at different levels, sometimes widening at the top. Progression through the scale is based on service, although some organisations make provisions for accelerating increments or providing additional

increments above the top of the scale to reward high performing staff.

The advantages of the system are that it is easy to manage and, because pay progression is linked to service, it is not based on managerial judgment. For this reason the system is favoured by trade unions, many employees and some managers. Due to this potentially high level of consensus in relation to the approach it can be difficult to move away from, despite a number of important disadvantages.

Relating pay almost entirely to service means that people are rewarded for 'being there' and not for the value of their contribution. Secondly, in an environment of low staff turnover, the approach can be expensive with many staff reaching the top of the scale. Furthermore, reaching the top of the scale can result in staff frustration, as further increments are only available if they are promoted.

3.5.3 Broadbanded structures

Broadbanding means that the number of grades is compressed into a relatively small number, perhaps as few as four or five, in which pay is managed more flexibly than in a conventional graded structure (Figure 3.2). Broadbanding became popular during the 1990s, gaining credence as the grade and pay structure which supposedly contributed to the success of companies like General Electric. It was regarded as the ideal structure for modern de-layered organisations, with an emphasis on individual career development, flexible roles and competence growth (Armstrong and Stephens, 2005).

As overall pay opportunities are likely to be the same as under a previous system, the range of pay for each grade, or band as they are more commonly referred to, will be far more extensive than under a narrow graded system. The difference between the maximum and minimum salary available within a band may be as high as 100 per cent.

Figure 3.2: The Conversion of a Traditional Graded
Structure into a Broadbanded one
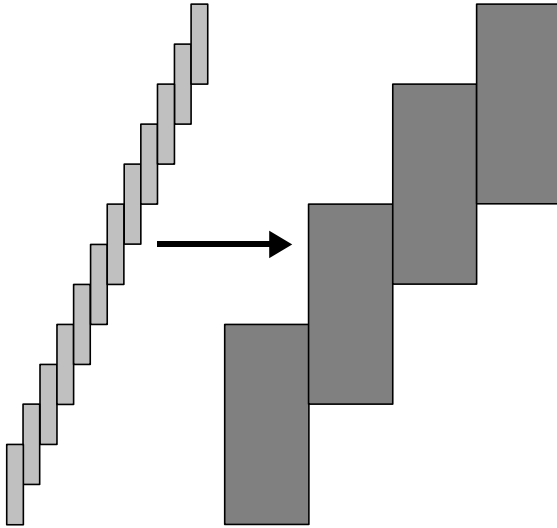
Source: Armstrong and Brown, 2001

When first introduced, the broadband concept allowed for unlimited progression within bands. However, many organisations found this lack of structure was unmanageable and that some mechanism had to exist for controlling progression. This has resulted in reference points, based on job evaluation or aligned to market rates, being inserted into bands. Ranges of pay or 'zones' may also be built around reference points.

The primary reason organisations adopt broadbanded pay structures is to acquire greater flexibility. Individual rates of pay may be adapted more readily to changes in the market rate than under a traditional multiple grade structure. Similarly, it is possible to reward lateral career development or superior performance. In this way,

broadbanding provides a role-specific and performance-related focus on reward.

However, broadbanded systems also have considerable disadvantages. For employees, a broadbanded structure may unwarrantedly raise expectations of pay opportunities. Staff may also be concerned by the apparent lack of structure and believe that decisions are not made consistently. For employers, despite initial hopes to the contrary, broadbanded structures tend to be more difficult to manage than narrow-graded structures. They make considerable demands on line managers and HR personnel in respect of performance management and communication, though it could be argued that these are precisely the tasks which staff in these positions should be fulfilling.

In addition there is a concern that broadbanding can lead to equal pay problems. The broader pay ranges within bands mean that they include jobs of widely different values or sizes, which could result in discrimination. In addition, research has shown that in transferring from a traditional pay structure, women may be assimilated in the lower regions of bands and find it very difficult to catch up with their male colleagues who, perhaps due to longer, unbroken service, may be assimilated in the upper regions of bands (Armstrong and Murlis, 2005, p.200).

While procedural shortcomings can be overcome if the system is implemented and communicated in an effective manner, there are further difficulties with the concept in principle. The introduction of bands within bands ('zones') in order to make the system more manageable prompts the query, what's the difference between a broadbanded structure with four bands each with three zones and a conventional graded structure with twelve grades. The answer from advocates of broadbanding is that zones operate more flexibly with regard to grading, pay progression and reaction to market pressures than narrow-graded structures. However, whether this merits the considerable effort involved in reform will depend on individual organisations.

3.5.4 Broad graded structures

Broad graded structures are closer in concept to narrow graded structures, even though in many organisations they evolved as a response to the failings of broadbanded structures. Broad grading implies perhaps eight to ten grades with associated pay ranges, managed in the same way as a narrow graded structure. However, with a somewhat smaller number of grades than pertains with a narrow graded structure, and provided that these grades are well defined, broad graded structures are alleged to alleviate the problem of grade drift associated with narrow graded structures. However, the increased width of grades can lead to pay drift, with employees expecting to reach the upper pay limit of a grade. In order to counterbalance this, some organisations have incorporated threshold controls (pay can not increase without achieving a defined level of competence) and zone controls (dividing the grades into segments or zones).

3.5.5 Career family structures

As the name implies, career family structures involve the grouping together of jobs from similar functions or occupations (for example, HR, IT, finance, operations, support services) into 'families'. These jobs are related through the activities carried out and the basic knowledge and skills required, but differ in respect of the levels of responsibility, competence, knowledge or skills needed. Reflecting this, career structures have typically between six and eight levels (Figure 3.3).

Figure 3.3: A Career Family Structure

Senior
Management

Job
Levels

Pay ranges
€'000

Career Families
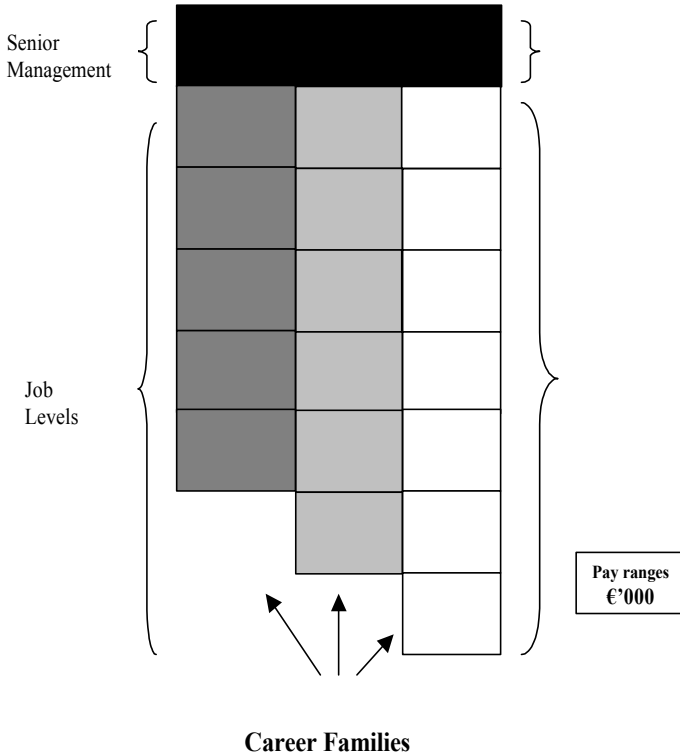
Source: Armstrong and Murlis, 2005

Good career progression is a positive feature of this system as within each family there are defined career paths for progressing to higher levels. As a result, employees will be aware of the competencies and experience they need to acquire in order to be eligible for higher levels. Furthermore, because jobs in the corresponding levels of other families are of a similar size and attract similar pay rates, it is possible to pursue careers in other families, thereby enhancing opportunities for personal development.

The principal difficulty with career families is that they can be very complex to develop, maintain and manage. A considerable amount of work is required to produce clear analytical definitions of the requirements at each level. A further possibility is that, notwithstanding the potential for lateral moves, career families can result in a 'silo' mentality if managed too rigidly with staff failing to look beyond their own operational area.

3.5.6 Job family structures

Job family structures are a variation on the career family concept. Where career families are focused on an occupation or function, job families are typically based on common processes. For example, IT, finance and HR would be identified as separate in a career family structure, but a job family approach might combine these roles into a 'business support' family. This approach reduces the number of families (maybe only three to five) in an organisation. Each job family will be divided into a number of levels depending on the range of responsibilities they cover. As each job family has its own grade and pay structure there may be no commonality, as in a career family structure, in terms of the ranges of pay or job evaluation points for similar levels in different families (Figure 3.4). Implementation of this quite new form of grading structure has to date been in environments that are relatively well paid and sophisticated in HR approaches.

3.5.7 Review of grade structures

What clearly emerges from the above analysis is that to date no perfect framework has emerged within which an organisation's pay policies can be managed. If grades are too numerous there is a risk of grade drift, with employees easily progressing up the grading ladder; if, on the other hand, grades are too few, there is a risk of salary drift, due to an absence of structure within bands where the highest salary point may be 100 per cent more than the entry point.

Figure 3.4: A Job Family Structure with Differing Levels
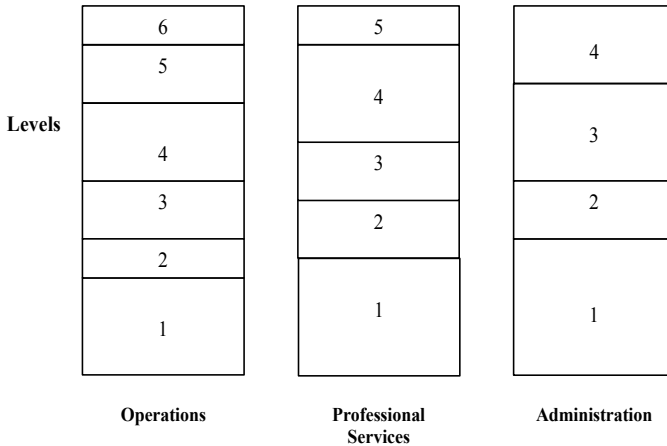
Source: Armstrong and Brown, 2001

Narrow graded structures have emerged as somewhat of 'a halfway house'. A grade structure of eight to ten grades is perceived to alleviate the worst extremes of both narrow grade and broadband systems.

However, more pertinent is the manner in which a grade structure is implemented. It is critical that grades are well defined, thereby making it easier to differentiate between them, and that job evaluation is undertaken carefully to ensure the best fit. In addition, career progression and salary expectations need to be honestly communicated to staff.[9]

A summary of the features, advantages, disadvantages and appropriateness of each type of structure is shown in Appendix 2.

3.6 Implementing a new grading structure

An organisation may become dissatisfied with its current grading and or pay system for a wide range of reasons. Over

time, the problem of 'grade drift' may have led to increasing pay costs and grading anomalies perceived as unfair by employees. Organisations may feel that their grading system is out of line with new approaches to the organisation of work, for example an increased emphasis on project teams, or it may be the case that management believe that needs more flexibility in terms of career progression and salary in order to attract the calibre of candidate it believes the organisation requires to progress in a key area.

All of these factors indicate at the very least that organisations should review their grading systems, perhaps on an annual basis. This process of maintenance should also be accompanied by a consideration of the continuing relevance of the grading system to organisation needs. As emphasised by Armstrong and Murlis (2005, p.222), an organisation's grading and reward structure is a deeply influential expression of organisation culture and values. If, therefore, it is out of step with espoused values or it encourages the 'wrong' behaviours, then perhaps significant changes will be required.

Appendix 3 shows a standard approach to introducing a new grade and pay structure. The importance of consultation with management and involvement and communication with employees are strongly emphasised at all stages of the change programme. As noted by Armstrong and Brown (2001, p.218), 'perhaps the worst thing you can do if you are in a situation where you think your pay structures need to be redesigned is to start with the solution and to rapidly implement it'.

The challenges of developing a new system are perhaps even greater in the public sector. Grade and pay structures in the public and private sectors rely on the same basic framework, but the underlying philosophy differs in important ways. As noted by Risher (1994, p.649), the most important difference is the decision process that governs change in the private sector where business need – the so-

called bottom line – can be used to justify swift and possibly disruptive changes. In many organisations, this makes it possible to introduce new structures as soon as the chief executive agrees with the need for the proposed changes.

In contrast, in the public sector agreement between a range of stakeholders with very different agendas and personal goals is required. The views of public representatives, trade unions, partnership groupings and line managers may need to be taken into consideration to an extent not required in the private sector. Given this context, Risher (1994) emphasises the importance of developing goals for the new programme as a basis for consensus. If the key decision makers can agree on what the programme changes are expected to accomplish, it will be easier to achieve progress at later stages in the project. In this regard, several basic policy issues are worth considering (adapted from Risher, 1994, p.664).

- How do we define 'internal equity'? How do we evaluate jobs? Is this compatible with the way we organise and manage work? Do we have a reason to preserve the existing hierarchy?

- What do we pay for – individual performance, team performance, tenure? Can we afford to ignore performance?

- What is the relative importance of the labour market and prevailing pay levels? In what way do we align salaries with those in the private sector?

The final chapter of this report will return to these questions in the context of the reform of the Irish civil service grading and pay structures.

Public Sector Experiences of Grading and Pay Reform

4.1 Introduction

The purpose of this chapter is to review some of the trends in human resource management (HRM) policies in OECD countries. Particular attention will be given to the concept of 'individualising civil service arrangements' (OECD 2004, p.4). Increasingly there is a move within OECD countries towards treating employees as individuals rather than a collective grouping in respect of the selection process, the term of appointments, termination of employment, performance management and pay.

The second part of the chapter will focus on the experiences of the public sector in the United Kingdom. It is an interesting comparator for the Irish civil service due to the fact that the Irish system of government and civil service is modelled on the UK system. In addition, HR reform initiatives developed in the private sector have been implemented in the UK public sector to a greater degree than in any other European country. The final section of the chapter is a case-study of an English local authority that introduced a new pay and grading system in early 2004.

4.2 OECD experiences

4.2.1 The changing nature of civil service systems

In reviewing the nature of public sector employment across the OECD an important distinction arises between position-based and career-based systems. Position-based systems focus on selecting the best-suited candidate for each position, whether by external recruitment or internal promotion. They allow more open access, and lateral entry is relatively common.

Career-based systems imply a regime where civil servants are expected to remain in the public service more or less throughout their working life. Initial entry is based on academic credentials and/or a civil service entry examination. Once recruited, people are placed in positions somewhat at the will of the organisation. Promotion is based on a system of grades attached to the individual rather than to a specific position. An employee's progress depends to a large extent on how he/she is viewed by the organisational hierarchy, a powerful lever for moulding behaviour to conform to group norms. This sort of system is characterised by limited possibilities for entering the civil service at mid-career (OECD, 2005a, p.165).

Evidence compiled by the OECD suggests that both systems have their shortcomings (OECD, 2003 and 2005a). The career-based system is under pressure because it runs against trends in the wider job market, and because it is seen to be less able to deliver specialist skills and flexibility than the position-based approach. The challenge for position-based systems is to maintain government coherence and a collective culture within a decentralised context. The OECD (2005a, p.165) conclude by noting that 'increasingly, no current civil service in the OECD is a pure example of either the career-based or position-based type. There seems to be a tendency for each to adopt some processes from the other to mitigate the weaknesses to which each system is prone'.

4.2.2 Individualising civil service arrangements

The individualisation of HRM is a broad concept, implying the management of employees as individuals, not just as part of a collective entity or by grade classification, but according to the changing needs of organisations and depending on their performance (OECD, 2005a, p.170).

Traditionally, government employers guaranteed life-long employment, with much greater job security than in the private sector. However, since the late 1980s this has

somewhat changed. Many countries have abolished the privileged status afforded civil servants in respect of labour laws, with general labour laws (for example, in respect of dismissal) now applying.

There is also an increasing trend towards the use of fixed-term contracts either in respect of new positions taken up by established civil servants or for external entrants joining the service. In the case of the former group, while they will remain in the civil service, their tenure in their new position is dependent on performance and/or organisation need. In cases where fixed-term contracts are used to employ external candidates, there is no guarantee of further employment in the civil service. Table 3.1 reviews the openness of government posts across OECD countries.

Table 4.1: Openness of Government Posts across the OECD

	Policies	Countries
In principle, all levels of posts are open for competition	…including posts at senior and middle levels	Austria, Belgium, Denmark, Finland, Hungary, New Zealand, Slovak Republic, Switzerland
	…except the most senior level posts which are filled by the government	Australia, Canada, Italy, Norway, Sweden
Posts both at senior and middle levels are partially open for competition		Korea, Luxembourg, United Kingdom
No posts are open for competition…	…both at senior and middle levels	Japan, Spain
	…with the exception of some posts at middle level	France, Ireland

Source: OECD 2004

This trend towards more temporary employment and away from life-long careers is in part driven by the contemporary labour market where, given a greater variety of competing jobs in a wider market, new entrants tend not to remain with the one organisation for their entire career. However, it

is also motivated by new pressures for labour flexibility to address the demands of modern government and increasing concern among governments in relation to long-term pension liabilities, particularly given the ageing of public sector workforces.

4.2.3 Individual performance management

One of the most notable examples of the adoption of private sector practices and management methods within public administrations is the emphasis on performance. This has taken on a number of different forms, including the introduction of individual performance appraisal systems.

The process of performance management is usually an annual cycle, where the line manager identifies key objectives for the year with his/her employees, generally in line with organisation goals. These are then reviewed at year-end. Over the past decade there has been a trend away from detailed and scientific rating systems towards an ongoing performance dialogue between managers and their staff and consideration of improvement of competencies. Typically, in career-based systems appraisals are linked to promotion and advancement.

A further feature of the emphasis on individual performance is the introduction of performance-related pay (PRP) schemes, in particular for senior managers, but increasingly also for non-managerial employees. Two thirds of OECD countries report having implemented PRP, or being in the process of doing so (OECD, 2005b). However, there are wide variations in the manner in which it is actually applied. In many cases, it operates in only a very limited way and formalised PRP policies exist primarily in position-based systems, for example, New Zealand, the United Kingdom, Switzerland and Denmark. Furthermore, even in these countries the size of performance payments is generally a fairly modest percentage of the base salary, representing less than 10 per cent for non-managerial employees, rising perhaps to 20 per cent at management

level (OECD, 2005b, p.175).

However, despite the ongoing trend towards limited PRP schemes it remains a complex issue. Principally there is the difficulty of finding suitable quantitative indicators, while performance objectives often change with government policy. Secondly, recent research strongly questions the extent to which pay is the motivator it was perhaps once thought to be (Perry et al, 2006; Purcell et al, 2003). Rather it appears that the individual discretionary behaviour that leads to better organisation performance happens when people find their jobs satisfying, feel motivated and are committed to their employer.

This appears to be particularly the case in the public sector. While base-pay as it relates to the market is important, small supplementary increases for performance are less relevant, particularly in career-based systems where promotion or development opportunities are regarded as far more significant. Perry et al (2006, p.507) in an appraisal of research in this area conclude that 'merit pay and pay-for-performance systems in the public sector have generally been unsuccessful, have little positive impact on employee motivation and organisational performance, and fail to show a significant relationship between pay and performance'.

However, the authors do add that the failure to find a pay-performance relationship may result from a lack of adequate funding for such schemes and the absence of the organisational and managerial characteristics that are necessary to make pay for performance work. In other words, it is suggested that it may be the manner in which performance-related pay schemes are implemented in the public sector that is at fault rather than the concept itself.

In contrast, Bogdanor (2001) criticises the applicability of performance-related pay to the public sector in principle. He suggests that in rewarding on the basis of individual performance, organisations risk undermining team-work and, as a consequence, concepts such as 'joined-up

government' and the notion of shared values and culture which have emerged in recent research as critical for effective government are jeopardised (OECD, 2003 and 2005a).

Finally, the OECD (2005b) in concluding an extensive research study into performance related pay policies in the public sector, suggest that while PRP in itself may not have a significant impact on employee behaviour, it is regarded as useful in facilitating other organisational changes. These include an improved and stronger focus on effective appraisal and goal-setting processes as well as clarification of tasks, better attention to the acquisition of skills and team work, the improvement of employee and management dialogue and increased flexibilities in work organisation: 'Introducing PRP can be the catalyst that allows organisation changes to occur and, at the same time, facilitates a renegotiation of the 'effort bargain' thus assisting in recasting the culture of the workplace. These dynamics have positive impacts on work performance' (OECD, 2005b, p.177).

4.3 Evolving approaches to HRM in the UK civil service

Reform of the public sector in the United Kingdom has its roots in New Public Management, a concept that involved the adoption of private sector management practices in state organisations. It was a philosophy which the Conservative government of the 1980s strongly adhered to and which led to wide-ranging public sector reforms. Particularly significant was the creation of a large number of autonomous agencies with responsibility for various areas of government activity.

In relation to pay determination, a number of key developments were introduced in the mid-1990s:

- Devolution to individual government departments of negotiating responsibility with regard to pay, with the possibility of different pay determination systems

applying to different employment groups and functional sub-sectors. The one exception is senior civil servants whose pay is determined by independent review bodies.

● Autonomy for individual departments and agencies in relation to the determination of the job classification system of their employees. This would enable departments to determine grade and pay scales in line with market rates and organisation needs rather than internal civil service relativities. Many organisations chose to move from traditional grading structures to broadbanded structures.

However, while departments do have autonomy in relation to pay determination, the state maintains overall control through setting operating budgets. These budgets cover labour and other administrative costs (e.g. rent, heating, electricity etc). Operating budgets are set for a three-year period and are based on the assumption that salary increases will be financed through efficiency gains and other savings and that better value for money will be achieved from the pay bill (OECD, 1997). Once operating budgets are established, departments engage in their own internal negotiations in relation to pay.

Notwithstanding the fact that it did not have the same ideological adherence to New Public Management, the reform of the public sector was given further impetus by the Labour government which came to power in 1997. One key development was the introduction of individual performance-related pay. However, the government did not recommend any particular system, instead leaving it to departments to develop an approach that corresponds to their needs.

The impact of these wide-ranging reforms was mixed. On the one hand it was felt that decentralisation facilitated greater control of public service pay costs, possibly because individual ministry management teams took greater interest in and responsibility for costs (OECD, 1997).

However, the morale and commitment of civil servants declined somewhat (Guest and Conway, 2000), most likely due to a diminution in a sense of the public service as a distinctive collective with shared ethos and values (Bogdanor, 2001).

Furthermore, the manner in which decentralised pay determination and performance related pay were implemented in some departments resulted in a range of complaints (Fitzpatrick Associates, 1999, Annex 5, p.7):

- Staff in departments that adopted broadbanded structures anticipated that satisfactory performance should take everybody to the top of the grade which resulted in no scope to reward the very best performers.

- A lack of transparency and some discrepancies in the way in which performance pay was awarded.

- The link between performance and pay jeopardised the more wide-ranging training and development objectives of performance management.

- Staff mobility and co-ordination across departments was hampered by greater individual department autonomy.

The UK government's 1999 White Paper, *Modernising Government*, and the subsequent 2003 report *Management Capability: A report to the Civil Service Board* (referred to in OECD, 2005b) unambiguously reiterated that pay and grade delegation and performance-related pay would remain, on the basis that they facilitated improvements in delivery and productivity through giving permanent secretaries and chief executives the autonomy to determine how best to recruit, retain and motivate their staff (OECD, 2005b) However, a number of adjustments were called for to address the weaknesses noted above, for example:

- A sharpening of the grading system to allow for greater distinction between levels of performance.

- Greater recognition of organisation and team performance.

- The introduction of non-consolidated bonuses, clearly separated from base-pay, as one of the main vehicles for delivering performance related pay to those staff performing above a satisfactory level. However, there are variations in the way this is done. In some departments all staff with at least satisfactory performance receive a bonus, while in others only those assessed as the top performers receive a bonus.

- The need for more active organisation and personal performance management – including greater transparency in expectations and regular honest feedback, based on better evidence, more clarity in relation to reward and a simplified appraisal system. It is recognised in this regard that improving management capability is one of the biggest challenges faced by departments and agencies.

Throughout this period the civil service unions in the UK have consistently argued for a return to national pay bargaining for the civil service. They have highlighted the inconsistency of having staff in different departments fulfilling very similar roles on salary ranges that may differ by several thousand pounds. They have also called for a minimum salary across the civil service and a set of common core conditions.

While the government remained committed to devolved bargaining, it accepted the need for greater coherence in pay and conditions across the civil service. In particular, the importance of equal pay for equal work was acknowledged as it emerged that reforms may have led to a gender pay gap, due to women being assimilated into a broadbanded structure at lower levels than their male counterparts and subsequently finding it difficult to catch up on male colleagues. As a result, all central government departments were required to conduct an equal pay audit

by April 2003 and draw up an action plan to address any unjustified pay gaps between male and female employees (IDS, 2005).[10]

Since 2003 there have been major reforms to pay and grading systems across the civil service. These changes have been aimed at ensuring compliance with equal pay legislation and also improving staff morale and retention. They have typically involved a move back to simpler, more structured progression arrangements to make it transparent to employees how long it will take them to progress through their pay scales, assuming their performance is satisfactory. Also the length of pay bands has been substantially shortened, in particular for lower paid staff.

4.3.1 A decade of grade and pay reforms in the UK civil service

The two distinctive features of grading and pay structures in the UK civil service are (1) the delegation of pay, grading and performance management arrangements to departments and agencies for staff below the senior civil service; and (2) the near-universal application of individual performance pay, though in this regard it is important to note that for many non-senior civil servants the proportions involved are less than 5 per cent of base salary.

The UK government remains strongly committed to this devolved approach believing that it leads to enhanced delivery and performance and also that it gives individual departments and agencies the flexibility to manage their own HRM arrangements in line with business needs. However, in reality the Treasury maintains tight control over labour cost spendings, establishing earnings growth thresholds and also determining the principles upon which pay decisions in departments should be made. Furthermore, the thirteen key departments in terms of size and influence are obliged to submit to the Treasury an annual pay 'remit', detailing their pay intentions and setting

out the pay pressures, recruitment, retention and motivation issues to justify their proposals (IDS, 2006, p.29).

Lastly, the need to comply with pay equality principles and to enhance levels of motivation and morale across the service has led in recent years to a simplifying of pay structures, a shortening of bands and an increase in the transparency and structure of progression systems. While this does not imply a complete reversal to pre-reform narrow graded structures, it has in effect resulted in a move away from broadbanded structures in many organisations.

4.4 Case-study: Implementing a new pay and grading system at Cornwall County Council, United Kingdom (IDS, 2006)[11]

Cornwall County Council employs 18,000 people and is the largest employer in Cornwall. The 1997 single-status agreement for local government employees in England and Wales required the assimilation of all manual workers and administrative, professional, technical and clerical staff to the one pay system and the harmonisation of basic conditions.

A negotiating committee was established which involved the three trade unions representing the council's single status employees, the head of HR and two other senior personnel representatives. In parallel to this, a steering group was set up with senior officers from each department. This provided a good sounding board for discussions with the trade unions and also provided an outlet for the views of senior management.

The council chose to run a job evaluation pilot to test the data collection and evaluation process, develop pay structure options and estimate costs. It chose a representative sample of eighty jobs including those roles that were most heavily populated. The aim of job evaluation is to provide an objective and consistent way of assessing jobs against a number of factors, thereby generating a

relative value for each job. Only the job is evaluated not the person doing it. Job evaluation provides a basis for a fair and orderly grading structure. During the pilot the council conducted both computerised and manual evaluations and then compared the results. There was very little variation between the two sets of results so the council adopted the computerised version as it offered a more detailed approach and better record keeping and audit capabilities. The pilot took a year to complete but gave the council a clearer understanding of how to proceed.

Following the pilot, 1,200 jobs were evaluated using job descriptions, person specifications and job information questionnaires. The evaluations were conducted by a job evaluation panel consisting of a senior departmental manager, a personnel officer and a job evaluation advisor. An appeals system was also put in place for those dissatisfied with how their jobs were classified. Most appeals were from single job-holders.

When deciding on a grade structure a number of models were tested, from a four-grade structure to twenty two grades. Equal grade widths were also tested. Ultimately, it was found that a structure of twelve to fifteen grades was most effective for a council with such a broad range of job roles,[12] from cleaners to engineers. Broadbanding was rejected by the council on the basis of cost. While it was perceived as a useful option for absorbing certain 'red-circled' roles it would have made controlling the cost of junior level jobs difficult.

The final grade structure implemented in 2004 has fourteen grades: A to N. Each grade has between three and six increments, with grades overlapping except for the first grade which has a single pay point. A competency-based progression system, rather than the pre-existing service-related increments, was also negotiated. The framework will encourage employees to acquire skills and competencies associated with high levels of individual, team and organisational performance.

4.4.1 The GLPC Job Evaluation Scheme

Cornwall County Council used the Greater London Provincial Council (GLPC) Job Evaluation Scheme.[13] The scheme was developed jointly by employers and unions in London local government organisations to support local authorities in fulfilling their obligations under the national agreement on single status (all local authority staff to be part of the one grading and pay system). The scheme can be operated as a paper exercise or can be supplemented by computer applications. The scheme is used by many UK local authorities and voluntary sector bodies.

The scheme represents an analytical approach to job evaluation and can be categorised as a point factor scheme (see Appendix 1). In summary, the factors considered in respect of all jobs are:

Supervision/management of people: 7 levels
Assesses the scope of managerial duties and the nature of the work which is supervised

Creativity and innovation: 7 levels
Measures the extent to which the work requires innovative and imaginative responses to issues, and in the resolution of problems

Contacts and relationships: 8 levels
Examines the content and environment of contacts required as part of the job. Measures the range and outcome of contacts

Decisions (operates as two sub-factors)

➢ Discretion: 6 levels – Identifies freedom to act and the controls in place
➢ Consequences: 5 levels – Measures the outcome of decisions by effect, range and timescale

<u>Resources</u>: 5 levels
Assesses the personal and identifiable responsibility for resources

<u>Work environment</u> (operates as five sub-factors)

➢ Work demands: 5 levels – Considers the relationship between work programmes, goals, deadlines and the subsequent management of priorities

➢ Physical demands: 4 levels – Identifies a range of postures and demands of a physical nature

➢ Working conditions: 4 levels – Examines the typical elements encountered working inside and outside

➢ Work context: 4 levels – Examines the potential health and safety risks to employees carrying out their duties

➢ Knowledge and skill: 8 levels – Assesses the depth and breadth of knowledge and skills required.

5

Summary and Conclusions

5.1 **Introduction**

The purpose of this chapter is to summarise the findings and conclusions in relation to reform of pay and grading systems (Section 5.2) and to make recommendations for possible future directions for the Irish civil service in the light of the fact that *Towards 2016* has indicated that the rationalisation of grading systems will be examined over the life-time of the agreement (Sections 5.3 and 5.4).

5.2 **Summary of findings and conclusions**

The approach towards grading and pay has changed considerably in both the private and, albeit at a slower rate, the public sector over the past twenty years.

5.2.1 Grading and pay systems

Narrow graded pay structures, where salary increments are paid annually and staff progress up the organisation hierarchy on promotion, are attractive for employees because of the certainty and transparency they afford. Pay progression is based on service rather than management assessment and career progression opportunities are clear.

However, many private sector organisations with this approach to grading found it costly and inflexible. The emphasis on hierarchy and promotion was seen to be incompatible with the need for a flexible workforce with broad-ranging skills and experience. Furthermore, in the context of multiple grades, there is pressure for upgrading, particularly from employees who have reached the top of their salary scale.

In reaction, many organisations switched to broadbanded structures. It was hoped that a small number of grades (four to five) encompassing very wide salary

ranges would afford the organisation benefits in terms of flexibility, for example, to reward lateral career development, superior performance or match increases in market rates for key employees.

However, despite initial hopes to the contrary, broadbanded systems have proven difficult to manage. They make considerable demands on line managers and HR in terms of performance management and communication, though it could be argued that these are precisely the tasks which staff in these functions should be fulfilling. More pertinently they have proven costly, with the wide bands resulting in wage drift. Finally, the lack of structure can be a concern for employees who question whether decisions are made consistently.

The UK is an example of one of the small number of OECD countries where broadbanded structures were adopted by many government organisations. Typically this was done in the context of a move to devolved HR, whereby individual ministries and agencies were given autonomy in respect of pay determination.

The impact of these changes in the UK has at best been mixed. Indeed in some respects the extent to which there is true devolution is questionable, as the Treasury still maintains tight control over operating budgets, with particular attention given to intentions with respect to pay. However, the Labour government has remained strongly committed to the devolved approach, contending that it facilitates greater control of public sector pay costs, possibly because the management teams of individual ministries take greater interest in and responsibility for costs.

The reform of grading systems in the UK public service has also been contentious. When autonomy was given to organisations to determine their own grading systems during the 1990s, many adopted broadband structures. However, for a range of reasons, those documented above and also the statutory obligation to guarantee equal pay for

equal work which broadband systems were unable to guarantee, many departments and agencies found the system unworkable. However, rather than a complete reversal to the previous regime of perhaps up to twenty grades, organisations have tended instead to adopt broad-graded structures of approximately eight to ten grades, perhaps encompassing career families (see section 3.5.4). Grades are managed using reference points and zones.

What clearly emerges from a review of the literature (Chapter 3) is that no perfect framework has been developed within which an organisation's pay policies can be managed. In many organisations broad graded structures have come to the fore as the most pragmatic option. However, perhaps more pertinent than the actual grade structure adopted is the manner in which it is implemented. In particular it is critical to ensure that grades are well defined, thereby making it easier to differentiate between them, and that job evaluation is undertaken carefully to ensure the best fit between individual role profiles and grades.

5.2.2 Performance-related pay

At the core of many grading/pay reform programmes is a shift from 'paying the job' to 'paying the person'. As discussed in section 3.3, traditionally the grade and salary attached to a job were determined by its value, as defined in terms of duties and responsibilities. The new approach instead emphasises the value of the person and how much they contribute to the organisation. This leads to the concept of performance-related pay, most usually, where a proportion of salary increases is linked to an employee's performance over the previous year.

In theory the idea of performance related pay is very attractive. Individuals work harder, faster and better in order to achieve a higher increment or bonus. This brings about enhanced productivity and salary increases in effect pay for themselves. However, in both the private sector and

to an even greater degree in the public sector this has generated difficulties.

There is the challenge of accurately and objectively assessing performance and, furthermore, recent research strongly questions the extent to which pay is the motivator it was perhaps once thought to be (Chapter 4). This appears to be particularly the case in the public sector. However, commentators disagree somewhat in relation to whether this is due to procedural difficulties – the absence of effective management and communication systems in many public organisations – or problems with the concept in principle. With regard to the latter it has been argued that rewarding on the basis of individual performance is inconsistent with public sector objectives like 'joined up government', team work, collegiality and the general concept of a public service ethos.

The safest conclusion at present would appear to be that the case for performance related pay in the public sector remains inconclusive and certainly it is not to be recommended for organisations or sectors without a strong performance and management culture. Yet, civil services across the OECD have introduced performance-related pay, albeit at levels that represent a very small portion of base pay. It is hard to escape the idea that in many cases state organisations believe that, in adopting such a central feature of private sector HR practice, they can signal that they have a well-developed and effective approach to people management, whether or not this is the case in practice.

However, one concrete benefit of introducing performance-related pay schemes noted by the OECD (section 3.2.3) is that while PRP may not in itself have a significant impact on employee behaviour, it is regarded as useful in facilitating other organisation reforms. These include an improved and stronger focus on effective goal setting and appraisal processes, better attention to the development of employee competencies, improvement in employee-management dialogue and enhanced workplace

flexibility. However, once more it would appear that the manner in which these schemes are introduced, in particular the degree of management competence, is critical.

5.3 Implications for the Irish civil service

Compared with other OECD countries, the Irish civil service is at the more conservative end of the spectrum in terms of HR reform. While there have been some innovations, such as the introduction of the Performance Management and Development System and the Civil Service Regulation (Amendment) Act, 2005,[14] the system remains predominantly a career-based one. Furthermore, pay and grading, two of the core aspects of HR policy, are determined centrally for the service as a whole and have remained largely unaltered during over a decade of public service modernisation. However, as identified in section 4.2 of this report, there are important reasons why change should be considered.

Firstly, the civil service itself is changing. The profile of staff is ageing with the average age of new recruits currently about thirty years. In addition, due to recruitment embargoes in the 1980s and 1990s, the proportion of staff over forty has increased four-fold since the 1980s. As a result, most departments can expect to see retirements increasing by a factor of between two and three over the next ten to fifteen years (O'Riordan, 2006).

The government's decentralisation programme, whereby it is intended to move significant sections of the civil service, including the head offices of several departments, to locations outside Dublin will also change the way the civil service does its business. A high degree of organisation flexibility will be required and there will be major implications for HR practices including recruitment, promotion, transfer and mobility.

Finally, there are increasing demands being made on all parts of the civil service to produce more and better results

and deliver higher levels of efficiency and effectiveness. How it organises, manages and pays its staff is clearly critical in this regard. It must therefore be asked whether or not current grading and pay procedures support departments in delivering on business objectives and meeting the needs of customers. As a means of progressing debate in this area, this section returns to the policy questions posed by Risher in a review of the public sector pay determination system in the United States (section 3.6).

1) *How do we define internal equity? How do we evaluate jobs? Is this compatible with the way we organise and manage work? Do we have a reason to preserve the existing hierarchy?*

Job evaluation – the systematic process for defining the relative worth or size of jobs within an organisation (section 3.4) – is done in a largely ad-hoc way in the Irish civil service. The Department of Finance Censis database indicates that there are 724 different roles in the civil service, though for each role broadly speaking an equivalent in terms of grade and pay structure is found in one of the sixteen general service grades. However, there does not appear to be any process in place to determine whether the principle of equal pay for equal work is adhered to; if internal relativities are based on fair, sound and consistent judgments; whether there are sound market comparisons with jobs or roles of equivalent complexity or size; and if there is an adequate objective basis for categorising jobs within a grade structure.

Without effective job evaluation it is difficult to make definitive conclusions in relation to any of these issues and consequently reform the grading structure. Certainly the evidence in this research suggests that broadbanding is not a suitable approach. While a very small number of grades accommodating very broad salary bands does afford management flexibility in terms of developing and rewarding employees, in practice broadbanded structures

are difficult and time-consuming to manage and may prove costly due to the potential for wage drift. In the UK civil service broadbanding also appeared to exacerbate gender pay differences.

In contrast, broad-graded structures (perhaps eight to twelve grades) appear to afford organisations some level of flexibility while also providing an appropriate structure to accommodate the broad range of jobs, from cleaners to top-level managers, within the civil service. It is also claimed that they result in reduced levels of bureaucracy (caused for example by the same job being done several times due to different levels checking and re-checking certain tasks) and some reduction in the emphasis on grades and promotion that pertains in hierarchical organisations, possibly at the expense of initiative, creativity, training and development.

For the Irish civil service, the implication is that some amalgamation of grades, both within the general service grade structure and also between professional and general service grades, should be considered. In respect of the former, two possibilities could be the integration of staff officer (SO) and executive officer (EO) grades and the integration of higher executive officer (HEO) and assistant principal (AP) grades. However, this would require extensive consultation and, particularly in the case of a HEO and AP merger, would involve two unions who would have concerns about any moves that would result in a loss of members, albeit to another union.

It is also probable that the civil service unions would resist any moves to integrate departmental grades into the general service, given the possibility of reduced promotion opportunities for their members. However, as the successful integration of Customs and Excise staff at Revenue shows, this kind of reform can be successfully achieved.

On a practical level, reform of the grading structure requires that effective procedures for job evaluation are established to ensure that jobs are appropriately

categorised. This is a huge task, though as the Cornwall County Council case study in chapter four indicates, one that can be achieved even in very large organisations. In addition, conviction in relation to the need for change is required, followed by extensive consultation with stakeholders to agree the goals of any change programme.

2) *What do we pay for – individual performance, team performance, tenure? Can we afford to ignore performance?*

Broadly speaking the Irish civil service pays on the basis of tenure. In theory salary increments are linked to satisfactory performance, and phase-two of PMDS makes this more explicit[15]. However, in reality it is only in extremely rare cases that an increase is withheld.

The principal alternative available is to pay, at least in part, on the basis of performance. However, the evidence in this report suggests that while PRP can be justified on ideological grounds (there should be a direct link between performance and reward) or as a catalyst for other changes (for example, its introduction can lead to an improved and stronger focus on effective performance management and appraisal processes), it does not necessarily lead to higher levels of performance.

Other HR practices have been shown to have a more significant impact on performance. According to Purcell et al (2003, p.71), the individual discretionary behaviour that leads to better organisation performance happens when people find their jobs satisfying, feel motivated, and are committed to their employer. Furthermore, the practices that generate this outcome are not related to pay but include areas like opportunities for career advancement, having influence on one's job, opportunities for training, working in teams, work-life balance and having managers who are good at leadership.

For the Irish civil service, it would therefore seem desirable that resources be dedicated towards enhancing

these aspects of HR policy rather than PRP. However, other innovative means of linking pay to performance, for example paying for team performance or competency-based pay (where payment is made according to skills, learning and experience acquired) do merit some consideration and may be consistent with some of the factors that make the public sector distinctive, such as the need for co-operation between organisations in order to deliver joined-up government.

3) *What is the relative importance of the labour market and prevailing pay levels? In what way do we align salaries with those in the private sector?*

For individual departments, the advantages of a centrally determined pay system are the high level of transparency and the removal from individual organisations of the obligation of developing their own systems. From the Department of Finance's perspective, it facilitates control of public service pay. The downside of this approach is that individual departments do not have the flexibility, in setting pay levels, to take into consideration issues such as organisation objectives and changes, labour market trends, individual performance, changes in role profiles or the nature of particular jobs.

Within the Irish system, labour market trends and pay levels in the private sector are reviewed by the Public Service Benchmarking Body. The report of the 2002 Body indicated that they had collected evidence and information in respect of 138 public service grades and examined a total of 3,994 individual jobs. By way of comparison, data was collected in respect of over 3,500 jobs in the private sector. The outcome of this process was sanction for pay increases across the public sector of, on average, 8.9 per cent. The outcome of the benchmarking review was criticised by commentators for lack of transparency in relation to the job evaluation process (*Irish Times,* 2002).

A new benchmarking process, to compare pay in the

public and private sectors is being carried out in 2007. In this regard it has been announced that the benchmarking body has updated its processes. This is important, as a central feature of job evaluation should be a high degree of clarity and transparency in relation to the questions identified in (1) above, in respect of internal relativities, job comparisons and labour market reviews.

5.4 Ways forward

The conclusion of this research is that fundamental changes in respect of the centralised nature of the grading and pay system are not warranted. However, some reduction in the overall number of grades and greater integration of general and departmental grades should be on the agenda. Reform in this area would mitigate against the disadvantages of a very hierarchical system, afford organisations greater flexibility and provide many staff with increased career opportunities.

Performance related pay is not regarded as desirable. Instead, resources should be dedicated towards initiatives that have been shown to enhance performance and motivation levels, namely, career advancement, having influence over one's job, team work, work-life balance and having managers who are good at leadership.

The commitment in *Towards 2016* in respect of the civil service grading system states that 'the parties agree to engage in discussions to identify and explore the full range of issues involved in rationalising the grading system'. There are several reasons why such engagement would be timely including the changing and ageing profile of the civil service, the government's decentralisation initiative and the increasing demands on the civil service to deliver a better and more effective service.

It is also the case that the civil service grading system has remained largely unaltered over a decade of public service modernisation. While change for change's sake is not to be recommended, an organisation's grading and pay

structure is a very significant expression of its culture and values. It is therefore important that its impact is monitored and reviewed on an ongoing basis.

This requires consultation with a wide number of stakeholders including public representatives, trade unions, partnership groupings, senior management and staff in general, who would expect to have their views taken into consideration.

Types of Job Evaluation[16]

Analytical schemes

1) Point factor rating

Point factor rating is an analytical method of job evaluation that is based on breaking down jobs into factors or key elements (usually at least four or five and can be as many as a dozen or more). It is assumed that each of the factors will contribute to job size and is an aspect of all jobs to be evaluated but to different degrees. Using numerical scales, points are allocated to a job under each factor heading according to the extent to which it is present in a job. The separate factor scores are then added together to give a total score that represents job size. The GLPC Job Evaluation scheme described in the Cornwall County Council case-study (section 4.4) is an example of a points factor scheme. The stages involved in such a scheme are:

(i) Factor selection: Job factors are selected or defined according to the types of jobs to be covered, the needs of the organisation and what it wants to achieve from job evaluation. These are characteristics of jobs that express the demands made on job holders in such areas as decision making, problem solving, the exercise of interpersonal skills, responsibility for people and other financial or non-financial resources, emotional and physical demands, the inputs required from job holders in the form of knowledge, skills and competences and, sometimes, the outputs expected in the form of impact on results. Care has to be taken when selecting factors to ensure that they do not discriminate in favour of any one group of employees. It is also necessary to avoid double counting (undue repetition of job characteristics in different factors) since this would distort the results.

(ii) Factor plan design: In the factor plan, each of the factors is divided into a number of levels. The number of levels (typically between three and eight) depends on the range of demands or degrees of responsibility in a particular factor. The levels in each factor are defined to provide guidance on deciding the degree to which they apply in a job to be evaluated. A maximum points score is allocated to each factor. The scores may vary across factors depending on beliefs in relation to their relative significance. The total score for a factor is divided between the levels. This may or may not be done proportionately, for example it might be decided to recognise more senior jobs with higher scores.

(*iii) Job or role analysis:* As a necessary first step in job evaluation, jobs or roles are analysed systematically in terms of each of the factors. The aim is to provide factual and explicit evidence that will guide evaluators in selecting the level at which the factor exists in a job. The job or role analysis may be based on a questionnaire completed by the job holder, their line manager or, usually, a combination of both. Computer software packages have been developed to facilitate role analysis.

(iv) Evaluating jobs: In a non-computerised scheme, jobs are evaluated by a panel. The panel studies the job analysis and agrees on the level and therefore the score that should be allocated for each factor. It is usual to start with a representative sample of 'benchmark' jobs.

(v) Grading jobs: When a job evaluation exercise is being conducted to inform the design or revision of a graded pay structure, the outcome will be a rank order of jobs according to their total scores. This rank order is then divided into grades, each of which is defined in terms of a bracket of job evaluation points. Pay ranges are then attached to each grade, which will take account of external relativities (market rates) and the need for pay progression.

There is no direct relationship between job evaluation points and rates of pay – the points in a job evaluation scheme have no value in themselves. They are simply ordinal numbers that define the position of an entity in a series.

(vi) Reviews and appeals: The scheme should provide for regular, formal review of evaluations to ensure that they remain valid and consistent. It is also particularly important to ensure that the scheme is not being manipulated to produce desired rather than appropriate results. Employees should be allowed to appeal against an evaluation they believe to be flawed using an agreed and properly communicated appeals procedure.

2) Factor comparison
Graduated factor comparison involves comparing jobs factor by factor against a   graduated scale of value levels (e.g. lower, equal, higher). No factor scores are used. The method is useful as a means of comparing a small number of jobs, for example to determine the merit of an equal pay claim. The task is simply to compare one job against another, not to review internal relativities over the whole spectrum of jobs in order to produce a rank order

The *Hay Guide Chart Profile Method* is a factor comparison scheme (Armstrong and Murlis, 2005, p.120), widely used in the private sector. It uses three broad factors (know-how, problem solving and accountability) each of which is further divided into sub-factors, to which a range of levels are applied (e.g. a sub-factor of know-how might be breadth of management know-how. This might have several levels). The Hay scheme is in effect an 'off the shelf scheme' as broad definitions have been produced in respect of each level of each sub-factor. In principle, the same scheme, with the same factors, factor levels and scoring system can be applied in the same way in any organisation.

Non-analytical schemes

1) Job ranking

Ranking is the simplest method of job evaluation. Each job is judged as a whole and its place in a job hierarchy determined by comparing one job with another and arranging them in perceived order of importance and their difficulty or their value to the organisation. Jobs may subsequently be arranged into grades and pay levels agreed for each grade

2) Job classification

Job classification is more complex than job ranking in that classes or grades are established and the jobs are then placed into the grades. Thus it begins not by ranking jobs but by agreeing a grading structure and the particular criteria and key characteristics of each grade
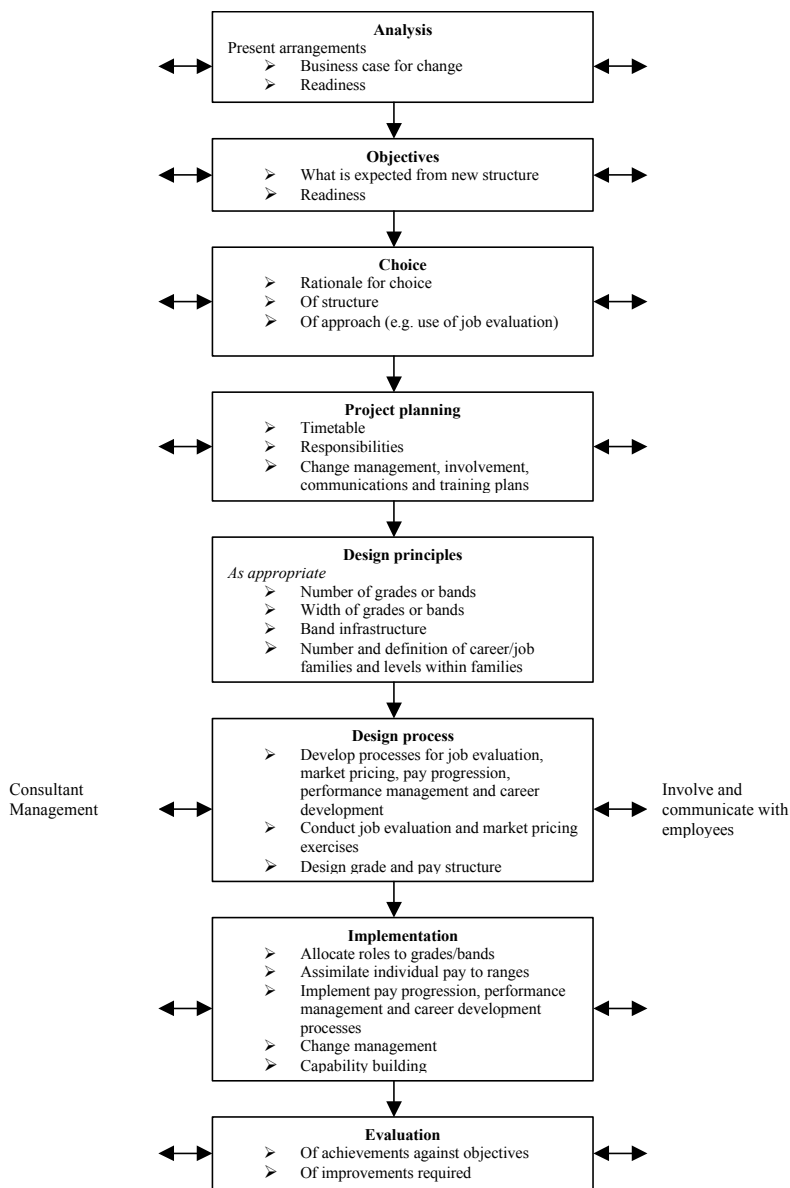
3) Paired comparison ranking

The paired comparison approach is based on the principle that it is more reasonable to compare one job with another than to consider a larger number of jobs together. The method requires the comparison of each job individually with every other job, until a rank order of jobs is developed.

Appendix 2: Comparisons of grade and pay structures.

	Single-graded	Broadbanded	Career family	Job family	Pay spine
Features	A sequence of job grades – 10 or more. Narrow pay ranges, e.g. 20-40 per cent. Progression usually linked to performance	A series of, often five or six, 'broad' bands – typically between 50 and 80 per cent. Progression linked to contributions and competences.	Career families identified and defined. Career paths defined for each family in terms of key activities and competence requirements. Same grade and pay structure for each family.	Separate grade and pay structures for job families containing similar jobs. Progression linked to competence and/or contribution.	A series of incremental pay points covering all jobs. Grades may be superimposed. Progression linked to service.
Advantages	Clearly indicates pay relativities. Facilitates control. Easy to understand.	More flexible. Rewards lateral development and growth in competence. Fits new-style organisations.	Clarifies career paths within and between families. Facilitates the achievement of equality between families and therefore equal pay.	Facilitates pay differentiation between market groups. Enables career progression against clear criteria.	Easy to manage. Pay progression not based on managerial judgement.
Disadvantages	Creates hierarchical rigidity. Prone to grade drift. Inappropriate in a delayered organisation.	Creates unrealistic expectations of scope for pay rises. Seems to restrict scope for promotion. Difficult to understand. Equal pay problems.	Could be difficult to manage. May appear to be divisive if 'silos' emerge.	Can appear divisive. May inhibit lateral career development. May be difficult to maintain internal equality between job families unless underpinned by job evaluation.	Relating pay almost entirely to service means that people are rewarded for 'being there' and not for the value of their contribution; pay spines can be costly in organisations with low turnover where everyone drifts to the top of the scale.
When most appropriate	In a large bureaucratic organisation with well-defined hierarchies. When close and rigid control is required. When some but not too much scope for pay progression related to performance is wanted.	In delayered, process-based, flexible organisations. Where more flexibility in pay determination is wanted. Where the focus is on continuous improvement and lateral development. Where management capability is high.	In organisations where there is a strong emphasis on career development. Where different career paths within and between families can be identified and defined. When robust methods of defining competences exist.	Where there are distinct groups of jobs in families. When it is believed that career paths need to be defined more clearly in terms of competence requirements. Where there are distinct market groups that need to be rewarded differentially.	In a public sector or voluntary organisation where there is the traditional approach and it therefore fits the culture. Where it is believed to be impossible to measure differential levels of performance fairly and consistently.

Source: Armstrong and Murlis, 2005, pp.204-205

Appendix 3: Steps for Introducing a new Grade and Pay Structure

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┌─────────────────────────────────────────┐
│               Analysis                   │
│ Present arrangements                     │
│     ➢  Business case for change          │
│     ➢  Readiness                         │
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│              Objectives                  │
│     ➢  What is expected from new structure│
│     ➢  Readiness                         │
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│                Choice                    │
│     ➢  Rationale for choice              │
│     ➢  Of structure                      │
│     ➢  Of approach (e.g. use of job evaluation)│
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│            Project planning              │
│     ➢  Timetable                         │
│     ➢  Responsibilities                  │
│     ➢  Change management, involvement,   │
│        communications and training plans │
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│            Design principles             │
│ As appropriate                           │
│     ➢  Number of grades or bands         │
│     ➢  Width of grades or bands          │
│     ➢  Band infrastructure               │
│     ➢  Number and definition of career/job│
│        families and levels within families│
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│             Design process               │
│     ➢  Develop processes for job evaluation,│
│        market pricing, pay progression,  │
│        performance management and career │
│        development                       │
│     ➢  Conduct job evaluation and market pricing│
│        exercises                         │
│     ➢  Design grade and pay structure    │
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│            Implementation                │
│     ➢  Allocate roles to grades/bands    │
│     ➢  Assimilate individual pay to ranges│
│     ➢  Implement pay progression, performance│
│        management and career development │
│        processes                         │
│     ➢  Change management                 │
│     ➢  Capability building               │
└─────────────────────────────────────────┘

┌─────────────────────────────────────────┐
│              Evaluation                  │
│     ➢  Of achievements against objectives│
│     ➢  Of improvements required          │
└─────────────────────────────────────────┘
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Consultant Management (left, at Design process level)

Involve and communicate with employees (right, at Design process level)

Source: Armstrong and Murlis,pp.212

NOTES

1 The most recent year for which a breakdown is available.

2 Institute of Public Administration, 2006, p.447 and consultation with Department of Finance: Secretary General, Deputy Secretary, Assistant Secretary, Principal (Higher), Principal, Assistant Principal (Higher), Assistant Principal, Administrative Officer, Higher Executive Officer, Executive Officer, Staff Officer, Clerical Officer, Head Services Officer, Services Officer, Services Attendant, Cleaner. The higher and standard scales for HEO, AO, EO and CO do not represent separate grades, they are just part of the pay structure for these grades. In contrast, higher and standard PO and AP are separate grades.

3 General Council Report, No. 1368. Agreement on the Introduction of Performance Management and Development System in the Irish Civil Service, 4 May 2000

4 General Council Report, No. 1452, 1 June 2005

5 This gives power of dismissal to ministers for grades of principal officer and up and, for other grades, to heads of office. It also clarifies disciplinary arrangements, particularly in relation to performance and underperformance.

6 Unpublished draft obtained from the Department of Finance, 2006.

7 For example, a 40 per cent range could span from €20,000 to €28,000.

8 'The need to assess the knowledge, skills and abilities needed for the future and institute staffing, appraisal and evaluation, incentives and compensation, training and development to meet those needs'. (Holbeche, 2003, p.13)

9 Some useful techniques to support organisations in this regard are included in O'Riordan J and Humphreys P (2002), *Career Progression in the Irish Civil Service*, CPMR Discussion Paper No. 20

10 The Cabinet Office reported at the end of 2003 that the average pay gap across the civil service was around 5 per cent in favour of men. Broadbanding was not the only reason for this situation. Progression systems inherited from the old civil service pay systems and traditional gender segregation in terms of certain roles and the practice of paying enhanced recruitment salaries for staff in skill shortage posts were also cited (IDS, 2004, p.27; IDS, 2005, p.35).

11 This case study is set out in Income Data Services 2006 report on 'Pay in the Public Services'. See www.incomesdata.co.uk

12 After the reform of a pay structure, the pay differentials between jobs may change. The absolute (not relative) pay positions of some existing workers may be maintained by 'red

circling' them. This means that they will continue to receive the 'old' rate of pay

13 http://www.londoncouncils.gov.uk

14 To give secretaries general power to dismiss employees.

15 See Section 2.4.1. From 2007, the PMDS process will require managers to rank the performance of employees on a scale of 1 to 5. Depending on the rank they receive employees will be considered eligible or not for salary increments, higher scales and promotion.

16 The information in this appendix is from Armstrong and Murlis, 2005, chapter 11 and Gunnigle et al (2006), chapter 7.

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