Does it work? Evaluating a New Pay System

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Executive Summary

A. Scope and objectives

This report focuses on the evaluation of the impact of new pay systems in large, unionised multi-site organisations by the organisations themselves. Evaluation of the effectiveness of a pay system, however, does not take place in a vacuum and relates to the aims and objectives of the pay system concerned. Moreover, evaluation is not an end in itself. It is, therefore, relevant to consider if any further steps were taken as a result of evaluation. Accordingly our research questions were:

- What were the aims and objectives of organisations when introducing new pay arrangements?
- What data did organisations collect and review to inform their evaluation?
- What steps have organisations taken as a result of their evaluation?

We re-appraised our data from 10 NHS trusts in England which had introduced some innovations in pay and grading in the 1990s. Additionally, we looked at seven multi-site unionised organisations outside the NHS in both the public and private sectors, which had recently made changes to their reward systems, carrying out interviews and inspecting documents.

The main output is a template for the evaluation of Agenda for Change by NHS organisations.

B. Background

Our findings on the evaluation of pay systems by organisations inside and outside the NHS were placed in context by reviewing the literature. There was little research reporting on actual organisational experience in monitoring and evaluating changes in human resource (HR) practices, as opposed to academic studies. Accordingly, we drew first on the academic literature on human resources (HR) and the bottom line. There have been many empirical studies by academics seeking to investigate the link between HR practices and business performance and they have mostly reported positive statistical relationships. There may, however, be reverse causality, ie successful organisations invest in HR, rather than certain HR practices leading to improved performance. Also, most academics would agree that the link between HR strategies or practices and business performance is indirect, not direct. Moreover the process, or management style, is a significant mediator; the evaluation model required is complex; and the qualitative nature of many HR objectives, eg employee commitment, which in turn may lead to business outcomes, are not easy to measure.

Second, we drew on the literature on evaluating the HR function which suggested various quantitative and qualitative measures. Third, we examined the literature concerned with measuring reward practices. The importance of setting out clearly the objectives and costs were emphasised. Turning specifically to the evaluation of incentive systems, we noted that whereas studies in the 1950s and 1960s sought to look at changes over time in the workplace, recent studies of incentive systems were largely cross-sectional rather than longitudinal, perhaps because of the costs involved. Fourth, we discussed the literature on auditing pay systems to ensure that they were retaining their effectiveness. Finally, we discussed the problems of measuring the impact of reward systems in the public services, particularly in
respect of productivity. In the NHS there is a further problem of aggregating the volumes of many very different types of activity.

C. Findings

The aims of NHS trust varied but there were certain common threads: affordability, simplicity, flexibility, the reward of good performance and the overcoming of recruitment and retention problems. Evaluation of the new pay arrangements against these aims was, however, on the whole limited. Although trusts collected much HR information, for instance labour turnover statistics, and carried out staff attitude surveys, essentially they did not use the data to evaluate their pay systems or make use of a control group (ie staff who had not moved on to the new pay system). Some trusts, however, conducted certain one-off exercises to evaluate a specific aspect of their new pay arrangements, but in no trust was there a longitudinal exercise. In two trusts a university evaluated the performance pay system, but the academics approached these trusts for access. The trusts did not commission the academics. In a further trust a student evaluated the new theatre pay system as his dissertation for a Masters in Business Administration (MBA). Only two trusts made marginal changes to their pay systems. In one trust this stemmed from the trust’s evaluation. In the other trust it was primarily in response to representations by the staff side.

Looking at organisations outside the NHS we found a range of aims of their new pay systems including simplification, harmonisation, overcoming recruitment and retention problems, flexibility and the provision of equal pay for work of equal value. Although the organisations which we studied routinely collected a considerable amount of HR data, they used only some of the data to measure the impact of their pay system against the stated aims and, like the NHS trusts, mostly conducted only a modicum of evaluation. The exceptions were HM Customs & Excise (C & E) and Royal Mail. At the former, where there was extensive evaluation, the new pay arrangement was a trial and it was possible to use control groups to evaluate staff attitudes and financial performance. At Royal Mail a complex evaluation system had been set up based on a range of data informing joint management/union reviews, but this evaluation had in practice not occurred because of implementation problems. Finally, we were unable to discover steps taken by organisations as a result of their evaluation, except at C & E.

Although our literature review indicated that evaluation is less problematic in the private sector than the public sector, this was not borne out by our field-work. Private sector interviewees reported that profitability was too dependent upon external factors for financial indicators to be a useful measure of a pay system.

D. Conclusions

Several themes run through this report: first, the effectiveness of a pay system may be seen differently by different stakeholders; second, process has an effect on outcome; third, all measures have an element of subjectivity, eg the choice of data to be collected and the interpretation of the measures used. Furthermore, rigorous evaluation is a methodologically complex process: in a business environment it is virtually impossible to keep all the internal and external variables constant except a reward system and prevent other changes taking place at the same time in the organisation. Other complications stem from the fact that the link between a pay system and a business outcome is indirect and that many desired outcomes from a change in a reward system, such as improved employee commitment, are inherently difficult to measure.
Our research, however, suggests some other reasons why evaluation was often not conducted. Managers are busy people and evaluation carries a cost, particularly if it is longitudinal. Above all, however, organisations have little incentive to evaluate. The design and negotiation of a new pay system often takes several years and there are often significant costs of introduction. If anecdotally it is reported that the new pay arrangements are working satisfactorily, managers may consider that there is little need to conduct in-depth evaluation. Also, after spending a long time developing a new reward package, managers are likely to have a psychological investment in its success and may be unwilling to delve if there are no apparent problems.

E. Template

When drawing up a template for the evaluation of Agenda for Change (AfC) there are a number of considerations as follows:

- A balance must be struck between data gathering and imposing a burden on managers.
- Evaluation carries a cost.
- A policy decision has to be taken in the NHS as to whether evaluation is conducted wholly or in part at national or local level.
- Pay systems, if they are to be evaluated rigorously, should be evaluated longitudinally and not at a single point in time.
- If possible control groups should be found.
- There are advantages and disadvantages methodologically with every evaluation measure.
- There are particular methodological problems in evaluating productivity in the NHS and in using patient satisfaction surveys to measure the impact of a new pay system.
- Some data, already collected by trusts for other purposes, can be used to evaluate AfC, so the need to collect further data will be limited.
- Costs must be set against savings, though both some costs and some savings are difficult to quantify.
- Measurement is not an end in itself and institutional mechanisms are needed to consider evaluation reports.

Table 4.1 on page 38 proposes some evaluation measures in response to the principles and intentions set out in the statement agreed by the AfC negotiators in October 1999.
Does it Work? Evaluating a new pay system
Overview of the report's structure

This report, which is organised in four parts, focuses on the evaluation of the impact of new pay systems in large, unionised multi-site organisations. Our research questions were:

- What were the aims and objectives of organisations when introducing new pay arrangements?
- What data did organisations collect and review to inform their evaluation?
- What steps have organisations taken as a result of their evaluation?

Part I considers the literature. It draws on academic studies evaluating the impact of human resource (HR) practices on the performance of organisations, studies on the evaluation of the HR function and studies of the impact of incentive systems on organisational commitment. This is because there is little literature specifically reporting organisational practice when measuring the impact of changes in pay and grading.

Part II focuses on the evaluation of new pay and grading systems undertaken by NHS trusts. It re-appraises the data collected for our previous study (Corby et al. 2001).

Part III is concerned with how organisations outside the NHS, which have introduced new pay arrangements, have conducted their evaluation. It is a cross-case analysis of seven multi-site, unionised organisations.

There are short summaries at the end of the first three parts of the report.

Part IV draws together and discusses our findings and the literature. We end with a template for the evaluation of Agenda for Change.

Case studies of the organisations which form the basis of our analysis in part III are contained in the annex to this report. A glossary and references are located at the back.
Part I: Evaluating pay changes: the literature

1.1 Introduction

There is very little original research which reports on organisational experience in monitoring and evaluating changes in human resource (HR) practices, including a change in a pay system. Yet it has been widely recognised that pay systems represent both a significant business cost and can also be a significant contributor to business success. The Chartered Institute of Personnel and Development’s (CIPD) advisory staff reported that the Institute’s programme of research on people management and business performance had found little evidence that organisations were monitoring and evaluating changes in HR practices, despite the call for such action in much of the prescriptive literature. Discussions with a leading reward management consultant with a major consultancy firm specialising in pay confirmed this general view, as did a full search of the CIPD library.

There is, however, a growing literature reporting academic studies on the relationship of human resource management (HRM) practices to organisational performance. These studies by academics are aimed primarily at an academic audience but there is a parallel literature by management writers and consultants, dealing with benchmarking the human resource management function within organisations, aimed primarily at a practitioner audience. Drawing on these two bodies of literature, we have identified salient points to be considered when monitoring and measuring the outcomes of changes in pay and grading systems.

A key finding of this literature review is the strong divide between the academic oriented literature and the practitioner oriented literature. The academic oriented literature tends largely to rely on quantitative analyses of large datasets, such as the Workplace Employee Relations Survey. The practitioner oriented literature is often prescriptive, rather than descriptive of what organisations actually do, with lists of ‘dos’ and ‘don’ts’ and aimed primarily at justifying the HR function’s role within organisations. In a major review of the literature on the impact of HR upon business performance, Richardson and Thompson (1999:25) comment that ‘it was clear from the discussions that practitioners are not generally aware of the growing body of evidence on HR strategies and business performance’. This lack of awareness was attributed to ‘the highly quantitative nature of the existing work (which makes severe demands on the reader and also limits its wider appeal) and the fact that most of the published research is of US origin (and both more difficult to access and relate to)’.

Against this background our literature review first looks at the literature on ‘HR and the bottom line’, reviewing the debate on strategic HRM and whether clear linkages can be made between HR practices and improved business performance. Second, we discuss the practitioner oriented literature on benchmarking the HR function and the evaluation tools which are recommended. Third, we turn specifically to remuneration: the academic studies seeking to measure the impact of incentive systems on employee commitment and the literature on auditing a pay system. We conclude this part of the report by looking at the problems of measuring the impact of reward systems in the public services.
1.2 **Strategic HRM and the ‘bottom line’**

‘Managers know that the way people are managed and developed affects the bottom line, but the difficulties of evaluation have, until now, limited the arguments that can be made in favour of more sophisticated, systematic approaches to people management. In the last few years the situation has begun to change, and a body of hard evidence is now emerging which demonstrates that the way people are managed is a crucial factor in predicting business performance’, Angela Baron, CIPD (quoted in Richardson and Thompson, 1999 vii).

1.2.1 Approaches to HR strategy

The literature on HRM and the bottom line follows three broad perspectives (Richardson and Thompson, 1999):

- **best or ‘universalistic’ practice** – one set of HR practices can be identified which raise business performance (eg Pfeffer, 1994, 1998; Huselid, 1995);
- **contingency** – business performance will be improved only when the right fit is found between business strategy and HR practice (eg Schuler and Jackson, 1987; Gomez-Mejia and Balkin, 1992);
- **bundles or configuration** – specific combinations of HR practices can be identified which generate higher business performance but these ‘bundles’ will vary between organisations (eg Arthur, 1992; MacDuffie, 1995; Ichniowski et al, 1997).

It is important, however, to note that most organisations do not arrive at their strategies through a conscious set of decisions linked to organisational goals. ‘On the contrary, most organisations operate on a piecemeal basis, responding to sudden emergent pressures, and are subject to a variety of powerful internal political pressures which contribute to inconsistencies among their policy choices’ (Richardson and Thompson, 1999:3).

1.2.2 Empirical studies

Taking these three perspectives/approaches together, there have been around 30 empirical studies that have sought to investigate the link between HR practices and business performance. Most of these studies, as noted in section 1.1, are from North America (eg Huselid, 1995; Becker and Gerhart, 1996; Delaney and Huselid, 1996;) but there is a growing number of European programmes of work devoted to this subject (eg Hiltrop, 1996a; Guest, 1997; Richardson and Thompson, 1999). Most of this research generally reports positive statistical relationships between certain HR practices and business performance. In a review of the research, Pfeffer (1998) cites evidence that HR practices can raise shareholder value, while Huselid and Becker (1996) suggest that market value per employee is strongly correlated with the level of sophistication in the HR practices adopted. In the UK, researchers at the University of Sheffield (Patterson et al, 1997) conducted a study of 60 small to medium-sized single-site manufacturing businesses and found a strong correlation between changes in profitability and the adoption of certain HR practices. There has been a keen interest in identifying those HR practices which lead to ‘high commitment’ among employees (Wood, 1996).

This HRM and business performance literature has been extensively debated by academics; see Legge (2001) for example. Legge makes the point that any association between a new HR practice and a business outcome does not necessarily equate to a causative correlation. Alternatively, there may be ‘reverse causality’ in the linkage between HR practices and
Does it Work? Evaluating a new pay system  Part I: The literature

organisational success (ie successful organisations decide to invest in human resources rather than HRM leading to improved performance).

1.2.3 Is there a direct link?

Legge also argues that ‘little has been done to unlock the “black box” of the processes that link HRM … with organisational performance’ (Legge 2001:29). This leads on to a key question in the context of this report: whether there is a direct linkage between changes in HR policies and practices and improvements in business performance. Gerhart and Milkovich (1992: 483) argue: ‘Compensation may directly influence key outcomes like job satisfaction, attraction, retention, performance, flexibility, co-operation, skill acquisition, and so forth.’ The effect of compensation on the bottom line, however, is more problematic.

Guest (1997) suggests that the linkage needs to be seen as a sequence. He says that HRM strategy determines HRM practices, which result in HR outcomes. These HRM outcomes then impact on behaviour, performance and financial outcomes. He admits, however, that further research is needed, including research on the nature of the linkages. In a similar vein, Richardson and Thompson (1999) suggest that the linkage needs to be seen as a chain of events, leading from generic HR objectives (eg competence) through behavioural objectives (eg productivity) to production objectives (reduction in unit labour costs), which in turn lead to ultimate business objectives (profit). There is, therefore, little direct linkage between a specific HR practice and a business outcome.

There are also choices in management style which can affect this linkage. Under a control style, which Walton locates within the scientific management approach, the major objective is ‘to establish order, exercise control and achieve efficiency’ (Walton 1985:78). Employee voice has little role in this situation, except where trade unions provide an adversarial challenge to management. Under a commitment style of management, ‘performance expectations are high and serve not to define minimum standards but to provide “stretch objectives”, emphasise continuous improvement, and reflect the requirements of the marketplace’ (Walton 1985:79). Equally important to the commitment approach is providing employees with security and voice in decision making. While all organisations tend to have the same broad HR policy areas, Walton argues that the specific HR practices employed will be different according to the management style adopted. Thus all organisations have to make decisions about selection, training, work design, etc and have similar overall business objectives but the way these decisions are taken will depend on the management style. It is, therefore, the process (which takes place between the aims and objectives of the HR strategy and the ultimate outcomes) that is central, the so-called ‘black box’.

Indeed, there are more than the two possible approaches to managing human resources identified by Walton. See for example Chadwick and Cappelli (1998), who posit ‘contract’ versus ‘investment’ relationships), but the point is that, while overall HR objectives may be the same, the choice of employment policies will vary according to the management style. A HR strategy can, therefore, be seen as a series of decisions about which employment policies are best suited to achieving the generic organisational objectives.
1.2.4 Evaluating HR strategy

We have seen that there are generic HR objectives which are achieved in different ways according to the management style adopted and that the management style, ie the process, affects the linkage between HR strategy and business outcomes; but how are HR strategies or practices evaluated? Richardson and Thompson (1999:12) divide evaluation into two questions. The first asks whether various HR strategies are successful in terms of the impact upon business performance. The second (which in practice is much less frequently considered) seeks to identify why a strategy is successful or not. In terms of the first question, an evaluation requires an identification of the HR strategy, its measurement and finally its relationship to a measure of business performance. Also the researcher has to take account of the fact that many things apart from HR strategy will affect business performance (so-called ‘background noise’) and hence the effect of HR on business performance needs to be isolated in some way from other determinants. In the words of Richardson and Thompson (1999:13), ‘this requires a very complex evaluation model’.

The complexity inherent in this process is demonstrated by Richardson and Thompson’s examination of a single HR practice, performance-related pay, which has been extensively researched by academics, but without a conclusive outcome. A key point, however, from the literature is that any evaluation rests on being able to specify clearly the thing being evaluated. A further point is that the qualitative nature of many HR objectives, eg improving employee motivation, are not easy to measure (Hiltrop, 1996b).

1.3 Evaluating the HR function

Historically, the HR function has defied quantification or measurement. This has left HR professionals ‘ill-prepared to demonstrate that human resources are a form of capital, not solely a line entry of expense’ (McDonald and Smith, 1995:59). Nevertheless, in recent years the development of the human resource management paradigm (ie effective management of people leads to organisational success) has required a more systematic justification of the personnel management role (see, for example, Hiltrop, 1996b). As Tyson and Fell (1992:104) suggest: ‘In spite of all the difficulties, the need for personnel specialists to ensure that they both help to create wealth and to obtain recognition for their work is such that the attempt to measure performance must be made’. There has, therefore, been a growing literature which seeks to provide methods for evaluating the HR function. In this report we are primarily concerned to investigate how organisations monitor and evaluate the effects of changes in HR practice (ie pay and grading systems), rather than measuring the contribution of the HR function per se; but this literature does provide useful indications about how HR practices can be measured and evaluated.

1.3.1 Quantitative and qualitative measures

Any evaluation requires clear criteria, ie metrics or standards by which outcomes of the process can be evaluated. These measures can be as follows:

- employee behaviour (eg absenteeism or resignations);
- employee attitudes (eg trust in management or employee commitment);
- broader measures such as labour productivity, profits or stock market prices.
One might also investigate linkages between the behavioural and attitudinal measures and the broader quantitative measures. As Gratton (1999:75) says:

The emphasis in metrics has historically been on financial measures such as profitability or return on assets. However, for those companies striving to create strong linkage with business strategy, the emphasis has to be metrics associated with all aspects of business strategy, not simply financial targets.

According to Ulrich and Lake (1990), the processes have to be capable of measuring a wide range of outcomes, including those requiring ‘softer’ measures such as customer satisfaction, innovation or team building competencies.

In discussing the evaluation criteria by which the impact of HR practices can be judged, Armstrong and Long (1994) state that the overall approach to evaluating the HR function should distinguish between process and output or the difference between efficiency and effectiveness. According to Walker (1992), when companies measure the efficiency of the human resource function, they usually rely on a series of quantitative measures (eg costs, response time and output volume relative to inputs) and relate results to short-term human resource activities. In contrast, effectiveness is primarily measured through qualitative information and relates results to the resolution of critical issues and the implementation of strategies. Many organisations rate the effectiveness of the human resource function in terms of perceptions (of managers and employees) ‘but few measure the effectiveness in relation to implementing human resource strategy and achieving specific objectives’ (Walker 1992:332).

Tsui and Gomez-Mejia (1998) list several types of performance measures which can be used:

- money measures – for example maximum income, minimum expenditure and improving rates of return;
- time measures – express performance against work timetables, backlog and speed of activity or response;
- measures of effect - including attainment of a standard, changes in behaviour, physical completion of work and level of take-up of a service;
- reaction – such as peer assessments, performance ratings by clients or analysis of consumers’ complaints.

Guest and Peccei (1994) suggests the following performance measures may be used:

- organisational effectiveness – but it may be difficult to separate out HR;
- specified goals – if good measures of goal attainment can be obtained;
- specific quantified measures – labour costs, turnover and productivity have high credibility but may be difficult to interpret and can be affected by non-HRM factors;
- shareholder perspective – eg the board.

Armstrong and Long (1994) describe the approaches to evaluation of the HR function set out in Table 1.1.
### Table 1.1 Evaluating the HR function

<table>
<thead>
<tr>
<th>Approach</th>
<th>Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quantitative</strong></td>
<td>Macro - organisational</td>
</tr>
<tr>
<td></td>
<td>Micro -specified aspects of employee behaviour or reaction</td>
</tr>
<tr>
<td><strong>Quantitative/qualitative</strong></td>
<td>Achievement of specified goals</td>
</tr>
<tr>
<td><strong>Qualitative</strong></td>
<td>Macro -overall &amp; largely subjective</td>
</tr>
<tr>
<td><strong>Qualitative</strong></td>
<td>Client satisfaction</td>
</tr>
<tr>
<td><strong>Qualitative</strong></td>
<td>Employee satisfaction</td>
</tr>
</tbody>
</table>

**Source:** Armstrong and Long, 1994

Armstrong and Long (1994) say that organisational (macro) quantitative criteria include:

- added value per employee;
- profit per employee;
- sales value per employee;
- costs per employee;
- added value per pound of employee costs.

Specific (micro) quantitative criteria include:

- retention and turnover rates;
- absenteeism rate;
- ratio of employee suggestions received to number of employees;
- frequency/severity rate of accidents;
- ratio of grievances to number of employees;
- time lost through disputes;
- number of references to employment tribunals.

A report by the Institute of Employment Studies (Hirsch et al, 1996:41) suggests that there are three different types of measures: hard, soft and process. It says:

> Although at first sight ‘objectives’ or ‘targets’ to be achieved seem like a separate category of measure, in practice these are nearly always some combination of ‘hard’ and ‘soft’ measures. Summarising a set of objectives, goals or targets, however, can be a very useful way of integrating different measures of effectiveness, and making them visible both to those in the personnel function and those outside.

In contrast to the view that quantitative and qualitative measures are of equal worth, Kearns (1995:4) argues that the evaluation of HR must be rigorous and that the ultimate form of measurement must involve quantitative data, see figure 1. The figure, which shows the levels of measurement an organisation may use, illustrates how measurement runs from the subjective to the objective. Kearns does, however, indicate that ‘for those not employed by overtly commercial organisations there might be a problem defining what or where your bottom line is’.
Does it Work? Evaluating a new pay system  Part I: The literature

Figure 1 Levels of measurement (Kearns)

<table>
<thead>
<tr>
<th>Act of faith assessment</th>
<th>Subjective measures</th>
<th>Nominal measures</th>
<th>Cost/benefit measures</th>
<th>Absolute measures</th>
<th>Bottom line measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

No measurement  Subjective/qualitative measures  Objective measures

‘We think it worked’  ‘It improved communications’  ‘Put a value on…’  HR Dept audit  Cost, quality, quantity  £££ Profit

Whereas Kearns considers that there are objective measures, Walker (1992) argues that whatever measures are used, they are inevitably tainted by subjectivity and the companies which he studied acknowledged that there was no truly objective measure of either human resource effectiveness or efficiency. He says:

Each result … may be measured in specific, quantitative terms. However, all measures of effectiveness or efficiency have subjective elements – in the nature of the data (eg opinion), in the collection of information at the source, or in the formulation or interpretation of the measure itself. Interpretation … must be based on comparisons with expectations or objectives, with accepted standards… or with benchmarks, thus bringing an element of subjective judgment into play (Walker 1992: 336).

He adds that the companies recognised that overemphasis on measurement could cause managers to lose sight of the purpose of evaluation.

1.4 Measuring reward practices

The measurement and evaluation of reward practices has been an element common to both the ‘HR and the bottom line’ literature and the ‘evaluating the HR function’ literature, as we have noted. Reward practices themselves, however, have been evaluated by academics. As Gerhart and Milkovich (1992:482) argue: ‘From the organisation’s perspective, perhaps no other set of decisions are as visible or as consequential for the success or failure of an organisation’.

They also stress that the effects are not just about the impact upon cost, but also the impact upon a wide range of employee attitudes and behaviours, though as noted in sub-section 1.2.2 the link between reward changes/employee attitudes/productivity is intricate. Similarly Gratton states: ‘Reward processes can be one of the greatest sources of leverage available to a company in its quest to increase organisational performance and effectiveness, yet remain one of the most underutilized and potentially complex tools for driving organisational performance’ (Gratton, 1999:176). Fair (1992:66) argues: ‘Remuneration is undoubtedly the most visible of all costs associated with HR, yet the least understood and controlled element’. This is due, says Fair, to the fragmented way in which every part of the organisation demands a say in remuneration, whilst none is prepared to accept ultimate accountability for its control.

The importance and complexity of linking reward strategies to business goals in a systematic manner has been a recurrent theme in the research in this field, as has the importance and difficulty of linking rewards to the longer term view (see Hambrick and Snow, 1989). Much emphasis has been placed upon reward processes which are capable of reinforcing behaviours
crucial to business strategy (such as long term versus short term and customer focus versus financial results). Fair reports that, while official statistics are hard to find, individual organisations introducing clear reward structures have reported direct savings of at least 3-5 per cent on the paybill in the first year alone (Fair 1992:69).

Fitz-enz (1995:122) identifies four objectives for assessing the success of reward systems. First, a reward system must establish and maintain a structure that can be audited so that a judgment can be made on how it is operating against pre-set standards and goals. Second, as pay equity is important, we need to be able to determine how pay is distributed across all groups. Third, we can measure employee attitudes towards pay and fourth we ‘must deal with strategic issues of expense management and return on investment of base pay and incentive programmes’. Phillips (1996) suggests the following variables for measuring and evaluating pay systems:

- productivity;
- quality;
- soft data such as employee attitude surveys.

According to Phillips (1996:217), as well as measuring costs (which are part of productivity), there are administrative costs for implementing, co-ordinating and monitoring pay which can be measured. He also suggests that ‘time’ is an appropriate performance measure when a pay plan is linked with time improvements such as cycle times, delivery times, schedules, and completion time.

Unfortunately the literature does not normally give details of the measures used by organisations in assessing the effectiveness of specific reward practices, nor does it provide a methodology for measuring changes in reward practices. A major exception is Tyson and Fell (1992). They argue that two questions are important: what are the objectives and what are the costs. They show how the computation of costs and wastage data enabled one company to calculate how a new salary policy for clerical staff, which gave more pay increases during the first year of service, would reduce costs and be self-financing. This computation was achieved by keeping records under employment cost headings eg recruitment/induction against labour turnover figures and a stability index.

1.4.1 Incentive payment systems

For a long time labour economists and industrial relations researchers have had an interest in whether and how certain reward practices, notably incentive or ‘contingent’ pay systems, affect productivity. As far back as Taylor (1913), there was concern to show the beneficial effects of financial incentives for workers upon productivity. In the 1960s and 1970s there was continuing interest among industrial relations researchers in shopfloor incentive pay and productivity agreements and how they might affect output and quality (see Ahlstrand, 1990). In more recent times there has been research on the impact of worker financial participation schemes, such as profit sharing and employee share ownership (see Blinder, 1990); and a large amount of research on the effects of individual performance pay upon employee motivation, although less on its business impact (see for example Dowling and Richardson, 1997; Marsden and French, 1998; Richardson, 1999). Blinder (1990) found a strong correlation between employee financial participation schemes and strong business performance, while the literature on performance-related pay is generally more negative in its findings on the impact of such schemes.
One of the most challenging problems with this literature on the impact of pay practices on organisational performance is the fact that few recent studies have examined the introduction of a new pay practice. Rather, most of the recent research seeks to measure the business strength of organisations which have certain reward practices (e.g., profit sharing), compared to those which do not, rather than undertaking a ‘before and after’ study. Thus, few studies compare such matters as labour productivity, labour turnover or employee behaviour and attitudes before and after a change in reward practices. In other words, the studies are essentially cross-sectional, not longitudinal, perhaps because longitudinal research is expensive/time consuming. This contrasts with earlier studies. Indeed, Taylor’s (1913) study of a machine shop in the USA is interesting, in addition to its historical value, in that it sought to measure such a change in reward practice upon employee behaviour. While studies in the 1960s and 1970s sought to examine in depth the impact of change over time in the workplace, including reward systems (for example Davenport, 1950; Whyte, 1952, Sayles, 1957; Brown, 1962; Lupton, 1963; Sirotta, 1966; Lupton and Gowler, 1969), such studies of change have been remarkably absent during the last two decades.

Finally, when looking at contingent/incentive pay, Legge (2001:26) reminds us that Bowey and Thorpe (1986) found that it was not the type of pay system that affected the outcome, but the use of consultation in the design phase.

1.4.2 Perspectives on pay systems

Thorpe et al (2000) argue that a pay system will not necessarily convey the same messages to all those involved and that there are at least three main perspectives from which a payment system may be viewed. These are:

- the ‘normative’ view (i.e., the view of the senior managers as to what the payment system is designed to achieve);
- the ‘perceived view’ (i.e., the view of those who have to operate the system, which may differ from that of senior management); and
- the ‘operative view’ (i.e., the view of those who have to work under the system).

They argue (2000:251): ‘In most organisations, wide differences are apparent between these three perspectives, leading to subversion of the system and conflict with resulting poor pay system performance’. They also indicate that it is only by bringing these three perspectives into alignment that the reward system can be used as a catalyst for wider organisational change.

Guest (1997:266) makes a similar point about the importance of recognising different perspectives. He asks who the stakeholders are and argues that if we are to accept that there are different constituencies and various stakeholders we need multiple criteria of effectiveness.

1.4.3 Pay audits

There is also a literature concerning the auditing of a pay system to ensure that it is retaining its effectiveness (Percival, 1970; Bowey, 1989; Thorpe et al, 2000). Thorpe et al (2000:247) identify three reasons why organisations should regularly audit their reward systems:
• to test whether the original objectives are being met and whether the system is meeting the organisation’s current and future needs;
• to test whether the implementation and operation of the system is producing the expected results;
• to reflect changes in the organisation or environment which necessitates a new approach to reward.

Thorpe et al (2000:271) suggest the following stages in an audit:

1. Assess what the organisation needs from its various systems for allocating rewards.
2. Consider payroll costs relative to added value (or to revenue, profit, sales value or output) over a review period.
3. Analyse any time for which performance-related pay is awarded without reference to the actual performance of the employee at that time (eg incentive pay during waiting time).
4. Examine the distribution of performance-related earnings between individuals and sections.
5. Measure performance-related pay as a percentage of total pay.
6. Investigate absenteeism and turnover of staff by section, grade and sex.
7. Assess the extent of overtime working and its distribution.
8. Study the extent of and requirement for shiftworking and its distribution.
9. Measure pay differentials between various groups and trends.
10. Evaluate the consistency and logic of pay differentials.
11. Compare wages/salaries, fringe benefits and remuneration systems with competing employers.
12. Assess compliance with legal requirements.

1.4.4 The public sector

The literature discussed above is predominantly private sector. Most private sector organisations specify their overall business objective as the maximisation of profit or shareholder value. Richardson and Thompson (1999:4) say: ‘non-commercial organisations, such as NHS trusts or government agencies, often have more trouble in specifying their objectives in a satisfactory way’. In contrast, Kearns (1995) suggests that public sector organisations can specify targets such as the achievement of a Charter Mark or a predetermined customer service target. He argues that if targets do not exist, then this begs many questions and you cannot ‘move forward until such a “bottom line” series of objectives have been constructed’ (Kearns 1995:36).

In fact, performance indicators are now common across the UK public services, along with ‘league tables’ and the Audit Commission has played a major role in developing the methodology for measuring public service outcomes, including NHS outcomes. (See for instance Audit Commission, 2001). Moreover, hospitals are already judged by these performance indicators which reflect three main policy concerns: efficient use of resources, eg length of stay; value for money, eg ward staffing; and access, eg waiting times (Carter et al, 1992). These performance indicators, however, have essentially been used to question large divergences between trusts and as yet attempts to link HR strategies and outcomes to these indicators are only in their infancy. For instance a team at Aston University is engaged on a project linking HR policies and practices in the NHS with performance indicators.
Moreover, a performance indicator in a hospital, eg waiting times, or emergency readmissions, is one step removed from productivity. Hodgkinson (1999:474) in a recent study based on Australian local authorities argues that it is now accepted that measures of productivity should ‘include quality measures and that these outcome measures need to reflect client expectations, the objectives of the programme and professional standards of quality’. Improvements in efficiency or cost reductions, however, may have the effect of reducing quality of service delivery. She says: ‘Productivity measures which will be acceptable to all parties [management and unions]… thus need to include quality of service delivery indicators and technical or cost efficiency measures’.

In the UK the Office of National Statistics (ONS) has embarked upon a project to provide a measure of public services productivity. This study argues: ‘A shortcoming of existing productivity measures lies in the sharp differences between the market and non-market sectors as regards the way productivity is measured’ (Pritchard, 2001:61). Until recently, the practice was to assume that productivity in producing government services was constant and that, over time, there was no change in the quality of the services produced. The ONS project is designed to measure the extent to which growth in the volume of output exceeds (or otherwise) growth in the volume of inputs, but this work is only just beginning and the first experimental statistics are expected in 2002. The NHS is also seeking to develop measures of unit labour costs. At this juncture, however, as Wanless (2001:198) says: ‘…there are significant problems in measuring labour productivity in the NHS to ensure that quality of care rather than just the volume of activity is properly taken into account. There is the further problem of aggregating the volumes of many very different types of activity.’

1.5 Summary

There is very little research reporting on organisational practices in monitoring and evaluating HR changes, including new reward systems. Accordingly we have drawn on the academic ‘HR and the bottom line’ literature and the literature on benchmarking the HR function. The former literature generally reports positive statistical associations between certain HR practices and business outcomes, though these associations may not be causative. It also indicates that the links between HR and the bottom line are essentially indirect, not direct and that evaluation is complex and problematic. In an organisation it is not possible to keep everything constant (eg employees, market conditions) except a new HR practice and many HR objectives are qualitative not quantitative. Furthermore process may be more important than the content and management style is an important mediating factor. As to the literature on the evaluation of the HR function, different quantitative and qualitative measures are suggested. Nevertheless, whatever measures are used, there is a subjective element, not least in the formulation and interpretation of the measures themselves.

When it comes to the literature specifically concerned with measuring reward practices, we have found no recent longitudinal, before/after studies. Instead, they are cross-sectional. Within these limitations some themes emerge: first, the importance and complexity of linking reward strategies to business goals systematically; second, the different stakeholder interests; and third, the need to relate evaluation to the original objectives. This also implies that the original objectives need to be measurable. Above all, however, we note that the literature is mainly based on the private sector. In the public services the evaluation of pay systems is further complicated by the fact that there are no simple bottom line targets. Also, there are significant problems in measuring productivity, particularly in the NHS, although the Office of National Statistics and the Audit Commission are trying to do this.
Part II NHS trusts

2.1 Background

In the first part of our report we reviewed the literature relating to the evaluation of reward systems. This part of our report focuses on the evaluation of new pay and grading systems undertaken by 10 NHS trusts. Our previous research report (Corby et al, 2001) was a comprehensive account of new pay arrangements designed by NHS trusts during the 1990s under Conservative administrations. It covered trust aims and objectives, pay systems, pay progression, the process and costs of introducing new pay arrangements, evaluation and outcomes. Here we revisit and re-appraise our data, looking solely at the way evaluation was conducted. Evaluation, however, does not happen in a vacuum. Whether a pay system is ‘effective’, depends on whether or not it achieves its stated goal(s). Accordingly, we look at both trust aims and objectives and at their methods of evaluation. Finally we consider whether changes were made as a result of the evaluation. Before doing so, however, we set out our research questions and briefly describe our sample and our data collection methods.

2.2 The research

2.2.1 Research questions

Our research questions were as follows:

- What were the aims and objectives of NHS trusts when introducing new pay arrangements?
- What data did organisations collect and review to inform their evaluation?
- What steps have organisations taken as a result of their evaluation?

2.2.2 Sample and methods

A full description of our sample and methods is given in Corby et al (2001). Here we concentrate on the main points. The 10 NHS trusts in our study were selected after discussion with the Department of Health as case studies to highlight a variety of different approaches to pay and grading. The sample provided rich data highlighting the themes and issues that have arisen in the evaluation of pay and grading innovations. It was not, however, statistically representative of all trusts in England; nor was it statistically representative of all trusts which have introduced changes in pay and grading.

Table 2.1 gives the details. Very Large Acute 1 was the result of a merger in 1998 between two hospitals (Urban and another trust) which still had at the time of writing different pay systems. In this report, though, we only look at Urban, which in 1994 introduced a radical and comprehensive new pay system. The 10 NHS trusts in this study were situated in six out of the eight NHS regions in England. They provided a range of differing secondary care services: general acute, multi-service, teaching and specialised community and they varied in size as measured by the number of employees (headcount) from 1,805 to 4,557, see Table 2.1.
Our sample, however, did not include any ambulance trusts because the occupational groups covered and their industrial relations arrangements set them apart from the other NHS trusts.

The trusts also varied in the type of pay system they had introduced, when they had introduced it and the number of employees affected. Some departed significantly from the national pay arrangements known as Whitley and made fundamental changes to the pay and grading system for all non-medical employees. Others made fundamental changes for only a discrete group of staff, such as those in theatres. In contrast, some made minimal changes to Whitley, either for a large or a small proportion of their employees. As to timing, three trusts (Multiservice 1, Urban, Very Large Acute) introduced radical changes to pay systems as early as 1994. On the other hand Acute Teaching 3 was only completing the introduction of pay changes in 2000. Table 2. 2 gives details. It also shows take-up rates as a percentage of eligible staff. This is because when staff were transferred from health authorities to the trusts, the Transfer of Undertakings (Protection of Employment) Regulations applied. As long as they stayed in the same job they could remain on their old (Whitley) contracts, unless they chose not to do so. (Furthermore, under common law a contract can only be varied by agreement.)

Our previous report (Corby et al, 2000) gives full details of our data collection methods. Here we just repeat some key points. We inspected a range of NHS trust documents including labour turnover data, exit interview data, collective agreements, employee attitude surveys and reports to the trust board. We also conducted 73 face-to-face, tape-recorded sessions. These included one-to-one interviews with managers, group interviews with union representatives and focus groups of employees.

Table 2. 1 NHS trust by region and number of employees

<table>
<thead>
<tr>
<th>Trust</th>
<th>NHS region</th>
<th>No. non-medical employees*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Headcount</td>
<td></td>
</tr>
<tr>
<td>Acute Teaching 1</td>
<td>Trent</td>
<td>4,286</td>
</tr>
<tr>
<td>Acute Teaching 2</td>
<td>Trent</td>
<td>4,534</td>
</tr>
<tr>
<td>Acute Teaching 3</td>
<td>London</td>
<td>3,744</td>
</tr>
<tr>
<td>Community</td>
<td>South East</td>
<td>1,805</td>
</tr>
<tr>
<td>Large Acute</td>
<td>Eastern</td>
<td>2,151</td>
</tr>
<tr>
<td>Multiservice 1</td>
<td>South East</td>
<td>2,687</td>
</tr>
<tr>
<td>Multiservice 2</td>
<td>Eastern</td>
<td>2,361</td>
</tr>
<tr>
<td>Multiservice 3:</td>
<td>North West</td>
<td>4,557</td>
</tr>
<tr>
<td>Urban and another trust with which it merged in 1998</td>
<td>Trent</td>
<td>4,409</td>
</tr>
<tr>
<td>Very Large Acute</td>
<td>Northern &amp; Yorkshire</td>
<td>4,419</td>
</tr>
</tbody>
</table>

* September 1999
Does it Work? Evaluating a new pay system Part II: NHS trusts

<table>
<thead>
<tr>
<th>NHS trust</th>
<th>New pay arrangements</th>
<th>Description of employees eligible</th>
<th>Approximate number of employees eligible*</th>
<th>Take-up* %</th>
<th>Date of introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute Teaching 1</td>
<td>Pay &amp; grading structure</td>
<td>All non-medical staff except scientists, pharmacists, estates officers.</td>
<td>4,000</td>
<td>25</td>
<td>1995</td>
</tr>
<tr>
<td>Acute Teaching 2</td>
<td>Pay &amp; grading structure</td>
<td>All theatre staff</td>
<td>200</td>
<td>90</td>
<td>1998</td>
</tr>
<tr>
<td>Acute Teaching 3</td>
<td>Adaptation of Whitley</td>
<td>Nurses, midwives, health visitors, support workers</td>
<td>1,500</td>
<td>90</td>
<td>1996 – 2000</td>
</tr>
<tr>
<td>Community</td>
<td>Pay &amp; grading structure</td>
<td>All non-medical staff except grade B clinical psychologists</td>
<td>1,750</td>
<td>65</td>
<td>1996</td>
</tr>
<tr>
<td>Large Acute</td>
<td>Adaptation of Whitley</td>
<td>Central Sterile Services Dept Maintenance craftsmen, Clinical support workers, Midwives</td>
<td>40, 14, 250, 100</td>
<td></td>
<td>1993, 1997, 1999</td>
</tr>
<tr>
<td>Multiservice 1</td>
<td>Pay &amp; grading structure</td>
<td>All non-medical staff</td>
<td>2,600</td>
<td>75-80</td>
<td>1994</td>
</tr>
<tr>
<td>Multiservice 2</td>
<td>Pay &amp; grading structure</td>
<td>Qualified theatre staff</td>
<td>80</td>
<td>92</td>
<td>1997</td>
</tr>
<tr>
<td>Multi-service 3</td>
<td>Variation of Whitley</td>
<td>Some pathology lab staff</td>
<td>24</td>
<td>100</td>
<td>1998</td>
</tr>
<tr>
<td>Urban**</td>
<td>Pay &amp; grading structure</td>
<td>Nurses and midwives</td>
<td>900</td>
<td>95</td>
<td>1994</td>
</tr>
<tr>
<td>Very Large Acute</td>
<td>Pay &amp; grading structure</td>
<td>All non-medical staff</td>
<td>4,000</td>
<td>67</td>
<td>1994</td>
</tr>
</tbody>
</table>

* Number of employees as at Sep 1999; take-up rates as at summer 2000
** Urban (which merged with another trust in 1998) also developed pay systems for admin & clerical, hotel services, ‘professional’ staff, ODAs/ODPs
Source: Corby et al (2000)
2.3 Findings

2.3.1 Aims and objectives

As noted in section 2.1, one must know what the pay arrangement was trying to achieve, in order to evaluate whether it is effective. Accordingly we have to look at trust aims and objectives. These can be placed in two broad categories: where trusts made relatively minor changes for a small proportion of staff and where trusts made major changes for a significant proportion of staff. See Table 2.2 for details.

Dealing with trusts which made major changes, trust aims could be broadly categorised as value driven. For instance, Acute Teaching 1 wanted a new pay structure which would be affordable, fair, easily understood and easy to apply. Community wanted a pay system that was simple to operate and administer and would enable managers better to manage the performance of staff. Multiservice 1 wanted a pay system where pay progression was based on performance, not service and would allow pay progression without promotion, to encourage staff to stay delivering hands-on care. Urban was more ambitious in its aims. As well as wanting a system where pay progression was based on performance and was affordable, it wanted to improve the quality of patient care and recognise and support new ways of working and professional development. Very Large Acute wanted a system that provided a flexible, equitable and simple approach to pay and conditions and rewarded staff for the performance of the trust (not the individual). From this certain common threads emerged: affordability, simplicity, flexibility and the reward of good performance.

As opposed to these value driven aims, where trusts made changes in respect of a small group of staff, the aims were issue driven. Thus Multiservice 3, which varied Whitley for certain staff in pathology laboratories, wanted to provide a more affordable and efficient system of 24 hour cover. Acute Teaching 2 and Multiservice 2, whose new pay arrangements centred on theatre staff also wanted to provide a more affordable and efficient system of 24 hour cover. In addition, though, they both wanted to support multi-skilling and the breaking down of demarcation barriers and to overcome recruitment and retention problems. As to Acute Teaching 3, where the new pay arrangements for nurses, midwives, health visitors and support workers were rolled out gradually over four years, the aims changed over time. The overcoming of recruitment and retention problems came to the fore, though other aims stayed constant: to reward competency and provide ‘headroom’ through broad banding. Large Acute had different aims for different occupational groups: for maintenance craftsmen and staff in central sterile services, the aim was better to provide 24 hour cover. For clinical support workers and midwives the aims were to reward competencies and provide headroom by introducing some broad banding. From this certain common threads emerged: the provision of 24 hour cover, the breaking down of demarcation barriers and the overcoming of recruitment and retention problems.

2.3.2 Evaluation

As stated in section 2.2, staff could choose whether to move on to the trust’s new pay arrangements. In fact we found that only where there was a small group of employees (less than 40) was there 100 per cent take-up. Accordingly in all other cases, trusts had a ready-made control group. None, however, made use of that for pay evaluation purposes. Thus all the trusts collected information on labour turnover, but they did not distinguish between those on trust pay and those on the national arrangements to ascertain whether there was an
association between the new pay arrangements and retention. This was surprising, especially where an explicit aim was to overcome recruitment and retention problems as in three trusts (Acute Teaching 2, Acute Teaching 3, Multiservice 2). Managers, however, were of the view that a host of factors contributed to labour turnover and so they did not consider that they could usefully use such data specifically to evaluate their new pay structures.

Similarly all trusts (as required by the NHS Executive) carried out a staff attitude survey. Indeed, some of our trusts had used staff attitude surveys for many a year, i.e. before the NHS Executive requirement. Again, though, they did not use the survey specifically to evaluate the pay system. Accordingly, they did not distinguish between those on trust pay and those on the national arrangements to ascertain whether there was an association between the new pay arrangements and staff views on, for instance, morale or feelings of fairness. This was surprising, especially where an aim was to introduce a fair/equitable pay system as in Acute Teaching 1 and Very Large Acute respectively.

Furthermore, we found that trusts looked at paybill costs overall, comparing the costs before and after the introduction of the new pay arrangements for the staff group(s) concerned. None of the trusts, however, compared the paybill costs of those on trust pay with the paybill costs of those not on trust pay, even though affordability was an explicit aim of five trusts and five trusts also altered the unsocial hours, overtime and on-call premia of staff under the new pay arrangements.

Indeed in one trust (Acute Teaching 1), the new pay system was rolled out gradually to provide ‘the opportunity to closely monitor small and manageable segments of the organisation enabling swift corrective action to be taken when seen to be necessary’, as the HR director said in his original briefing to the board. In the event, however, no evaluation of the impact of the new pay system was undertaken at that trust.

A few trusts, however, conducted some limited evaluation as a one-off exercise, centring on one aspect of the new pay arrangements. They relied on self-report and there was no attempt to consider whether the respondents were representative of the workforce as a whole. Thus Acute Teaching 3, which was introducing new pay arrangements for nurses and which was particularly concerned with recruitment conducted an evaluation in 1997 shortly after the new arrangements were first being introduced, issuing a questionnaire. For instance, staff were asked if the new arrangements would positively influence their decision to apply for a post. (A minority said that they would.) This, however, was small scale (only 40 respondents) and as the HR director admitted ‘we were not evaluating in the sense of setting it against costed alternatives’. Another one-off exercise was carried out at Multiservice 2 by a member of the HR department. This took the form of a report looking at the extent that multi-skilling had occurred in theatres (a trust aim) one year after the introduction of the new pay system for qualified staff. (It found that the desired flexibility had not yet been achieved.) In addition, Community carried out a small scale one-off exercise in 1999, looking at the performance development review (PDR) process in respect of community nurses. This indicated that community nurses felt that pay progression depended on the person who conducted the PDR, rather than on the performance of the employee.

In contrast to these relatively limited internal evaluations, Urban carried out an extensive evaluation of its performance pay system in 1997, after it had been in operation for over two years. Using self-report, data was obtained from a range of sources including a questionnaire survey (response rate = 20 per cent), individual interviews and focus groups. As Urban’s aims were to provide a pay system which improved the quality of patient care and supported new
Does it Work? Evaluating a new pay system  Part II: NHS trusts

ways of working and professional development, its questionnaire addressed those issues, along with issues around staff motivation and staff perceptions of fairness. It found that there was overall agreement that there had been a positive impact on patient care, on professional development (both original objectives) and on staff motivation though the margin of difference between the positive and negative views expressed was not large and again there was no control group. In addition the trust conducted an analysis of performance awards to see if there was any bias. It found none from an equal opportunities perspective, but evidence of bias according to sub-group, see below in section 2.4.

Table 2.3 One-off evaluation exercises

<table>
<thead>
<tr>
<th>Trust</th>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Type</td>
<td>Date</td>
</tr>
<tr>
<td>Acute Teaching 1</td>
<td>Reports to the board from the HR director</td>
<td>1998</td>
</tr>
<tr>
<td>Acute Teaching 2</td>
<td>Small scale survey focussing on recruitment &amp; retention</td>
<td>1997</td>
</tr>
<tr>
<td>Acute Teaching 3</td>
<td>Small scale audit of performance development &amp; review among community nurses</td>
<td>1999</td>
</tr>
<tr>
<td>Community</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Acute</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiservice 1</td>
<td>Small-scale survey of process</td>
<td>1995</td>
</tr>
<tr>
<td>Multiservice 2</td>
<td>Review focussing on multi-skilling</td>
<td>1998</td>
</tr>
<tr>
<td>Multiservice 3:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>Large scale survey: questionnaires, interviews &amp; focus groups</td>
<td>1997</td>
</tr>
<tr>
<td>Very Large Acute</td>
<td>Survey concentrating on process</td>
<td>1995</td>
</tr>
</tbody>
</table>

Source: Corby et al, 2001

These evaluation exercises were carried out internally. In three trusts there was a combination of internal and external evaluation. At Multiservice 1 in 1995, one year after the start of the scheme, there was a small scale internal survey of the individual performance pay process (not outcomes) with responses from 42 staff. The trust found that the system was operating fairly well. The trust did not at any time, however, attempt to look at the length of time in grade, although one of its aims was to encourage staff to stay delivering hands-on care by allowing pay progression without promotion. In addition to Multiservice 1’s internal survey, in 1996 there was a much wider survey by academics. There were 691 usable responses to a one-off questionnaire, a 30 per cent response rate. A majority of staff, 62 per cent, thought
that performance-related pay was good in principle but a majority did not think that the performance pay system had given them an incentive to work beyond the requirements of their job or made them more sensitive to the needs of patients. This was part of a larger study looking at whether performance pay was a motivator in the public services and the trust did not commission the study. The academics took the initiative in approaching the trust for access.

This same study (Marsden and French, 1998) also prompted by the academics themselves, not commissioned by the trust, covered Very Large Acute in 1996, which operated a performance pay system based on the performance of the trust, not the individual. There were 914 responses, a response rate of 22 per cent. A majority, 52 per cent, thought that the performance pay system was good in principle but a majority did not think that it had given them an incentive to work beyond the requirements of their job or made them more sensitive to the needs of patients. This external evaluation was preceded by a smaller scale internal evaluation by Very Large Acute in mid-1995, 18 months after its pay system had been introduced, concentrating on process, rather than outcome.

The third trust in our sample to combine internal and external evaluation was Acute Teaching 2, where the new pay arrangements applied only to staff in theatres, not to all non-medical staff, unlike the other two trusts which combined internal and external evaluation. The external evaluation was conducted by an MBA student (Kitching, 1999), who made the initial approach to the trust. He interviewed 18 theatre staff to ascertain their attitudes. (He found that staff were more orientated to personal development; there had been an increase in staff autonomy but morale remained variable). The internal evaluation took the form of reports to the board in 1998 less than a year after introduction detailing the costs involved in the development of the pay system and evaluating the pay bill costs. One of these reports also claimed that there was more efficient rostering and reduced expenditure on overtime as a result of the new pay system, but the data on which these claims were based were not given to the researchers nor, we understand, to the board. Table 2.3 summarises the one-off evaluation exercises conducted by the 10 NHS trusts studied.

2.4 Further steps

As a result of this limited evaluation very few further steps were taken. The main exception was Urban where the performance pay system was slightly changed. Performance pay was awarded in 0.5 per cent steps, instead of 2 per cent steps as before to allow for more finely differentiated progression and the quota was applied on a sub-group basis, not a wider job family basis as before.

Another relatively minor change was made at Very Large Acute, but this was essentially because of representations by the unions, not as a result of evaluation. In short, the performance award system was modified so that absences on account of pregnancy, bereavement and occupationally induced sickness would no longer be counted towards the withholding of an award and a panel was set up to make a decision on whether an award should be withheld from an individual to ensure greater consistency between departments/directorates.

Otherwise few changes were made, even though the external evaluation at two trusts indicated that the performance pay system was not a motivator. This, however, was because of anticipated political changes from 1996 and then actual political changes. In May 1997 a
Labour government took office with a policy of national pay with some local flexibility, replacing the Conservative government’s support for trust pay systems. Accordingly the trusts in our sample which had all implemented some innovations in pay and grading, essentially decided to wait and see what emerged as a result of consultation and negotiation nationally.

2.5 Summary

This part of the report is based on the new pay arrangements introduced by 10 NHS trusts in England during the 1990s. Trust aims varied but there were certain common threads: affordability, simplicity, flexibility, the reward of good performance and the overcoming of recruitment and retention problems. Despite these explicit and often wide-ranging aims, evaluation of the new pay arrangements was on the whole limited. Although trusts collected much HR information, for instance labour turnover statistics, and carried out staff attitude surveys, they did not use the data to evaluate their pay systems or make use of a control group (ie staff who had not moved on to the new pay system). Some trusts, however, conducted certain one-off exercises to evaluate a specific aspect of their new pay arrangements, but in no trust was there a longitudinal exercise. In two trusts the performance pay system was evaluated by a university, but the academics approached these trusts for access. The trusts did not commission the academics. In a further trust a student evaluated the new theatre pay system for his MBA dissertation.

Finally, two trusts made marginal changes to their pay systems. In one trust (Urban) this stemmed from the trust’s evaluation. In the other trust it was essentially the result of representations by the unions.
Part III: Organisations outside the NHS

3.1 Introduction

The first part of our report was a review of the literature on the evaluation of pay systems to identify themes and issues. Part II of our report dealt with the evaluation of new pay systems by NHS trusts. This third part of the report is concerned with how organisations outside the NHS, which have introduced new pay arrangements, conducted their evaluation.

As explained in the second part of this report, when conducting our research on the pay systems introduced by 10 NHS trusts in the 1990s under the Conservative government’s arrangements, we found that little rigorous evaluation had been undertaken by the NHS trusts themselves. Against this background, we looked at organisations outside the NHS to see what evaluation they had carried out. Were NHS trusts unusual in not conducting any rigorous evaluation? What evaluation of pay systems did other organisations carry out?

Our findings are presented under the following headings:

- Aims and objectives
- Evaluation
- Further steps

These thematic headings are used to organise the data and our analysis intentionally draws selectively from our data to illustrate points being discussed. The tables, however, list all seven organisations, but only capture key points. A more comprehensive account of our findings in each organisation is given in the annex.

3.2 The research

3.2.1 The research questions

The research questions used for this part of the study were the same as those used in part II but for completeness, we repeat our research questions as follows:

- What were the aims and objectives of organisations when introducing new pay arrangements?
- What data did organisations collect and review to inform their evaluation?
- What steps have organisations taken as a result of their evaluation?

3.2.2 Sample and methods

We discuss here both the organisations selected and the method of data collection. Adopting a case study approach, we sought, as far as possible, to identify organisations which were similar to the NHS in structure and in industrial relations. So we looked for multi-site, unionised organisations. Also, given that our interest was in the evaluation of pay systems we
Does it Work? Evaluating a new pay system Part III: Organisations outside the NHS

sought organisations which had introduced new pay arrangements in the last few years. Using IDS Reports, together with contacts obtained, for instance, through the Cabinet Office, we identified seven organisations. This sample is not statistically representative of all the organisations in England that have implemented changes in pay and grading. Nor was it intended to be. The main purpose of this part of our research was to capture the rationales for evaluation, the way evaluation was conducted, the constraints and the outcomes in some detail.

Some of the organisations wanted anonymity, so in such cases a pseudonym has been used. Of our seven organisations, four were in the public sector and three in the private sector. Although all were multi-site and unionised, they varied in size as measured by the number of employees. The smallest in terms of number of employees (headcount) was Government Communications Headquarters (GCHQ) with 4,500 employees, and the largest was Royal Mail with some 160,000 employees. Furthermore they varied in function as the names or pseudonyms, make clear. For instance the three private sector organisations were engaged in different activities: engineering, communications and insurance. Table 3.1 gives details as well as showing the abbreviations which we have used in the text.

Table 3.1 Organisation by number of employees

<table>
<thead>
<tr>
<th>Name of organisation</th>
<th>Name used in text</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assureco</td>
<td>Assureco</td>
<td>4,700</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>BAE Systems</td>
<td>*55,500</td>
</tr>
<tr>
<td>County Council</td>
<td>Council</td>
<td>24,854</td>
</tr>
<tr>
<td>Government Communications Headquarters</td>
<td>GCHQ</td>
<td>4,500</td>
</tr>
<tr>
<td>HM Customs &amp; Excise</td>
<td>C &amp; E</td>
<td>22,000</td>
</tr>
<tr>
<td>Royal Mail</td>
<td>RM</td>
<td>160,000</td>
</tr>
<tr>
<td>Telecomco</td>
<td>Telecomco</td>
<td>*117,000</td>
</tr>
</tbody>
</table>

* UK only; BAE Systems has 100,000 world-wide and Telecomco has 137,00 world-wide
Source: Annual reports for Assureco, BAE Systems, Consignia, Telecomco.
Information from websites for Council and C & E and from interview at GCHQ.

Inevitably given their different size, functions and context, these organisations varied in the type of new pay arrangements they had introduced and the numbers and proportion of staff affected. For instance the new pay arrangements at HM Customs & Excise (C & E) consisted of a narrowly focused team bonus system which affected only some 700 staff (3 per cent). BAE Systems and C & E apart, the pay changes affected well over half the employees in all the other organisations in our sample. Also in all the organisations except C & E the changes included new pay and grading systems and were thus more wide ranging. The most complex was the Way Forward package at Royal Mail which comprised eight separate agreements on employment security, pay and grading, shorter working week, annual leave, meal breaks, way of working, working time regulations and deployment and affected 150,000 staff.

It should be noted that in two of our organisations the framework for the pay arrangements had been established outside the organisation. Thus the Council was implementing the framework local government agreement of 1997 and C & E were implementing the framework advanced in the Makinson report (2000). Our other five organisations were free to devise their own frameworks, though GCHQ’s framework had to be approved by its parent department (Foreign and Commonwealth Office) and HM Treasury. The dates of introduction also varied: the most recent was Assureco in February 2001. The most long standing was GCHQ’s pay system. Full details are given in Table 3.2.
As to the documents used, we drew on secondary sources, particularly *IDS Report* and *IRS Employment Trends*. The primary source documents on which we drew varied greatly. This was because the organisations differed markedly in the pay arrangements that they had introduced as we have noted. In all the organisations, however, there were briefing documents and/or leaflets explaining the new arrangements to staff. Typically, the annual report informed the context and in GCHQ, where there are special constraints for national security reasons, we were given only unclassified documents. The documents used are listed in our references, located at the back of this report.

**Table 3.2 Pay arrangements by organisation**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Pay arrangements</th>
<th>Number &amp; description of employees covered</th>
<th>Date of introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assureco</td>
<td>Pay, grading and performance system</td>
<td>4,500 front-line, professional and managerial staff</td>
<td>February 2001</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>Pay and job evaluated grading structure</td>
<td>Some 6,500 professional, technical and administrative staff in seven sites</td>
<td>June 1997-December 1998</td>
</tr>
<tr>
<td>C &amp; E</td>
<td>Team bonuses</td>
<td>700 employees in 6 sites</td>
<td>July 2000</td>
</tr>
<tr>
<td>Council</td>
<td>Harmonised, job evaluated pay system</td>
<td>22,000 – all staff covered by National Joint Council terms &amp; conditions</td>
<td>April 2000</td>
</tr>
<tr>
<td>GCHQ</td>
<td>Pay and grading system</td>
<td>4,470 – all staff except those in the senior civil service</td>
<td>April 1996</td>
</tr>
<tr>
<td>Royal Mail</td>
<td>Pay, grading, working time and working practices package</td>
<td>150,000 employees in postal and postal support grades</td>
<td>February 2000</td>
</tr>
<tr>
<td>Telecomco</td>
<td>Pay &amp; grading system and conditions</td>
<td>80,000 non-managerial employees</td>
<td>October, 2000</td>
</tr>
</tbody>
</table>

Bearing in mind that in our literature review we had identified that there could be different perspectives in an organisation (Thorpe et al, 2000: 251), we obtained two perspectives on the evaluation process: a managerial and a union perspective. These were generally obtained by face-to-face interviews, but four interviewees were only prepared to be interviewed by telephone, although the researchers’ preference for a face-to-face interview had been clearly stated. In addition one interview was conducted by way of a video conference. Details of the interviews are shown in Table 3.3. In RM where the national agreement provides the scope for different workplace approaches, we were of the view that it would have been useful to interview local managers. We were, however, denied access, essentially because of the sensitive situation. See sub-section 3.3.2.3.

The interviews we conducted in our case study organisations were supplemented by an interview at the Cabinet Office, which gave us an overview in respect of the two civil service departments in our sample (C & E and GCHQ) and consultation with the editor of *IDS Report*. Also as the Council was implementing a national agreement, there was an additional interview with a representative of the Employers’ Organisation for local government, as well
as attendance at a conference on the implementation of the local government framework agreement where a spokesperson from the Council made a presentation about their new pay system.

Table 3.3 Interviews conducted

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Management</th>
<th>Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assureco</td>
<td>Training Manager</td>
<td>Full-time official**</td>
</tr>
<tr>
<td>C &amp; E</td>
<td>Two management respondents at one interview</td>
<td>Full-time official</td>
</tr>
<tr>
<td></td>
<td>session</td>
<td></td>
</tr>
<tr>
<td>Council</td>
<td>HR manager**</td>
<td>Union representative**</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>HR manager</td>
<td>Union representative*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chair of Government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Communications Group*</td>
</tr>
<tr>
<td>Royal Mail</td>
<td>HR manager</td>
<td>Union research officer</td>
</tr>
<tr>
<td>Telecomco</td>
<td>HR manager**</td>
<td>Union research officer</td>
</tr>
</tbody>
</table>

* Informal discussion only  
** Telephone interview  
• Video-conference

3.3 The findings

This part of our report presents our findings under three main headings: aims and objectives, the data collected for evaluation and the actions taken as a result of evaluation.

3.3.1 Aims and objectives

This sub-section addresses our first research question: the aims and objectives of organisations when introducing new pay arrangements. The introduction of new pay systems in unionised organisations involves management and unions, (although the degree of union involvement in the design varies) and the aims and objectives of the new pay arrangements are normally set out explicitly. As noted in sub-section 3.2.2 in our sample they varied between the complex, eg Royal Mail with its eight agreements comprising the Way Forward package, and the simple, eg the team bonus trial at C & E. Especially where there were many aims and objectives, the priority attached to them by the parties sometimes varied.

Thus at Assureco the aims were listed as follows:

- to reward individual performance instead of teams;
- to attract and retain the right people at an affordable cost;
- to provide a pay system which staff would find fair.

Assureco’s objectives were to:

- reduce staff turnover, particularly of junior and front-line staff, by ensuring staff were paid a competitive rate for the job;
Does it Work? Evaluating a new pay system Part III: Organisations outside the NHS

- increase performance and motivation;
- get managers to manage people rather than work targets.

Thus a key management objective was to reduce labour turnover among junior and front-line staff and this objective was shared by the union; but the priority attached by management and the union to other aims and objectives varied. Whereas a managerial priority was to reward the performance of individuals, not teams, a union priority was to reduce staffs’ feelings of unfairness in respect of the pay and grading system.

This difference in priorities could also be seen at Royal Mail. The aims and objectives were set out often in great detail for each of the eight agreements comprising the Way Forward package, see annex (section A.6) for full details. Yet our interview with a manager revealed that management’s main aim was to improve efficiency. This involved other aims, such as creating a single operational grade to foster flexibility and developing the capability for the speedy and successful introduction of change. Our union interviewee’s main aim, however, was to improve the basic pay of members and to improve working conditions by reducing the dependence on overtime.

Similarly, at Telecomco there was a difference in priorities. The main aims of both management and the union were to:

- create an integrated pay and grading structure;
- introduce common terms and conditions for all non-management employees; and
- establish an ‘open culture’ in learning and development.

Management saw this as leading to more flexibility: new jobs created in the context of rapid technological change could be easily graded and barriers to the movement of staff reduced because of harmonisation. The union wanted to improve the terms and conditions of its members. Furthermore, a major issue for management was cost, while a major issue for the union was the maintenance of national bargaining.

Table 3.4 Main aims of new pay arrangements

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Management aims</th>
<th>Union aims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assureco</td>
<td>Reduce labour turnover. Reward individual performance.</td>
<td>Reduce labour turnover. Ensure staff regard the pay system as fair.</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>Harmonise and simplify the pay structure. Retain staff. Discourage ‘grade ‘chasing.</td>
<td>Enhance the terms and conditions of members.</td>
</tr>
<tr>
<td>C &amp; E</td>
<td>Ascertain whether team bonuses incentivise staff.</td>
<td>Ascertain whether team bonuses incentivise staff.</td>
</tr>
<tr>
<td>Council</td>
<td>Provide equal pay for work of equal value.</td>
<td>Provide equal pay for work of equal value.</td>
</tr>
<tr>
<td>GCHQ</td>
<td>Attract and retain those with scarce skills.</td>
<td>Attract and retain those with scarce skills.</td>
</tr>
<tr>
<td>Royal Mail</td>
<td>Provide flexibility. Encourage new working practices.</td>
<td>Improve basic pay. Reduce hours of work.</td>
</tr>
<tr>
<td>Telecomco</td>
<td>Provide flexibility.</td>
<td>Enhance the terms and conditions of members.</td>
</tr>
</tbody>
</table>
At BAE Systems the stated aims of the new pay arrangements were:

- to be self financing through efficiency gains;
- to harmonise the disparate agreements across seven sites;
- to simplify the grade structure and make it more transparent;
- to bring salaries up to the market rate and improve retention;
- to allow for progression within grades;
- to move to a project based as opposed to a function based approach.

Among these six aims the unions gave priority to simplification and transparency and management to progression within grades.

In some cases, however, the main aims of both management and the union coincided. Both the local government Employers’ Organisation and the Council identified the objectives of their ‘single status’ agreement as providing equal pay for work of equal value and providing fair pay and equal treatment of staff, irrespective of whether such staff were manual or non-manual, by harmonisation and the ironing out of anomalies. Indeed, Council which had already had a costly equal value dispute (see annex, section A.3) was particularly anxious to introduce an equal value proof scheme. The union, Unison, shared the Council’s aims. At C & E, management and union shared the same aim of having an unbiased trial of the team bonus system. At GCHQ, the establishment of a pay structure with ‘job pay group families’ (ie functional groups such as information scientists, linguists) aimed both to enable GCHQ to attract and retain skilled people and to enable the union to improve the pay of its members. Second, GCHQ wanted its pay system to reward individual performance in a way that employees perceived as fair – again a shared management/union aim, though perhaps the management’s emphasis was on rewarding performance and the union’s emphasis was on fairness.

As we have noted, the documents often listed many aims without priority and the annex gives full details. Table 3.4 merely sets out the main aims, generally teased out from our interviewees.

3.3.2 Evaluation

This sub-section addresses our second research question: the data collected to inform evaluation. As already stated, evaluation does not occur in a vacuum but is conducted in the context of the aims and objectives of the pay system. We deal first with the data collected by management and then the data collected by the union.

3.3.2.1 Evaluation by managers.

The evaluation of the pay arrangements undertaken by managers was closely related to the organisation’s aims. Thus at GCHQ, the main concern of management has been to ensure the recruitment and retention of staff, particularly those with specialist skills. Accordingly, it closely analysed labour turnover figures and ensured that its pay levels were competitive by monitoring the pay ranges allocated to specific job families and relating them to the pay rates offered by its labour market competitors. It also used exit interview data to evaluate its pay system. A personnel officer conducts the exit interview with the leaver and there is a pro-forma to be completed by the interviewer at the time of the interview. Data from the exit interviews are consolidated every month and analysed every year. GCHQ collects a range of
human resources (HR) data, eg on absenteeism, paybill costs and numbers of employees broken down by business unit and job family. As GCHQ’s main concern is recruitment and retention, however, not other matters, it has not used this other HR data specifically to evaluate the pay system. It has also not used its staff attitude survey specifically to evaluate the pay system, although one of the aims of its pay system is to reward individual performance in a way that employees perceived as fair. (The staff attitude survey only contains three questions on pay out of over 100 questions.)

At Assureco the company aims to attract and retain staff so it is evaluating the pay system by monitoring labour turnover data. It also plans to use an outside agency on a one-off basis to conduct exit interviews with departing employees to ascertain whether the reasons given to the organisation for leaving are the real reasons. This is because it considers that an agency will provide a safe and anonymous environment for honest feedback, eliminating an employee's worry of jeopardising future references. Also as the company wants the new pay system to be seen by employees as fair, it is using the annual employee attitude survey, which usually has response rate of around 85 per cent. Interestingly, although affordability was one of its aims, the company is not using paybill information for evaluating its new pay system, although the HR department collects such information. Another management aim at Assureco was to reward individual performance. Although data are being collected on the spread of performance awards, data on productivity/performance are not being collected.

At three of our organisations (BAE Systems, the Council, and Telecomco) the data collected specifically for evaluating the pay system were more limited than at GCHQ and Assureco. At Telecomco, the company regularly collects data on paybill costs, employee turnover, absence rates and employee attitudes, but has not used such data for pay system evaluation. Indeed, we were told that a company-wide evaluation of the new pay structure was not appropriate. The costs, eg as a result of the reduction in hours, varied from business to business depending on their staff composition, as did the savings, eg the flexibility to deploy people and the simpler administration resulting from the common terms and conditions. Also, according to our interviewee, there had been no symptom of any problems, such as industrial action or grievances brought by the union.

In local government too, there has been virtually no evaluation. Our interviewee from the local government Employers’ Association commented that the objectives of the ‘single status’ framework agreement were so general that it was difficult to see how they could be evaluated rigorously. The Employers’ Association had conducted some evaluation of costs and, in addition, had undertaken an annual survey of local authorities on the progress made on implementation but there had been a low response rate: less than half the local authorities had responded. Only three large local authorities had introduced new grading structures, including our case study Council. Like the Employers’ Association nationally, our case study Council had undertaken virtually no evaluation of the pay system, apart from monitoring the assimilation costs. Our management interviewee at Council argued that the new job evaluated pay structure had, to the Council’s knowledge, provided equal value and that had been their main concern. This, however, applies only to basic pay and ignores the equal value aspects of other elements of earnings, such as allowances, bonuses and premia. According to the House of Lords in the leading case of Hayward v Cammell Laird Shipbuilders (1988) each contractual term has to be assessed separately in respect of equal value.

At BAE Systems too, only a little, rather piecemeal evaluation has been undertaken. The company has a six grade structure with each grade split into three zones: development zone, progression zone and enhanced zone. The company tracks the numbers of staff in each of the
three zones of each grade and this throws light on one of the aims of the pay system: to allow pay progression within grades. In addition, the annual employee survey includes attitudinal questions relating to careers and reward and line managers can informally feed back their concerns. In fact, problems had not been revealed and the manager interviewed considered that the new pay structure was ‘fundamentally sound’. Although the company collects information on employee turnover and absence rates and monitors employee costs, it does not use such data to evaluate the pay system. This is perhaps surprising as one of the aims of the pay arrangements was to improve retention and another was to ensure that the new pay arrangements were self-financing through efficiency gains.

In contrast to BAE Systems, the Council and Telecomco, where there was little evaluation of the pay system, C & E carried out extensive evaluation of its team bonus system. First C & E employed an external consultant to carry out staff attitude surveys both in July 2000, when the trial started to provide a benchmark, and in June 2001, at the end of the trial and after the staff had received their bonus payments. These staff attitude surveys were conducted not only in the six trial sites but also in three control sites. In addition, the two person project team conducted three focus groups in each of the six sites: one for clerical/junior grades, one for middle managers and one for senior managers, ie 18 in all. A second element of the evaluation related to financial performance. This was measured after establishing a baseline for the trial sites and three ‘blind’ control sites. Other elements included a customer satisfaction survey, carried out by one of the six sites at the beginning and end of the trial period, and all the sites used their own local audit teams to carry out quality assurance. Information was also sought from the trial site managers about complaint rates, staff turnover, sick leave, and whether or not there was increased pressure by some team members on colleagues whom they (rightly or wrongly) saw as not pulling their weight.

As to Royal Mail (RM), it planned to evaluate the complex eight agreement package entitled Way Forward mainly through joint management/union reviews. Thus the way of working agreement says:

> There will be formal joint reviews of progress at key agreed milestone dates during and after implementation. These will assess progress against the aims of the agreement, take appropriate corrective action and identify good practice (CWU, 2000a: 33).

Similarly, the working time regulation agreement provides for formal joint review meetings in April each year. In the same vein the pay and grading agreement provides that ‘to protect both the value of the new package to employees and Royal Mail’s financial position, the actual effect of these changes will be reviewed nearer or just after implementation’ (CWU, 2000a:12). Finally the deployment agreement says that ‘both parties agree that progress will be regularly monitored at all levels… In addition there will be a formal review of progress at national level. This will happen monthly’ (CWU, 2000a:47).

Royal Mail’s joint reviews are supported by a range of data collected by the company and shared with the union. Thus the organisation monitors paybill costs and collects data on all the different elements of earnings, for instance on average basic pay, average shift payments, average overtime payments, average performance bonus system payments and average hours worked, broken down for full-time and part-time operational grades and operational support grades and by location. Furthermore, there is a regular print-out of all those who are working over a given number of hours for several weeks and frequent reports from local managers to RM headquarters on progress on restructuring working patterns.
Table 3.5 Evaluation tools used specifically in respect of new pay arrangements

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Assimilation costs</th>
<th>Attitude survey</th>
<th>Customer satisfaction</th>
<th>Exit interviews</th>
<th>Focus Groups</th>
<th>Hours worked</th>
<th>Labour turnover</th>
<th>Make up of earnings</th>
<th>Paybill costs</th>
<th>Productivity &amp;/or Performance</th>
<th>Tracking staff by place on grade</th>
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</thead>
<tbody>
<tr>
<td>Assureco</td>
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<td>BAE Systems</td>
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<td>C &amp; E**</td>
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<td>Council</td>
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<td>GCHQ</td>
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<td>Royal Mail</td>
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<tr>
<td>Telecomco***</td>
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</table>

* Assureco plans to carry out exit interviews using an external agency as a one-off exercise.
** C & E used control sites both in respect of data on employee attitudes and performance.
*** Telecomco’s evaluation was carried out by businesses and not on an organisation-wide basis. Accordingly some businesses may have carried out more evaluation than shown in the Table, but the researchers were not given any details.
In addition, RM collects other information which is shared with the union but has not been specifically used to evaluate the pay system: the results of the annual staff attitude survey and the customer satisfaction surveys, overall measures of the time taken between the posting of letters and delivery, monthly labour turnover figures and data on sickness absences.

The annex gives full details of the case study organisations. Table 3.5 only covers the tools/data specifically used for the evaluation of the pay arrangements, but in all the organisations studied, human resources collect much information that is used for other purposes, as we have indicated. Interestingly, only C & E used a customer satisfaction survey to evaluate the impact of its pay arrangements and then only in one of its six trial sites.

3.3.2.2 Evaluation by unions

Management has carried out the main thrust of evaluation. Unions are normally made aware of their members’ views, for instance through grievances or through views expressed at meetings and the unions’ main concern has been to see that members received their correct pay and grading. Accordingly, they often did not feel any need for additional evaluation.

Thus at Telecomco, the Communication Workers Union said that its objectives had been achieved:

> We have got a non-hierarchical, more simple, unified structure; a common set of terms and conditions; a reduction in the working week; pay and pensions protection; and a learning and development statement. We know all those have happened.

Similarly at the Council, Unison did not feel the need to carry out its own evaluation. It wanted to eradicate equal value problems, was of the view that the new job evaluation system was likely to have eradicated such problems and that the on-going role of a job evaluation analyst to look at new or changed jobs would ensure that equal value problems would not occur in the future. At BAE Systems, too, the unions did not conduct their own evaluation.

In some of the organisations we studied, however, the union did undertake its own evaluation. Thus at C & E the Public and Commercial Services Union (PCS) convened two meetings of PCS representatives from the six trial sites to ‘deal with issues and difficulties that have arisen during the trials and to identify any general problems that require central intervention and negotiations’ and kept in touch with representatives by email (Duggan, undated). According to the union official interviewed, ‘we had very few, very few indeed, problems’.

At GCHQ the Government Communications Group (ie the union) has relied on feedback from members through small group meetings. Additionally, it carried out a pay survey of all its members, though with hindsight, according to a union interviewee, it realised that many of the questions had been badly designed. So that survey proved in practice to be of only limited use. At Assureco, Unifi has had concerns about the system of awarding performance pay, according to an interviewee, mainly as a result of feedback from members. Accordingly at the time of the field-work (September 2001) it was planning to evaluate ‘the quality and timeliness’ of the appraisal process sometime during the next twelve months through a request to members via a newsletter.

At RM management collects extensive information, see above, and according to a union interviewee not only shares it regularly with the union but also supplements it with frequent
discussion. In addition, the so-called indoor secretary, dealing with staff in mail centres, and the outdoor secretary, dealing with delivery staff, are ‘constantly in contact’ with divisional representatives who monitor progress. Until recently, however, the union has been reacting to problems brought to light by members and/or their representatives, but it is now taking a proactive stance and visiting workplaces to talk to members and examine their pay. A particular and on-going concern for the union has been the monitoring of overall earnings and basic pay as a proportion of total pay and this is being done by the union’s research department to inform future pay negotiations.

3.3.2.3 Problems in evaluation

There were a number of problems experienced by managers when trying to evaluate the pay system. First, the new pay system was often being introduced at a time of widespread change and it was not possible to disentangle the effects of pay changes from the effects of other changes. For instance at C & E the team bonus trial coincided with departmental restructuring, new appointment, promotion and appraisal systems and the advent of a new chairman who spoke to all managers (grade 7 and above) about what he expected from them. According to an interviewee, many trial site managers told the project team that they were now managing ‘perhaps in a way that we ought to have been for years’. For instance they said that they were now involving staff monthly in information and discussion about the team’s progress towards the achievement of targets ‘which hadn’t happened before’ and the focus groups of staff confirmed this. The project team, however, were unable to establish the extent to which the chairman’s intervention, as opposed to the team bonus system, had been the determining factor. As an interviewee put it: there was a lot of ‘noise’ in the organisation.

Similarly at Assureco significant changes in organisational structure and practice and the outsourcing of new technology occurred at the same time as the new structure was being implemented. There was also organisational restructuring at BAE Systems and Telecomco, which allied with changeable market conditions, meant that the stability necessary for a rigorous evaluation was lacking. At RM, although employee costs exceeded budget by £33 million (in the context of a paybill of £3.5 billion), the accountants were not able to pinpoint the costs solely arising from The Way Forward package because other things had ‘been going on’, according to an interviewee.

A second complication stems from the evaluation process itself. Even if it is possible to show that there is an association, eg the new pay arrangements lead to an improvement in employee morale, this does not equate to a causal connection. Furthermore, two interviewees remarked that the connection between a new pay arrangement and better performance, leading to increased customer satisfaction or improved profitability or productivity, was tenuous. For instance the HR manager at Telecomco was of the view that the new pay system would contribute to a change in the culture of the organisation. She said that should translate into improved productivity, though the link was not easily measurable and changing culture was a slow process. A similar proposition, however, arguably applies to other factors. Pay systems can support, for instance, new working practices which in turn lead to better performance, but their impact is indirect, not direct, as another interviewee remarked.

A third complication was that changes in pay arrangements were generally accompanied by changes in pay levels. As a result if a major aim of the pay structure was to recruit and retain, as it was for instance at Assureco, BAE Systems, GCHQ, and Telecomco, then the
achievement of that aim might rest as much on improved pay levels as on an improved pay structure and it was difficult to separate out these two intertwining elements.

There was a particular problem at RM stemming from the implementation of The Way Forward package which has interfered with the programme of joint management/union reviews to be held as part of the evaluation process. The Way Forward agreements require change to be deployed throughout mail centres and delivery offices through detailed, negotiated revisions to working arrangements; but in September 2001, ie after an elapse of almost 18 months, The Way Forward package had ‘yet to come into force in more than a third of the 870 delivery offices, including 104 in London’ (Brown, 2001a:9). According to a CWU official interviewed, problems of implementation partly stemmed from the fact that RM sent out numerous directives to local managers explaining The Way Forward deal and how it should be implemented, without allowing time for the union to go through the draft directives and highlight its concerns. This led to differences at workplaces between management and the union on interpretation and national union officials had spent their time fire-fighting local disputes. The same union official also pointed out that the performance bonus system had proved contentious. Whatever the reasons for slow implementation, and fuller details are given in the annex (section A.6), there has been a rise in industrial action, mainly unofficial, none of it nation-wide, mostly triggered by the conduct code and the attendance procedures, but partly triggered by Way Forward disputes (Sawyer et al, 2001).

A further problem related to time-scale. Where the evaluation exercise was time limited, the information obtainable was only able to shed light on the immediate, not the longer term. For instance at C & E, as noted above in sub-section 3.3.2.1, information was sought from managers in the trial bonus sites about complaint rates, staff turnover and sick leave. According to the project leader, however, this data was of limited use because the trial was conducted for only a short time (less than nine months). Other data too, such as that obtained from the staff attitude surveys, also covered a very short time period. Another problem at C & E arose from the fact that the performance targets were exceeded both in the trial sites and the control sites and all the trial teams met all their targets. This severely limited the effectiveness of the evaluation.

### 3.3.3 Further steps

Our third research question centred on the steps organisations have taken as a result of their evaluation. In other words, what has been the outcome of any evaluation? Two of the organisations we studied were still in the process of implementing their new pay arrangements and thus regarded it as premature to make changes. Assureco introduced new pay arrangements in February 2001 and so only six months had elapsed between this introduction and our field-work. Moreover, Assureco’s new pay structure includes an individual performance pay system for supervisors and middle managers whereby an employee is positioned on a so-called anchor point, but the anchor point depends on both performance and potential. Yet at the time of our field-work these staff had yet to be appraised and placed on anchor points. Although the company carries out annual staff attitude surveys, which it intends to use for pay evaluation purposes, it had not yet carried out such a survey since the new pay system had been introduced. Thus it was not yet in a position even to contemplate changes as it had yet to find out whether staff thought the new pay system fairer than their old one or whether they felt more motivated. A similar situation applied at RM too: because of problems of implementation, see sub-section 3.3.2.3 above, The Way Forward package had yet to be introduced in all the workplaces.
Two other organisations had completed the implementation of their new pay systems, but they had done this relatively recently. Thus both the Council and Telecomco had introduced their new pay systems in 2000. At BAE Systems, where the pay system was nearly four years old at the time of the field-work, there was little evaluation but managers were not planning any changes, as no real problems had been reported.

GCHQ, however, which had introduced its pay system in 1996 was planning radical changes. Its proposed new pay system is intended to be an integral part of much wider HR changes. Already work has been carried out on redesigning core competencies, though at the time of our field-work a working group, to include key union representatives, had yet to be convened to discuss and design new pay arrangements. The aim is to move away from a system which rests on base pay by grade plus a consolidated skills enhancement for certain groups, to a system which takes into account the skills and competencies of everyone in the organisation. If market supplements are necessary, they might be unconsolidated. These proposals, however, essentially do not derive from any evaluation, but from the new HR strategy recently approved by the board.

At Royal Mail, as we have noted in sub-section 3.3.2.1 institutional mechanisms (formal joint reviews) had been established to consider the results of evaluation. At the time of our fieldwork, however, (summer 2001) no further steps had yet been considered because of implementation problems. At C & E, there was a sophisticated analysis of the team bonus system (see sub-section 3.3.2.1 above) with a report. It was then agreed that there should be another trial, but the details had not yet been decided at the time of writing (December 2001).

3.4 Summary

This part of the report considers whether organisations outside the NHS conducted extensive evaluation into their new pay systems. We studied seven multi-site, unionised organisations and looked first at the aims and objectives of their new pay arrangements. These were generally set out explicitly and in some detail. The priority attached to the aims, however, varied according to the stakeholder: management or unions.

Although the organisations studied routinely collected a considerable amount of HR data, they used only some of the data to evaluate their pay systems and mostly conducted a modicum of evaluation. The main exceptions were C & E and RM. At the former, where there was extensive evaluation, the new pay arrangement was a trial and it was possible to use control groups to evaluate staff attitudes and financial performance. At RM a complex evaluation system had been set up based on a range of data and RM (alone of our case study organisations) had established institutional mechanisms to consider the evaluation data: formal joint reviews. This evaluation, though, had in practice not occurred because of implementation problems. Finally, we were unable to discover steps taken by organisations as a result of their evaluation, except at C & E.
**Part IV Discussion, conclusions and template**

### 4.1 Discussion and conclusions

The literature suggests that evaluation of the impact of new pay systems has largely been attempted by academics, not the practitioners themselves and there is little work describing how organisations have evaluated changes in HR policies and practices. Management writers and consultants have often sought to benchmark the HR function or audit an existing pay system, but not to measure the effects of pay changes through a cross-sectional analysis, never mind a longitudinal analysis. This is not say that the sorts of quantitative and qualitative measures used for HR benchmarking cannot be adapted for the evaluation of a pay system.

#### 4.1.1 Themes

When considering the evaluation of pay systems, several themes run through this report. First, the effectiveness of the pay system may be seen differently by the different stakeholders, a point made in the literature and borne out by our interviews with managers and union representatives. The second theme is that process has an effect on outcome, not only in the design of the pay system as Bowey and Thorpe (1986) found, but also in the implementation phase as the Royal Mail experience suggests, see sub-section 3.3.2.3. A third theme is the subjectivity inherent in evaluation, again a point borne out both in the literature and by our field-work. Organisations both inside and outside the NHS essentially only chose to collect data to evaluate some of their aims.

As to the evaluation itself, the literature review in part I has shown that it is a methodologically complex process, a point reiterated in our field-work, see sub-section 3.3.2.3. In a business environment it is virtually impossible to keep all the internal and external variables constant except a reward system and prevent other changes taking place at the same time in the organisation.

Furthermore, the link between a HR practice, such as a pay system, and organisational performance or customer satisfaction is not direct. There are many mediating factors such as management style (see for instance Walton, 1985). Moreover, any association between a change in a reward practice and an outcome does not in itself indicate a causative correlation (Legge, 2001). Although our field-work indicated that pay systems were designed in the context of business objectives, our interviewees did not expect that the pay system would directly affect business outcomes. Our interviewees were also of the view that pay systems can support, for instance, flexible working, or alternatively provide perverse incentives which support inflexibility (for instance by linking allowances to a certain shift or a certain job), but do not themselves directly provide flexibility.

A further complication is that many desired outcomes from a change in a reward system, such as improved employee commitment or motivation, are inherently difficult to measure. ‘Harder’ outcomes, however, such as improved productivity, are not easy to measure in certain public services, though the Audit Commission and the Office of National Statistics are seeking to develop robust tools.
4.1.2 Conclusions

Evaluation by organisations of the effectiveness of a pay system does not take place in a vacuum and relates to the aims and objectives of the pay system concerned. Moreover, evaluation is not an end in itself. It is, therefore, relevant to consider if organisations took any further steps as a result of evaluation. Against this background, our research questions were:

- What were the aims and objectives of organisations when introducing new pay arrangements?
- What data did organisations collect and review to inform their evaluation?
- What steps have organisations taken as a result of their evaluation?

We looked at 10 NHS trusts which had made some innovations in pay and grading. We found that they had a range of objectives including simplification, flexibility, affordability, the reward of performance, the provision of 24 hour cover and the overcoming of recruitment and retention problems. We also found that they had carried out little evaluation themselves against these aims. There were a few one-off exercises, which apart from the exercise carried out by Urban in 1997, were limited in scope. Additionally academics carried out some evaluation in three trusts, but they took the initiative. They were not commissioned. Just as little evaluation was carried out, so NHS trusts made few further changes to their pay systems. The altered political complexion of the government in 1997, however, leading to proposals to renegotiate the national NHS pay system, with the likelihood that trust pay systems would be superseded, was an important factor here.

We then looked at seven multi-site unionised organisations outside the NHS which had recently introduced new reward systems. These organisations spanned both the public and private sectors and had a range of objectives including simplification, harmonisation, overcoming recruitment and retention problems, improving flexibility and the provision of equal pay for work of equal value. Like the NHS trusts, however, five out of the seven conducted little evaluation and only one (Royal Mail) had established bespoke institutional mechanisms, formal joint reviews, to consider the evaluation data. Because of implementation problems, however, such joint reviews had not been held as originally planned (see sub-section 3.3.2.3). Moreover, only one of our case study organisations outside the NHS (C & E) was taking further steps directly as a result of the evaluation.

Although our literature review indicated that evaluation is less problematic in the private sector than the public sector, this was not borne out by our field-work. For instance an interviewee at BAE Systems considered that it was not possible to infer anything about the effectiveness of the company’s pay system from bottom line indicators. Profitability was too dependent upon external factors for financial indicators to be a useful measure of a pay system. Our management interviewee at Telecomco made a similar comment. Indeed, using Kearns typology, see Figure 1, many organisations, whether inside or outside the NHS, essentially either carried out virtually no measurement (‘we think it worked’ – an act of faith) or used subjective measures, such as staff responses to a survey.

As we have said, the literature indicates the complexity of the task of evaluation, but this research suggests some other reasons why evaluation is often not conducted. First, managers are busy people. They have little time to be reflective. Second, evaluation carries a cost. Exit interviews are particularly time consuming, but a rigorous attitude survey, perhaps using bought-in expertise is not cheap, nor are focus groups. Third, there is the question of time scale. If a one-off exercise is conducted, it is difficult to gauge the optimum time. There is no
such problem with a longitudinal survey which, although labour intensive, provides more robust data.

Fourth, and most important, we consider that organisations have little incentive to evaluate. New pay arrangements generally take a considerable time to develop, negotiate and implement. For instance at one of our trusts (Acute Teaching 3) the design of a new pay system for nurses, midwives and their support workers started in 1994, to be followed by the first pilot in 1996, after which there was gradual roll-out, completed in 2000. At Telecomco it took over four years from initial discussion to company-wide implementation. Managers, having spent considerable time and energy in developing and implementing a new pay system, are likely to have a psychological investment in its success and thus have little inclination to carry out any rigorous evaluation.

Moreover, such new pay structures are put in place for an indefinite period. They are not regarded as experimental. They are expensive: perhaps 3 to 5 per cent of the pay bill (Corby et al, 2001). If anecdotally it is reported that the new pay arrangements are working satisfactorily, or alternatively problems are not reported by middle managers or union representatives, senior managers may consider that there is little need to undertake in-depth evaluation, following the axiom ‘no news is good news’. Also, they may not wish to delve deeper for fear that evaluation points to the need for some corrective action which might be expensive and time consuming.

Indeed the two organisations outside the NHS where the evaluation has been more extensive were C & E and Royal Mail (RM). C & E carried out a time limited trial affecting a very small proportion (3 per cent) of its employees from an agnostic viewpoint. As the framework had been predetermined, C & E’s preparation for the trial took less than six months. It wanted to know whether the team bonuses recommended by Makinson (2000) worked before it ‘bought into’ them, as an interviewee put it. HM Treasury too, which had an overview of the trial, wanted a rigorous evaluation. In other words C & E conducted an experiment. It did not introduce fully fledged new pay arrangements which had been preceded by lengthy negotiations. In RM the new pay system had a controversial genesis. In 1994 RM and the Communication Workers Union (CWU) began discussions on what was called an employee agenda, only to have an agreement rejected by the membership in 1996. Accordingly a new package, The Way Forward, was negotiated but it was also rejected by the membership in 1999. Finally in 2000 a revised version of The Way Forward was narrowly accepted. In short, there was evidence that these new arrangements might be regarded as less than satisfactory by a significant number of the employees affected and thus there was pressure from many stakeholders to establish rigorous ways of evaluating the outcome. (See sub-section 3.3.2.1.)

### 4.2 Template

Against this background of our literature review and field-work, we now consider a template for the evaluation of Agenda for Change (AfC).

#### 4.2.1 Considerations

In drawing up a template we are mindful that there is a balance to be struck between data gathering and imposing a burden on managers. There are also cost considerations, given that the priority is front line services.
Moreover, it is important to exercise what Carter et al (1992:110) call ‘birth control’ if managers are ‘not to be drowned in data’. Some data will already exist. For instance trusts are now statutorily obliged to collect and analyse data in respect of ethnicity under the amended Race Relations Act (Commission for Racial Equality, 2001). Similarly trusts will be collecting and analysing certain data as part of HR information systems, eg labour turnover data. Such data can then be appraised in the light of AfC. Where data do not exist already, it is important to remember that a single instrument can shed light on a range of issues. For instance exit interviews can provide data on motivation and recruitment/retention. Similarly a staff attitude survey can provide information on patient care, teamwork and the extent to which staff consider that their working patterns fit their domestic commitments.

We would also point out that, even where there is a national, organisation-wide agreement, a policy decision has to be taken as to whether evaluation is carried out by the organisation itself, or by each business/employer/workplace or, perhaps, a mixture. On the one hand, one of the organisations outside the NHS (Telecomco) considered that evaluation of its organisation-wide agreement should be carried out by each business, as the costs and offsetting savings varied according to the extent to which the businesses were affected by various elements of the package. On the other hand, another of the organisations outside the NHS (Royal Mail) was evaluating on an organisation-wide basis. This was despite the fact that there is considerable autonomy in mail centres and delivery offices and management and unions at local level have to negotiate revisions to working arrangements, which vary from workplace to workplace. In local government there has been evaluation nationally and at council level, though this has been limited essentially to the costs of introduction of the new pay system.

4.2.2 The approach

We would suggest that if a change is to be measured rigorously, in this case a new pay system, it should be measured longitudinally (a theme which emerged from our literature review) and regularly, eg annually.

At this juncture we are not appraised of the way implementation of AfC will take place. It seems likely, however, that there will be ready made control groups. If so, the measures we suggest can be applied not only in respect of employees who have moved on to AfC, but also in respect of those who have not, allowing comparisons to be made.

4.2.3 The measures

With every evaluation measure there are advantages and disadvantages methodologically. For instance focus groups can be used to measure staff attitudes, such as felt-fairness and motivation, but they are labour intensive and the facilitator requires special skills. Staff surveys, of which there is already experience in NHS trusts, are more economical in terms of management time and provide more comprehensive, but less rich data than that emanating from focus groups. If comparisons are to be made between trusts, however, there will need to be common questions in the staff surveys.
Table 4.1 Measures of evaluation

<table>
<thead>
<tr>
<th>Intention of AfC*</th>
<th>Instrument of evaluation</th>
<th>Comment</th>
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</thead>
<tbody>
<tr>
<td>Assist ways of working efficiently and effectively (6.1)</td>
<td>Reports by managers&lt;br&gt;Self report by staff&lt;br&gt;Analysis of overtime levels and costs&lt;br&gt;Analysis of costs of agency/bank staff</td>
<td>Managers’ reports should be standardised and anonymous. Staff reports can be part of a staff attitude survey.</td>
</tr>
<tr>
<td>Assist achievement of quality workforce &amp; improve recruitment &amp; retention (6.2, 6.3)</td>
<td>Labour turnover statistics&lt;br&gt;Stability index&lt;br&gt;Exit interviews</td>
<td>Labour turnover data/stability index should be treated with caution as they are influenced by many factors. Exit interviews must be carried out in a standardised way if they are to provide rigorous data. Achievement of a quality workforce is demonstrated by a realisation of the other intentions listed and by building on the appraisal system to review training and development needs.</td>
</tr>
<tr>
<td>Improve motivation (6.3)</td>
<td>Staff attitude survey&lt;br&gt;Exit interviews</td>
<td>If possible a control group should be found.</td>
</tr>
<tr>
<td>Improve all aspects of equal opportunities, especially in areas of careers and working patterns (6.4)</td>
<td>The tracking of staff movements within and between grades broken down by gender and ethnicity&lt;br&gt;Self report by staff on how working patterns fit with family commitments.&lt;br&gt;The monitoring of training and performance appraisals, by gender and ethnicity</td>
<td>Questions on the extent to which work patterns fit in with domestic commitments could be added to the staff survey. The provisions stemming from the amended Race Relations Act should dovetail with and provide data necessary for the evaluation of AfC in respect of ethnicity.</td>
</tr>
<tr>
<td>The meeting of equal value criteria (6.5)</td>
<td>Composition of earnings by grade &amp; occupational group broken down by full-time and part-time and gender</td>
<td>Equal value criteria apply not only to basic pay but also to allowances and premia.</td>
</tr>
<tr>
<td>The likely benefits should outweigh the likely disadvantages (6.8)</td>
<td>Costs:&lt;br&gt;- assimilation costs&lt;br&gt;- paybill costs overall and by occupational group and grade.&lt;br&gt;Net savings:&lt;br&gt;- recruitment (advertising, selecting and inducting)&lt;br&gt;- overtime, unsocial hours and shift pay costs&lt;br&gt;- employment of agency/bank staff</td>
<td>This suggests a cost/benefit analysis but some costs (eg management time) and some savings (eg the ease of grading new jobs because there is a job evaluation system) are difficult to measure – see sub-section 4.2.3. The actual assimilation costs should be compared with the projected assimilation costs. Net savings can be calculated if there is a reduction in the costs of recruitment, overtime etc after AfC, when compared to the costs before AfC.</td>
</tr>
</tbody>
</table>

*These intentions are taken from the jointly agreed statement on AfC issued in October 1999 and the numbers in bold relate to the numbering used in that joint statement.
In our literature review we made it clear that the link between a reward system and productivity was not direct or linear. It was also suggested by our literature review that there were particular problems of measuring productivity in the public services. Interestingly two of our private sector management respondents were firmly of the view that it was difficult even in the private sector to measure productivity. We understand that the NHS is developing measures of unit labour costs but are not aware that such measures could be used to evaluate a reward system at this juncture. Indeed the Wanless report (2001) highlighted the significant problems of measuring labour productivity in the NHS, see sub-section 1.4.3.

As to user satisfaction surveys, Carley (1988:31) argues that although client satisfaction surveys are attractive in theory, they tend to be problematic when used for performance assessment, particularly in respect of non-manual professional services. He says:

> It is not unfeasible for clients to be dissatisfied with a perfectly adequate service because of a variety of unmet needs which that service is not designed to fulfil….. Conversely citizens may quite willingly state their feelings about services about which they in fact know little or nothing… A third problem is that citizens may express satisfaction or dissatisfaction with service performance with reference to a general orientation towards government and politics.

He also quotes Martin (1986:190) that the degree of satisfaction expressed by clients of a public service may be related to the degree of congruence between their expectations and their experience. There are particular methodological problems, however, in the NHS compared to other public services, let alone the complexity of the link between patient care and the pay system. The patient experience will depend on a number of factors (eg cleanliness, availability of treatment) and employee attitudes to the patient are just one factor. Also in many cases the patient’s condition (eg great anxiety, pain) may colour his/her responses.

We have shown that evaluation must take place against the aims. At the time of writing the final aims of the AfC agreement are not known. Accordingly we base our template on the ‘principles and intentions’ set out in the Joint Framework of Principles and Agreed Statement on the way forward, agreed by the parties in October (1999). Some of these principles are concerned with process, eg that all aspects of negotiations must be subject to a social partnership approach at all levels, or the contents of the agreement, eg that it should be capable of being implemented by the management capacity that is likely to be in place, and thus are outside the scope of this report. In the main, however, the principles and intentions are concerned with the expected outcomes of the AfC agreement and we have used them in Table 4.1.

Costs are a prime consideration. As well as the assimilation costs which can be compared with the projected costs, we have suggested some measures in the context of principle 6.8. We recognise, however, that some costs are difficult to quantify eg the management time spent on implementation. Costs, however, must be offset against savings. Again some savings are difficult, if not impossible, to quantify. For instance it is difficult to quantify savings in management time, eg because the new pay system is simpler to administer or because it is easier to grade new jobs in the context of a job evaluation system. Other benefits which are difficult to quantify include improved staff motivation and greater teamworking.

Some costs/savings, though, are quantifiable. For instance records can be kept of recruitment/induction costs and an average cost calculated and multiplied by labour turnover. Similarly, the costs incurred on overtime and unsocial hours/shift premia and the employment of agency and bank staff can be recorded. Then these costs can be compared longitudinally (ie
before and after the introduction of the new pay system) and, if there are reductions, the net savings from AfC can be calculated.

The Department of Health fully recognises that employees leave for a variety of reasons, only some of which are pay related and that staff retention is ultimately the key to achieving the vision set out in the NHS Plan (Department of Health, 2002:39). Moreover, even if the reasons why staff leave are pay related, the level of pay rather than the pay system per se may be the causative factor. This is particularly relevant when new pay systems are introduced as generally the assimilation arrangements entail an uplift in the level of pay for at least some, if not the majority of staff. We consider, therefore, that labour turnover data and a stability index are at best a rough guide and only then if the statistics are longitudinal. We are of the view that exit interviews provide more nuanced data. At GCHQ a personnel officer, who has a pro-forma to follow, interviews every leaver. The results are then collated annually under five heads: personal, related to the immediate manager, promotion/ career opportunity available elsewhere, higher pay available elsewhere, other. A categorisation on those lines could be useful in NHS trusts.

An aim of AfC is to improve equal opportunity and diversity especially in the areas of career and training opportunities. This can be evaluated by tracking staff movements both within and between grades and monitoring training provision by gender and ethnicity. As to the latter, the information required for evaluating AfC will in any event be required under the amended Race Relations Act as noted in sub-section 4.2.1, so there should not be a need for additional data gathering.

In our interviews as part of our field-work for our earlier report (Corby et al, 2001), we found that line managers’ made perceptive comments on flexible working practices and patient care by the staff they manage. Accordingly we are of the view that reports by line managers on a regular basis would be helpful, especially if they were anonymous, as that would be more likely than named reports to engender neutrality in reporting. Such reports, however, will only be of limited use unless they are standardised. A pro-forma could be developed with categories such as functional flexibility, temporal flexibility, teamworking, attitudes to patients. (Functional flexibility may be particularly important in the light of the restrictions on junior doctors’ hours.)

We have already suggested that a staff survey would be most useful to assess employee motivation. Questions on patient care and teamworking could be added to that survey for a minimal extra cost and would provide a different perspective to managers’ reports.

An aim of both AfC and the local government single status framework agreement was to provide equal pay between men and women for work of equal value. Neither the local government employers nationally or the local authority where we conducted our case study (Council) conducted any equal pay evaluation after implementation. Both management and unions were of the view that the new job evaluation system was designed to provide equal value and had been rigorously tested before implementation. Equal value considerations, however, do not apply only to basic pay and thus the job evaluation system. They also apply to allowances and premia. Accordingly we suggest that statistics on the make-up of earnings are collected at trust level, broken down for occupational group and grade by gender and whether full-time or part-time.
Table 4.1 provides a template in tabular form. The instruments of measurement are shown against the intentions and so may feature in several places e.g. staff attitude surveys and exit interviews. In figure 2, such repetition is avoided and the measures are separated into statistical and perceptual measures.

**Figure 2 Measures for evaluation**

![Figure 2](image)

4.2.4 The process

There is a risk that attempts at measurement can serve to induce the attitude that so long as sufficient boxes have been ticked, nothing more needs to be done. Measurement, however, is not an end in itself. The instruments of measurement must relate to the aims and objectives of the pay systems and evaluation should be carried out in order to indicate whether or not corrective action needs to be taken. Accordingly, we are of the view not only that data should be collected for evaluation, but that they should be fully considered, so it is important to establish institutional mechanisms for so doing. Formal joint reviews, say annually, to consider evaluation reports would provide such a mechanism. These could be held either at national level, or at trust level, or at both national and trust levels as appropriate. A diagrammatic representation is shown in Figure 3.

**Figure 3 The process of evaluation**

![Figure 3](image)
4.3 Final comment

This report has looked at how changes in reward systems have been evaluated, suggesting measures that could be used to evaluate Agenda for Change. At the time of writing management and unions are negotiating a new NHS pay system to result in an agreement to apply to NHS employees nationally. Although it is premature, therefore, to focus on evaluation at this juncture, the template in this report is intended to provide a basis which can be further developed after the AfC agreement is concluded.
Does it work? Evaluating a pay system
ANNEX

A. 1. Assureco

A.1.1 Overview

A merger led to the bringing together of diverse arrangements into a new pay and grading system. Introduced in February 2001, the main aims of the new arrangements were to reward individual performance, to recruit and retain staff and to respond to feelings of unfairness held by staff in respect of the old pay and grading systems. Evaluation is thus focusing on labour turnover data and the annual staff attitude survey.

A.1.2 Context

Assureco, which is a life assurance company, was formed in the late 1990s as a result of a merger. In 2000 it employed 4,700 people based on two main sites with additional city centre sales offices. The sole union is Unifi, which is recognised for employees up to and including supervisors.

In 1999 a new chief executive officer was appointed. He set the objective that the size of the business would double and costs would halve over the next five years. In the language of the sector, the company would become part of the ‘one per cent world’, i.e. only one per cent of turnover would be spent on business expenses (management interviewee). To achieve this, significant changes in organisational structure and practice were required. These included a strategic place for human resource management, which, for the first time was given a presence on the Board. Use of technology was increased to improve efficiency. Non-core activities such as catering, cleaning, knowledge management, IT development and support were outsourced. The number of geographical sites was reduced, switching instead to tele-sales and internet based sales and the headcount was reduced. As stated in the end of year results for 2000, major initiatives would include significant customer-service, partner and intermediary investment and a reduction of business costs through a ‘transformation of business processes’ (Assureco, 2000).

A.1.3 Background

As a result of the merger it was necessary to bring together complex and diverse pay, grading and benefits systems. Prior to the new pay system, which was launched in February 2001, there were 117 possible salary grades with over a dozen grading structures. Additionally, some employees received benefits and bonuses for historical reasons, for example, mortgage subsidies. The value of these subsidies, which were linked to interest rates, ranged from £500 to £2,000 and were paid to 400 - 500 people. They ceased to be paid to new employees four years ago.

Another factor driving the change to a new pay and grading system stemmed from concerns that had been raised through a staff attitude survey about the unfairness of the system. The company undertakes an annual staff satisfaction survey, which indicated that staff felt that the existing system of reward based on corporate or team performance, did not reflect their individual performance fairly. A further factor prompting pay changes stemmed from the high turnover rates of junior and front-line staff. Additionally such staff disliked having a variable salary, according to the union interviewee.

Accordingly, ‘the management embarked upon an extensive consultation process with the staff and the union to reach agreement on the new terms and conditions’ (IDS, 1999:16). During the design stage,
the joint consultative committee met monthly and sub-committees were formed to deal with specific issues.

A.1.4 Aims and objectives

Against this background the aims of the new pay system for the merged company were to:

- reward individual performance instead of teams;
- attract and retain the right people at an affordable cost;
- provide a pay system which staff would find fair.

The intended outcomes were to:

- reduce staff turnover particularly of junior and front-line staff, by ensuring staff were paid a competitive rate for the job;
- increase performance and motivation;
- get managers to manage people rather than work targets.

A.1.5 The pay and grading system

A.1.5.1 The grading structure

Both the pre-merger companies used the Hay evaluation system and, to unify the systems, the merged company chose a grading system used in one of the pre-merger companies as it was similar to that of the parent company (IDS, 1999). The new pay system entailed the consolidation of bonus payments and the reduction of the numerous grades to seven broad pay bands.

Table A.1 The banding structure at Assureco

<table>
<thead>
<tr>
<th>Jobs</th>
<th>Band</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>7</td>
<td><strong>Managerial/Professional</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Managed against delivery of objectives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Roles vary considerably</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Requires flexible approach to reflect performance potential and market forces</td>
</tr>
<tr>
<td>Business heads or most senior in a complex field</td>
<td>6</td>
<td><strong>Frontline</strong></td>
</tr>
<tr>
<td>Line managers leading a large team of experienced professionals</td>
<td>5</td>
<td>➢ Managed around delegated tasks and actions</td>
</tr>
<tr>
<td>Team managers or junior professionals and equivalent</td>
<td>4</td>
<td>➢ Jobs of similar nature</td>
</tr>
<tr>
<td>Frontline technical roles governed by procedures</td>
<td>3</td>
<td>➢ Work requires a more structured approach to reward packages</td>
</tr>
<tr>
<td>Procedure-driven roles requiring good knowledge of work area</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Procedure-driven roles, largely governed by instructions</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Source: ‘Your Pay and Benefits’ Human Resources, Assureco, 2001:1

The old grades were placed on the new structure through a mapping exercise. According to an interviewee ‘we put them to where we felt they should sit’. The process was intuitive and there was no job re-evaluation within the merged organisation, so the new system was designed and introduced in less than a year. The seven pay bands are split into two sections, managerial/ professional and frontline, which reflected ‘the distinct nature of the roles’ (Assureco; undated c:2).

Although research by the company led them to believe that the majority of jobs were paid at a competitive rate, the junior front-line jobs were not, and were experiencing fairly high turnover. This was particularly so in one of the cities where the company was located, where there is considerable
competition for staff in the financial sector. The new pay levels should rectify this. Additionally, these staff disliked having a variable salary, so the ratio of variable pay to basic pay was reduced from 15 per cent to 10 per cent. (Staff were compensated through an extra increment on their basic salary as a one-off adjustment.)

A.1.5.2 Pay progression

The pay bands are revalorised annually to take account of market rates by ‘monitoring the practices of our competitors’ and looking ‘at specialist skill sets for which there may be market premia’ (Assureco, undated b:2). Movement from one band to another is by promotion. The employee’s position within the band, however, depends on his/her performance and potential. This is because an integral part of the new pay system is individual performance pay so that ‘you can drive your own rate of progression … through your own performance’ (Assureco, undated b:2) and the corporate values and culture are spelt out in documentation that explains the system to staff (Assureco, undated c).

Staff in bands 1-3 have their performance appraised twice a year (January and July), when three points are awarded for outstanding performance, two points for superior performance and one point for expected performance. For each three points awarded employees get a 5 per cent increase in January and/or July, but each January the employee starts with a clean slate. There is no carry-over.

The company acknowledges that the performance appraisal system could be subjective, but that the managers ‘should know who their good performers are’. There is no mechanism, however, within the appraisal system to verify managers’ assessments or ratings of staff. Furthermore, the target setting process has not been unproblematic. As an interviewee remarked, managers have been used to managing work, not people. In response to these problems the company is proposing to:

- develop managers’ people management skills as a matter of urgency;
- introduce a 360 degree appraisal system for managers;
- require managers to review quarterly staff targets;
- require managers and divisions heads to meet together annually to calibrate performance reviews.

For those in bands 4-7, the performance system produces a ‘leadership capability profile’ which has three elements:

- performance against goals;
- leadership;
- potential, further divided into high potential, potential and lateral.

(Assureco, undated d)

At the time of our field-work bands 4 and 5 (senior supervisors and junior managers) had not yet been appraised.

The new pay system is accompanied by a ‘flexible, supportive employee benefit scheme’ that is intended to provide the benefits that staff need and through which the organisation is able to ‘retain and recruit high quality people’ (Assureco, undated a: 1, 4). The benefits include pensions for permanent staff (initially money purchase but after 10 years’ service on a final salary basis); ‘maternity pay more generous than the legal requirement’ (Assureco, undated a); crèche facilities at a major city site; and private medical insurance for those in band 4 and above and for those below band 4 aged over 30 with 10 or more years’ service.

The old pay system was full of discrepancies that had accrued over the years. The new system integrated the bonuses and benefits, providing one-off payments as compensation. No member of staff got less money than before; in fact, all staff were guaranteed a 3.25 per cent rise in pay.
A.1.5.3 Anchor points

Within the broad pay bands, so-called anchor points have been introduced for bands 4 and 5. After the individual’s performance and potential has been appraised, he/she is to be placed on an anchor point and that will determine the amount of the annual pay award (Assureco; 2001a). In addition anchor points allow for both vertical and lateral movement within the organisation. This addresses the problem of those at the top of a scale who were high achievers but could not before be rewarded further and those identified as lateral movers but who had been in the company a long time and therefore were on relatively high salaries for their performance.

Table A. 2 Anchor points at Assureco

<table>
<thead>
<tr>
<th>Anchor Point</th>
<th>Descriptor</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Consistently superior or outstanding performance and considered to have potential or high potential</td>
</tr>
<tr>
<td>2</td>
<td>A mix of expected and superior performance and considered to have potential or high potential, OR people considered to be ‘lateral’ but with consistently superior performance</td>
</tr>
<tr>
<td>1</td>
<td>Consistently expected performance, considered to be ‘lateral’ or ‘potential’</td>
</tr>
</tbody>
</table>

Source: Assureco, 2001a:1

A.1.6 Evaluation

The company monitors labour turnover. The new pay agreement was introduced in February 2001 and total leavers increased from 19.0 per cent in December 2000 to 24.1 per cent in May 2001 (Assureco, 2001b). Since then there has been a very slight downward trend in resignations: 23.6 per cent in June 2001.

The company wants the new pay system to be seen by employees as fair. Thus another tool the company uses to evaluate the pay system is the annual attitude survey, called Scope, which usually has a response rate of around 85 per cent. The union official interviewed, however, voiced reservations about its relevance and reliability. Although a ‘good barometer of feeling’, the last survey was carried out before the first set of appraisals under the new system. Employees’ views of the new pay system, therefore, will not be captured till the next survey is undertaken.

The company collects data, and shares with the union twice a year details of the spread of performance awards per band. According to the union interviewee, staff were rated for potential and not past performance, although it was intended that the latter should serve as the yardstick. Indeed, the union interviewee claimed that management openly admitted this.

The company intends to use rigorously exit interview data. It plans to employ an external agency to conduct exit interviews with former employees on a one-off basis, to establish whether the reasons given for leaving are the real ones. It is hoped that an agency will provide a safe and anonymous environment for honest feedback, eliminating an employee’s worry of jeopardising future references.

The company does not use information on paybill costs to monitor the pay system, although such information is collected and one of the aims of the pay system is to attract and retain the right people at an affordable cost (our emphasis). This is because in fact the cost of this exercise has not been a major issue for Assureco. According to an interviewee, the company knew that some grades needed a market uplift and has used money to solve this problem. (The researchers were not provided with information on the actual cost of the exercise.)
The union is carrying out its own evaluation. As a result of feedback from members it has concerns about the process of awarding performance pay, according to an interviewee. For instance the union has been told that the monthly performance review meetings between the manager and employee are not always held, particularly where an employee is in one of the first three bands. Also, some managers dissuade their staff from using the appeals process, with some forms failing to re-enter the appraisal system because of disagreements between managers and staff. Furthermore, according to a union interviewee, there is a prevailing feeling that because the new system focuses on how the job is done, an ‘atmosphere of fear’ is being created. Staff are worried that if they speak their mind, they will be ‘marked down as negative’.

The union interviewee also reported that the work had become more functional, therefore less interesting and the union wanted staff to be coached to prepare for the appraisals. Against this background, the union is planning to evaluate ‘the quality and timeliness of the appraisal process’ through a request to members via a newsletter.

A.1.7 Comment

It is important to note that the pay system was only introduced in February 2001 and so it is too early to expect any changes as a result of the evaluation. There have, however, already been specific problems in respect of band four. Local management brought in new staff in that band without openly advertising jobs to staff, according to the union interviewee. Also, a new team manager role has been created as a high band four position. According to the same interviewee this is a ‘cheap department manager role’ and those currently in the band must apply and go on an assessment course in order to be considered for this position. According to the union interviewee, those in bands four and five feel that their roles are being shifted down, and they are ‘largely being worked out of the company’.

Furthermore, at the time of the field-work (September 2001) those in bands 4 to 5 had not been appraised and thus allotted anchor points. The union interviewee said that the anchor point system had not been fully defined and the process of transferring people to anchor points would be ‘quite a big exercise… [and cause] quite a bit of uncertainty because we haven’t gone through the process of assessing where people are going to sit and how those anchor points are going to work’.

One of the aims stated by the company when introducing the new pay system was to respond to the feelings that staff had about inherent the unfairness of the old pay and grading system. The union interviewee, however, was of the view that the feelings of unfairness of staff in bands four and five had been exacerbated and said: ‘management are introducing a new way of working, using pay systems to drive it but not putting much effort in to getting staff to buy it’.

A.2 BAE Systems

A.2.1 Overview

Between June 1997 and December 1998, the Military Aircraft and Aerostructures business unit of British Aerospace introduced a new salary structure for professional staff across its seven sites. This salary structure survived the subsequent amalgamation with Marconi and the formation of BAE Systems. Although to date there has been no explicit evaluation of the effectiveness of the new structure, it is regarded as ‘fundamentally sound’. Some inconsistencies have emerged in its
operation and this has led to a survival of the ‘grade-chasing culture’, a problem currently being addressed by management.

A.2.2 Context

In November 1999 BAE Systems came into being with the amalgamation of British Aerospace and Marconi Electronic Systems, the defence arm of GEC-Marconi. The resulting company is the second largest defence contractor in the world after Lockheed Martin, with around 100,000 employees worldwide and a group annual turnover (in 2000) of £12.2bn. BAE Systems is organised into the following business units: Airbus UK, Aircraft Services Group, Avionics, North America, Australia, International Partnerships, and Operations. These are responsible for managing various product-based programmes including those of the Eurofighter Typhoon, the Tornado, the Nimrod, the Harrier, the Hawk, and the type 45 destroyer (BAE Systems, 2001).

There were seven sites originally covered by the professional staff salary structure but one site, Dunsford, closed in March 2001. Of the remaining six sites, Warton, Samlesbury, Farnborough and Brough are mainly programme based, while Preston and Chadderton are the main centres for the Operations business unit (BAE Systems, 2001). In October 2001 there was a work-force of around 15,000 on the six sites, of whom about 70 per cent were unionised. An additional 40,000 were employed on other UK sites. In all there were 100,000 employees world-wide in 2001.

A.2.3 Background

In 1997 the Military Aircraft and Aerostructures business unit of British Aerospace introduced a new salary structure for its professional grades, the largest single group of its employees on the seven sites, some 6-7,000 in number. This group encompassed various white collar functions ranging from business support, such as HRM, through various engineering and technician roles, to clerical support. Implementation followed a 12 month job evaluation exercise overseen by a joint (management-union) working group (JWG), although preparatory work for the restructuring had started as long ago as 1994. The two main unions, the AEEU, representing manual workers and administrators, and MSF, representing the skilled professionals and higher administrators/managers, were involved in the process jointly with management. This salary structure continued to be applied after the merger with Marconi Electronic Systems.

A.2.4 Aims and objectives

The new system was intended to:

- be self-financing, through efficiency gains;
- harmonise disparate agreements on seven sites and form a single system across the business unit;
- simplify the grade structure and make the reward system more transparent;
- bring salaries up to the ‘market rate’ and improve retention;
- allow for progression within grades and discourage the ‘grade-chasing culture’;
- move to a project-based, as opposed to a function-based approach, thus increasing work flexibility;

(British Aerospace, 1997).

The job evaluation (JE) system used was the Watson Wyatt computerised point-based JE technology. This choice followed a thorough investigation by the joint working group of three systems: Hay, Watson Wyatt, and Towers and Perrin. The final unanimous choice of the JWG was Watson Wyatt, which scored best in the job descriptions it generated, although Hay had been initially favoured by management, perhaps because it had been used in the redesign of the executive grade reward structure. The Watson Wyatt process succeeded in reducing some 3,000 job descriptions to 600, harmonising the seven sites.
A.2.5 The new salary structure

The new scheme has six grades (A to F), each of which has a development zone (DZ), intended for those who are still gaining necessary knowledge, skills and experience for the grade, a progression zone (PZ), intended as the main grade salary structure, and an enhanced zone (EZ), allowing some exceptional individuals to remain in grade but to be rewarded in line with their value (British Aerospace, 1997).

The maximum salary level for the DZ was set at the “market rate”. The DZ itself is divided into 10 equal semi-annual increments, totalling an increase in salary of 10 per cent from the minimum. Progression up the DZ is automatic, subject to satisfactory performance, and its maximum level is the entry level of the main PZ, where progression is dependent upon successful performance appraisals (British Aerospace, 1997). Only a few individuals were placed in the EZ. The following table gives an indicative overview of typical salary levels.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Example Jobs</th>
<th>DZ minimum</th>
<th>DZ maximum</th>
<th>PZ Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Clerical staff</td>
<td>£11,653</td>
<td>£12,819</td>
<td>£15,382</td>
</tr>
<tr>
<td>B</td>
<td>Data management officer, lithographer, engineering assistant</td>
<td>£13,519</td>
<td>£14,917</td>
<td>£17,945</td>
</tr>
<tr>
<td>C</td>
<td>Materials technician design support assistant, software (SW) technology engineer 4, SW engineer</td>
<td>£15,499</td>
<td>£17,014</td>
<td>£20,394</td>
</tr>
<tr>
<td>D</td>
<td>Project engineer, wind-tunnel model engineer, SW technology engineer 3, lead SW engineer, air-traffic controller</td>
<td>£18,295</td>
<td>£20,159</td>
<td>£24,238</td>
</tr>
<tr>
<td>E</td>
<td>Wind tunnel senior engineer, assistant technical manager, lead SW engineer, SW technology engineer 2</td>
<td>£21,092</td>
<td>£23,190</td>
<td>£27,849</td>
</tr>
<tr>
<td>F</td>
<td>Technician group leader, senior technical management engineer, capability insertion manager, SW technology engineer 1</td>
<td>£24,238</td>
<td>£26,685</td>
<td>£34,725</td>
</tr>
</tbody>
</table>

Source: IDS 2000a

Various fringe benefits (subsidised canteens, health-care, etc) attached to specific grades were replaced by monetary equivalents and voluntary contributory schemes (for car leasing or purchase, health-care, etc) were introduced for all employees in professional grades.

The unions introduced the scheme to the workforce at Warton to vote on ‘blind’ – ie before they knew where on the structure they personally would be placed. They had already been assured by management that ‘no one would lose money’, and there was an additional safeguard in the form of an appeals panel, consisting of two trade union and two management members of the joint working group, chaired by a senior personnel manager (British Aerospace, 1997). The structure was accepted and subsequently there were only some 70 appeals lodged, some of which were successful, others not.

A.2.6 Evaluation

There has been major organisational restructuring since the launch of the scheme and this, together with changeable market conditions, has meant that the stability necessary for a rigorous evaluation has
been lacking. This may be the reason that there has been no formal review of the structure and its implementation.

Nor has it been possible to infer anything about the effectiveness of the scheme from bottom-line indicators. Profitability – and indeed profits – are too dependent upon external uncontrollable factors for financial indicators to apply, according to the management interviewee.

Evaluation has taken place, however, albeit in a slightly piece-meal fashion:

- The numbers of staff in each of the three zones of each grade are tracked.
- Line managers informally feed back their concerns about the scheme to the HR function.
- The annual employee survey includes attitudinal questions relating to careers and reward.

A.2.7 Comment

It was – and is still – intended that most employees will be in the progression zone, with the development zone intended for starters and apprentices. At the launch of the scheme approximately 60 per cent of professional grade staff were placed in the DZ, perhaps reflecting management’s perception that salaries at that time had fallen behind the ‘market going rate’, to which the maximum of the DZ had been pegged. By the end of 2000, the percentage of staff in the DZ was still 48 per cent - far higher than intended – and this is thought to demonstrate that the grade-chasing culture and its effect on grade drift are still apparent. Line managers come under pressure to promote good staff into the DZ of the next grade before they have reached the top of the DZ of their present grade.

The rules of the scheme encourage this approach. In the DZ, the two increments (2 per cent) annual advance is ‘automatic’ unless there is very good reason to withhold it, whereas in the PZ, increments are discretionary, dependent upon scoring in the annual performance review. An interviewee said that some line managers regard this ‘automatic’ advance through the DZ as ‘two per cent extra for doing the same’.

The way in which the scheme is funded also contributes to the pressure to pass from the DZ of one grade to the DZ of the next, rather than moving up the grade to the PZ. This is because the additional funding for the DZ, where increments are automatic, is prioritised above additional funding for the PZ, where increments are discretionary. In lean years, this has meant that there was little or no funding for the award of PZ increments, whereas the two increments were still awarded to DZ staff. Funds for the discretionary PZ increments are sometimes targeted to functions where there is a recruitment or retention problem, for instance in engineering, with other functions going without. This has resulted in frustration among line managers and, according to an interviewee, an increasing concern that the DZ aspect of the scheme ‘was costing too much’.

With grade drift clearly identified as a problem, in 2001 there was a more determined effort on the part of management to counter its effect with the introduction of a profile system and specific instructions to line managers about promotion.

From the union side, it was noted that the Watson Wyatt job evaluation system was not being well maintained. There is still need for a small number of new jobs to be evaluated and concern was expressed that familiarity with the technology for doing this was fading.
A.3 Council

A.3.1 Overview

In 2000 the Council implemented the local authority single status framework agreement, after conducting a sophisticated job evaluation programme jointly with Unison. The main aim of the agreement was to provide equal pay and there has been virtually no evaluation of the new pay structure, apart from reviewing paybill costs.

A.3.2 Context

The Council is a County Council in the south east of England. It provides a range of services including those relating to education, highways and transport, social services, libraries, trading standards and waste management. In 2000-2001 it had 14,408 full time equivalent employees in a wide range of occupations: professional staff including architects, school teachers, environmental health officers and social workers and non-professional staff including clerical staff and manual employees.

A.3.3 Background

In 1997 the employers and unions nationally concluded a new framework agreement, providing single status for manual and non-manual employees and equal pay between men and women for work of equal value. Applying to all staff covered by the National Joint Council (NJC) terms and conditions, this agreement then had to be transposed at local authority level. This has not proved unproblematic. This is because it allows considerable flexibility to councils, thus entailing further negotiations locally. For instance, local government organisations can choose whether to use the NJC job evaluation scheme or some other patented scheme.

The Council, somewhat unusually, only recognises one union, Unison, for NJC staff covered by the new agreement, so-called green book staff, (though it recognises other unions in respect of teachers and fire-fighters). It was the first to transpose the national framework agreement locally, essentially as a response to a dispute between the Council and Unison in 1994 over equal pay for work of equal value in respect of 1,500 welfare assistants. The legal settlement reputedly cost the Council £420,000 and ‘demonstrated that in local government… grading and pay structures have evolved in an ad hoc way over decades – in many cases continuing in part to embody the attitudes of past generations towards what was once thought of as “women’s work”’ (IRS, 2000:12).

A.3.4 Aims and Objectives

The aims were:
- to ensure that the Council was able to demonstrate equal pay for equal value;
- to harmonise terms and conditions;
- to iron out anomalies and variations within grades.

The objectives were to devise a system that was compatible for the local and county context and to incorporate anomalies, variations in grades and bonus payment into a holistic system.
A.3.5 The details

A.3.5.1 Developing the new pay and grading system

The Council required the new system to be simpler than the one it replaced, and ideally, to be cost neutral (IDS, 2000). As noted in sub-section A.3.3, the Council had discretion in the choice of job evaluated schemes. In fact it reviewed three job evaluation schemes before deciding on the NJC scheme. The latter was eventually chosen because it was preferred by the trade union and was thought to be more credible to staff.

The process of devising the new system began in 1998, when a job evaluation project (JEP) team was set up to oversee the exercise. The team consisted of staff seconded from central personnel services and Unison in a deliberate effort to involve the union from the outset, to preclude dissension and meet challenges early on. Under the new job evaluation scheme 1,300 jobs were evaluated and the programme, which started in 1998 and took almost two years, covered 16,000 staff in two phases: 7,000 staff working directly for the local authority and 9,000 staff working in the local authority’s schools. As a result all ‘green book’ staff were included, but excluded were senior managers (covered by separate conditions based on the Hay job evaluation scheme), fire-fighters and teachers or staff on Soulbury conditions.

The job evaluation process began with line managers distributing forms for staff to complete and then the job evaluation project team assessed the results against NJC criteria, holding interview panels to review any job as necessary. Problems arose when dealing with people working on widespread sites, such as employees in schools and social services. Therefore effective communication was crucial and local managers were used for the dissemination of information. This was not always straightforward as they could influence how information was put across. The Council produced newsletters but these did not always get through. With hindsight, the liaison officers who were appointed jointly from the union and central personnel services felt that line managers could have been more involved, as they complained that they felt 'left in the dark'.

Further problems were apparent from the outcomes of the self-analyses exercises. In the early stages of the evaluation process, some staff and managers did not see the importance of their own assessment of their jobs, or of the significance of key words. Therefore some people did not describe their jobs in sufficient detail, or quantify evidence. As a result, the JEP team recognised the need to provide the opportunity for employees to review and re-review their jobs. Subsequently, both the union and personnel via the JEP team advised managers to verify the job descriptions of their staff and to be proactive in drawing out information from staff, particularly those who ‘undersold’ their roles.

The liaison officers made site visits when these were requested. According to an interviewee, staff were 'told' the new structure and felt that it was 'being done to them' so visits enabled liaison officers to explain that implementation had to be staggered over two to three years and that there were winners and losers. This may have tempered the frustration of some staff who wanted their increases all at once.

A.3.5.2 Implementation

The new system reduces the plethora of local government manual and white collar grades to a 12 grade system comprising 46 spinal column points, (see Table A.4). To achieve this, the JEP team gathered evidence about job content, made an objective evaluation of that job and devised a score hierarchy for it. Another team comprising personnel service managers and Unison representatives were completely separate from the evaluators. Their responsibility was to take this information and apply the pay model to it in order to achieve the grading structure. The ‘Link’ IT system provided by Link Consultancy was an essential part of devising the structure. The software could look at a wide range of operational groups and could provide an immediate estimate of cost to assist planning and modelling the proposed pay and grading structure.
Table A. 4 The pay and grading structure at Council

<table>
<thead>
<tr>
<th>New grade</th>
<th>JE points range</th>
<th>Spinal column points*</th>
<th>New salary range* (effective 1.4.01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>205 - 260</td>
<td>5 - 7</td>
<td>9,207 - 9,852</td>
</tr>
<tr>
<td>2</td>
<td>261 - 314</td>
<td>8 - 10</td>
<td>10,173 - 12,741</td>
</tr>
<tr>
<td>3</td>
<td>315 - 372</td>
<td>11 - 13</td>
<td>11,418 - 11,970</td>
</tr>
<tr>
<td>4</td>
<td>373 - 409</td>
<td>14 - 16</td>
<td>12,192 - 12,741</td>
</tr>
<tr>
<td>5</td>
<td>410 - 440</td>
<td>17 - 19</td>
<td>13,044 - 13,800</td>
</tr>
<tr>
<td>6</td>
<td>441 - 470</td>
<td>20 - 22</td>
<td>14,301 - 15,210</td>
</tr>
<tr>
<td>7</td>
<td>471 - 499</td>
<td>23 - 26</td>
<td>15,654 - 17,220</td>
</tr>
<tr>
<td>8</td>
<td>500 - 528</td>
<td>27 - 30</td>
<td>17,793 - 19,743</td>
</tr>
<tr>
<td>9</td>
<td>529 - 555</td>
<td>31 - 34</td>
<td>20,634 - 22,194</td>
</tr>
<tr>
<td>10</td>
<td>556 - 597</td>
<td>35 - 38</td>
<td>22,659 - 24,612</td>
</tr>
<tr>
<td>11</td>
<td>598 - 637</td>
<td>39 - 42</td>
<td>25,419 - 27,462</td>
</tr>
<tr>
<td>12</td>
<td>638+</td>
<td>43 - 46</td>
<td>28,419 - 30,198</td>
</tr>
</tbody>
</table>

* For substantive grades

Source: IDS, 2000:49

Although there was no performance-related pay to be taken into account, the harmonisation of terms and conditions and the resolution of anomalies and variations within grades required the consolidation of bonuses. Genuine and relevant aspects (such as unpleasant working conditions, but not unsocial hours) were taken into account by the evaluation and assimilated into the scoring system. This reflects the advice of the Employers’ Organisation (2001:1) that the process of review should take in the ‘big picture’ in relation to remuneration. This should include:

- tied accommodation,
- premium payments,
- other fringe benefits.

Table A. 5 Assimilation provisions at Council

<table>
<thead>
<tr>
<th>Staff whose spine point is</th>
<th>Assimilation arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the acceleration zone</td>
<td>1 increment on 1.4.00*</td>
</tr>
<tr>
<td></td>
<td>Accelerated increments from 1.7.00</td>
</tr>
<tr>
<td>Within the transitional zone</td>
<td>1 increment on 1.4.00*</td>
</tr>
<tr>
<td></td>
<td>Annually thereafter until top of substantive grade + all future pay settlements</td>
</tr>
<tr>
<td>Within the substantive grade</td>
<td>Normal progression to top of grade + all future pay settlements**</td>
</tr>
<tr>
<td>Within the extension zone</td>
<td>No further increments payable after any due in year from 1.4.00 but all future pay settlements</td>
</tr>
<tr>
<td>Above the extension zone</td>
<td>Pay frozen at 31.3.01 until subsequent pay settlements bring pay to the top of the extension and matches employee’s frozen pay, Thereafter all future pay settlements</td>
</tr>
</tbody>
</table>

* only one increment payable on 1.4.00 either under the continuation of an existing entitlement or under the special assimilation arrangements

** The normal arrangements for those entitled to an additional increment where employees have less than 6 months’ service apply. For employees in the acceleration and transitional zones this increment has been taken into account in the assimilation arrangements

Source: Unison and Council, 2000:8

There are complex assimilation arrangements. Staff who found their salary out of alignment with the new system are being gradually assimilated on to their new grade. Those whose old pay was lower do not automatically get a rise for the whole amount straight away, but are being brought incrementally
on to the new scale. They are in the so-called acceleration or transitional zones. Similarly staff whose previous salary was higher than that determined by the evaluation process have their salaries protected. They are in the so-called extension zone or above it. See Table A.5 for details.

Travel, subsistence and annual leave had been harmonised prior to the onset of the job-evaluation exercise. Currently, according to an interviewee, other enhancements and allowances are 'going out for consultation'. These include overtime and unsocial hours' payments that the Council is trying to rationalise. The objective is to reach an agreement in order to bring new rates into effect in April 2002.

The new 12-grade system was implemented from April 2000. Currently, the project team is making final searches of payroll records to find any jobs that have not yet been evaluated, in order to incorporate them into the system. When this is completed, the team will be wound up and re-absorbed into the personnel services department and the system will become embedded within the organisation.

The appeal mechanism, (and final appeals are currently being heard), is an essential part of the implementation process. Grounds for appeal must be specific, and are allowed on two counts:

- the evidence used for the evaluation was out of date;
- the evaluation was carried out wrongly.

The team has been careful and meticulous when feeding back the result of the appeal to complainants. The interviewee saw this as a way of minimising dissent and dissatisfaction. It was essential that systems and procedures were transparent, so an 'up front' approach was taken. A help desk, set up by the team to deal with enquiries and grumbles, was an essential part of the assimilation process.

The job evaluation system not only provides for job grading, it also enables performance indicators to be devised for career progression. The employee's performance is linked to the job evaluation score as part of the appraisal process and of training and development reviews. The line manager submits this to an evaluation board, so that the individual may be considered for promotion.

A.3.6 Evaluation

The main focus of evaluation has been to review paybill costs. Although the initial intention was to achieve the changes at nil cost, it soon became apparent that this could not be achieved and the Council had to allocate an extra £5 million (IDS, 2000b).

Costs apart, there has been little specific evaluation of the new pay system, although the Council collects a wide range of HR data. This is because the main aim was to provide for equal pay for work of equal value and, according to those interviewed, this has been achieved though the implementation of the job evaluation process. Prior to the job evaluation exercise, the union drew up a list of vulnerable groups with a potential for claiming equal pay for work of equal value. The union view now is that the new system is likely to have eradicated equal value claims because the system is as bias free as possible.

The need for analysing jobs is, however, on-going and is seen as way of continuing to ensure equal value. Although the JEP team is being re-absorbed into the personnel services department, or the union, the role of job evaluation analyst is to be retained. The analyst will evaluate newly created jobs, and these will be re-evaluated after a few months (union interviewee, 2001) to check their accuracy. The analyst will also review on-going appeals, as any member of staff or their manager can ask for a job review. This may be brought about as job content changes to meet new demands. With the inevitability of continuous re-organisation, and the shifting of skills from one job to another, changes will need to be tracked within whole job-families and potential problems identified. Therefore an Organisational Change Policy has been set up and the procedures that go with it will protect those affected. In line with the policy, if a change is proposed, an assessment of the situation will be produced and the trade union will consult its members prior to the change being implemented. Then
the HR department, according to the union representative, will track the impact of change upon the staff. This will involve tracking changes to whole job families and assessing the impact of that change on the role and numbers of staff and consulting the union about the implications of change.

A.3.7 Comment

The new pay system was introduced in accordance with a partnership approach between the Council and Unison. The management interviewee regarded this as crucial to the successful implementation of the scheme. Similarly the union interviewee considered that a high trust relationship between the union and employer was essential. The same interviewee recognised that other councils had experienced problems where there was ‘a pre-existing confrontational relationship’. Because Unison was involved from the outset, it had a clear view of what pay options were viable within the budget constraints. This involvement was not without problems and put the union in a difficult position with its members. The interviewee commented that although there was no hard evidence, anecdotal evidence indicated that some staff felt betrayed by the union and resigned from it. On the other hand, others who benefited saw the union more positively and this caused some staff to join.

The main thrust of the new pay system has been to provide equal pay for work of equal value. Although the new job evaluation scheme is aimed at ensuring equal value in respect of basic pay, allowances/premia have as yet not been harmonised and made equal value proof.

A.4 GCHQ

A.4.1 Overview

GCHQ’s pay system aims primarily to ensure the recruitment and retention of staff with specialist skills. Accordingly evaluation centres on an analysis of labour turnover figures, rigorous exit interviews and an annual review of external pay rates for certain staff.

A.4.2 Context

Government Communications Headquarters (GCHQ) is a security and intelligence organisation. Founded at the end of the Second World War, it is a civil service department responsible to the Foreign Secretary. Based in Cheltenham, it has two out-stations in the United Kingdom, in addition to some representation abroad and approximately 4,500 employees. (Precise details are not revealed for national security reasons.)

As a civil service department, GCHQ recognised the civil service trade unions and was covered by civil service industrial relations institutions, policies and procedures. In 1984, however, the Conservative government not only withdrew trade union recognition at GCHQ, it also banned GCHQ employees from being a member of a trade union and withdrew staff’s statutory protection against dismissal. It also set up a staff association, the Government Communications Staff Federation (GCSF), which failed to obtain a certificate of independence. The ban lasted 13 years. When Labour returned to power, the right to trade union membership was restored to GCHQ. GCSF merged with the largest civil service union, the Public and Commercial Services Union (PCS) to form the Government
Communications Group (GCG) and a legally binding, ‘no disruption’ agreement was concluded. This gave the GCG sole negotiating rights on issues exclusive to GCHQ (Lanning and Norton Taylor, 1991; Corby, 2000). Both management and union interviewees were of the view that they now worked together in a spirit of partnership and that their partnership was more extensive than anything else they had come across in other parts of the civil service.

A.4.3 Background

Some five years ago, GCHQ realised that it was unable to match private sector salaries for some of the specialist staff vital to the functioning of the organisation. This coincided with the ending of civil-service wide pay arrangements, so GCHQ designed its own pay system, having secured Treasury agreement.

A.4.4 Aims and objectives

The aims of the pay system are two-fold. The primary aim is to ensure that those with specialist skills are recruited and retained. As an interviewee said: ‘We have people whose skills are highly valued in the private sector’, for instance IT specialists. ‘Like any organisation requiring large numbers of highly skilled staff, our business success depends on the effectiveness of our recruitment and retention processes.’ The second aim is that the GCHQ pay system rewards individual performance and does so in a way that employees perceive as fair.

A.4.5 Details

Since the mid-1990s all GCHQ staff below the senior civil service, have been grouped into eight grades across three departmental bands. There are some 30 GCHQ employees in the senior civil service, so the pay arrangements discussed apply to over 4,450 staff. Movement between departmental bands is by promotion. The weight and the responsibilities of the job determine the grade and each grade has a base pay range. Between the eight base pay ranges are intermediate ranges available if higher pay is required to respond to recruitment and retention pressures in a skill group. Thus where a job involves the use of a skill which is in short supply, it is placed in a pay range above the base pay range for its grade. Furthermore, each pay range has four fixed points. The first fixed point is the minimum. Then there is a maximum for good performers, a higher maximum for very good performers and a further maximum for exceptional performers (GCHQ, 2001c).

In order to ensure that similar salaries are paid to those doing similar work, GCHQ grouped those jobs requiring pay ranges above the base pay range for the grade into job pay groups (JPGs). As a result there are some 14 JPGs, for instance for those with IT skills, linguists, information specialists and those engaged in internal audit, accountancy and purchasing work. For example, information specialists who are members of the Library Association or the Institute of Information Scientists may be eligible to be paid on a range higher than the base pay range for the grade (GCHQ, 2001b).

When the JPGs were created, the centre worked with the senior manager of each career stream/skills group, who was given the authority for identifying the skills/market criteria and evaluating an employee against the criteria. These JPG ‘authorities’ conduct an annual review into the JPG system, led by the human resources department with full union participation. The review team considers whether new JPGs are required and existing JPGs are no longer needed. External and internal recruitment and retention pressures since the JPG system started have resulted in nearly a third of staff being in receipt of pay enhancements.

An individual salary can be at any point in the pay range, subject to his/her maximum as determined by the annual appraisal. Progression within a pay range is purely by performance. There is no separate
annual settlement based, for instance, on the cost of living and no progression by service related increments. Since 1999 the annual performance award has been expressed as a percentage of the range maximum for acceptable performers, rather than as a percentage of salary. The performance award is consolidated up to the appropriate range maximum, after which it is non-consolidated (GCHQ, 2001a).

All employees if they work shifts are eligible for shift payments expressed as a percentage of basic salary. There are five bands from ranging from 12 per cent, where an extended day is worked Monday to Friday, to 33 per cent for continuous, seven day working.

A.4.6 Evaluation

GCHQ has not carried out any formal or wide-ranging evaluation of the pay system for a number of years, but the introduction of a new management information system in 2001 will make such an evaluation much easier in future. In view of the fact that the organisation’s main concern is recruitment and retention, the emphasis is on an analysis of labour turnover figures. According to an interviewee, this is carried out monthly and consolidated annually. GCHQ also annually monitors the pay ranges that are allocated to specific JPGs and relates that to the pay rates offered by its labour market competitors.

In addition there is a rigorous system of exit interviews carried out both for labour market reasons and for national security reasons. (‘We need to make sure that there aren’t going to be lots of disaffected people kicking their heels around outside’, according to an interviewee.) A personnel officer conducts the exit interview with the leaver and there is a pro forma to be completed by the interviewer at the time of the interview. Data from the exit interview forms are consolidated every month and analysed every year when they are used for the JPG review. The main reasons for leaving have been categorised by GCHQ as:

- Personal,
- Related to the immediate manager,
- Promotion/ career opportunity available elsewhere,
- Higher pay available elsewhere,
- Other

Furthermore, GCHQ carries out an annual staff attitude survey but this is not primarily used for pay system evaluation purposes. In a recent survey (GCHQ, 2000) there were over 100 questions but of these only one was directed to the JPG system and two to GCHQ’s performance-related pay system. Nevertheless, the questions used would enable a judgement to be made on whether employees perceived that the performance-related pay system had improved their performance and was implemented fairly. Furthermore, according to an interviewee some 18 months ago the equal opportunities adviser led a working group looking at the pay system from an equal value perspective. (No particular equal value problems were found.)

GCHQ has data on absenteeism, but it does not use that for evaluating the pay system. Similarly, it has data on payroll costs and numbers of employees broken down by business unit and by JPG; but as the prime aim of the pay system is to ensure that recruitment and retention is sufficient to enable GCHQ to carry out its functions, essentially cost is not a criterion in pay system evaluation. (It is, though, a consideration in negotiations on the amount of the annual award.) GCHQ does not compile statistics on grievances. According to an interviewee, however, grievances that are not resolved locally are then passed to the human resources (HR) director. ‘If there were things around pay, then [the HR director] will see them and feed them into the normal process of HR… but I would say that grievances don’t tend to be about pay. Grievances tend to be about performance management.’

Trade union representatives at GCHQ have generous facility time. There are some 70 union representatives, all with facility time and two (the chair and secretary of the GCG) are on full-time
Does it work? Evaluating a new pay system  Annex

facility time. The GCG is, therefore, able to obtain feedback from members on pay through the labour intensive method of small group meetings. In addition this year the GCG carried out a pay survey of all its members but with hindsight, according to a union interviewee, realised that many of the questions had been badly designed. Accordingly that survey has proved in practice to be of only limited use.

A.4.7 Comment

The ‘authorities’ are part of the skill group whose pay they are determining, so it may be in their interests to err on the side of generosity when evaluating an individual’s skills, to make sure that the JPG is fully up to complement. This is exacerbated by the fact that the ‘authorities’ have no incentives for budget control, according to an interviewee, which leaves the centre trying to hold the ground. The same interviewee also commented that employees interpret the JPG system as a skills enhancement for specific groups, rather than as a market supplement, although it was originally conceived as the latter. She added:

The trouble with any recruitment and retention system is that it implies that money is a primary motivator, which in the public sector, and certainly in GCHQ, it really isn’t. By throwing extra money at some sectors of the workforce we implied that their contribution was valued more highly than others with core skills but no external analogue. What we are trying to do now is move pay down on the agenda and actually get people to take a rounded picture of all the benefits they receive [such as generous annual leave allowances and non-contributory pensions].

A potential problem is that the JPG system, which is built round job families, may undermine cross-functional working ‘and it is a bear trap we can see coming’, according to the management interviewee. To counteract such problems, multi-functional action learning groups have been set up and their outcomes are being evaluated.

Currently HR policies and practices are being redesigned in line with a HR strategy recently approved by GCHQ’s board. Already work has been carried out on redesigning core competencies. Next there will be a redesign of the pay system, which a working group, to include key union representatives, will take forward. The aim is to move away from a system which rests on base pay by grade, plus a skills enhancement for certain groups, to a system which takes into account the skills and competencies of everyone in the organisation and, if market supplements are necessary, to consider whether or not they should be consolidated.

A.5 HM Customs and Excise

A.5.1 Overview

HM Customs and Excise (C & E) conducted a nine month trial of team bonuses in 2000/01. There was an extensive evaluation, with an external consultant employed, looking at staff attitudes, performance data and customer satisfaction. The results, however, were complicated by other, very extensive changes taking place in the department.
A.5.2 Context

HM Customs and Excise (C & E) employs 22,000 people, with offices throughout the country (Cabinet Office, 2001). Its main responsibilities are to collect and manage Value Added Tax (VAT) and excise duties; fight drug trafficking and enforce other import and export prohibitions and restrictions on, for example, firearms and endangered species; collect customs duties and agricultural levies on behalf of the European Union; compile trade statistics; and give policy advice on these subjects to Ministers (Cabinet Office, 1994).

A.5.3 Background

The Customs and Excise Board gave a commitment early in 2000 to carrying out a trial of team bonuses. Such bonuses were recommended in a report by John Makinson, Group Finance Director of Pearson plc as part of the work of HM Treasury’s Public Sector Productivity Panel. Makinson looked at performance based incentives within four civil service departments/agencies: Employment Service, Benefits Agency, Inland Revenue and C & E. He started with two assumptions: that performance incentives can improve public sector productivity and that the current incentive arrangements in the civil service were largely discredited. In short he proposed a change from individual, consolidated performance awards to non-consolidated team bonuses (Makinson, 2000).

A.5.4 Aims and objectives

Essentially the main objective of the trial, which took place from 24 July 2000 to 31 March 2001, was to find out whether team bonuses led to an improvement in the productivity and performance of staff. Within this overarching objective, the aims were to find out:

- if staff understood the targets and considered them to be equitable;
- if individuals within the trial sites were working more as a team;
- if certain practical details, eg team size, the selection of targets, the form of bonus payment, posed problems;
- if there was evidence of any contra-effects, eg an increase in inflexibility, a movement away from the corporate ethos and victimisation, where a team member was not considered by other colleagues to be pulling his/her weight.

(Makepeace, 2000; Marsh 2001)

According to a union official interviewed, the main union, the Public and Commercial Services Union (PCS), was particularly interested in the last aim.

A.5.5 Setting up the trial

A two person project team and then a working group of some 10 people representing the main business areas together with finance and planning were established. In addition the Institute for Employment Studies (IES) was employed as a consultant. The project team first visited some organisations which had a team bonus system and then turned to establishing a team bonus system at C & E.

As part of the 2000 pay settlement union members agreed to support the trial and the departmental trade union side was consulted throughout, as a union official confirmed. He said: ‘We have been fully involved from start to finish’. For instance the trade union side discussed with management where the trials would take place and the targets to be selected; a union official attended all the meetings of the trial team leaders; and PCS was given slots on management events to present its views.
Six trial sites (out of 15 volunteers) were selected covering a broad geographic area and representing outfield operation areas and the central processing functions. Teams comprised 80 to 260 employees with one team per trial site and involved some 700 staff overall, ie 3 per cent of C & E’s employees. The working group and the six trial site managers held several workshops, for instance to discuss the selection of targets. Each team had five incentive targets drawn from, and compatible with, existing plans, using a balanced score card approach. So at least one target was financial, at least one related to customer service and all had to be consistent with the department’s public service agreement with the Treasury. The working group moderated the targets which were all given equal weighting. The achievement of a target entitled those in the team to a bonus of 1 per cent of salary, ie a 5 per cent bonus if all five targets were achieved. The achievement of existing operational targets, however, was made a pre-condition for the receipt of a bonus payment (HM Customs & Excise, undated). Other details, eg the minimum qualifying period throughout the duration of the trial (set at 89 days) and how this should be calculated for part-timers, absentees and those on detached duty were also agreed and the trial proceeded (HM Customs & Excise, 2000).

A.5.6 The evaluation

The evaluation was in-depth. A prime element related to the motivational and attitudinal aspects. A staff attitude survey was carried out in July when the trial started in the six trial sites to establish a baseline. The survey questionnaire included generic questions about working for C & E and about local management and some very specific questions about pay and team pay. Also staff attitude surveys were sent to three control sites (Institute for Employment Studies, undated). Conducted by IES, these staff attitude surveys were repeated in June 2001, after the trial concluded and staff had received their bonus payments. In addition during the course of the trial the two person project team conducted three focus groups in each of the six sites: one for clerical/junior grades, one for middle managers and one for senior managers, ie 18 in all.

A second element of the evaluation related to financial performance. This was measured by establishing a baseline for the trial sites and three ‘blind’ control sites. Because of the nature of the work of the teams selected for the trial sites ‘that was quite factual’ according to an interviewee. As to customer satisfaction, one site conducted a customer satisfaction survey at the beginning and end of the trial period and all the sites used their own local audit teams to carry out quality assurance.

Information was also sought from the trial site managers about complaint rates, staff turnover, sick leave. According to the project leader, however, this data was of limited use because the trial was conducted for only a short time (less than nine months). Information was also sought from managers about how they considered they were managing and whether or not there was increased pressure by some team members on colleagues whom they (rightly or wrongly) saw as not pulling their weight.

The main union also carried out its own enquiries as to how the team bonus experiment was working. It convened two meetings of PCS representatives from the six trial sites to ‘deal with issues and difficulties that have arisen during the trials and to identify any general problems that require central intervention and negotiations’ and kept in touch with representatives by email (Duggan, undated). According to the union official interviewed, ‘we had very few, very few indeed, problems’.

A.5.7 Comment

The main difficulty encountered stemmed from the fact that the evaluation took place at a time of widespread change, including the restructuring of the department and the setting up of new appointment, promotion and appraisal systems. In short, according to an interviewee ‘there’s been a lot of noise in the system’ that complicated the evaluation of team bonuses.
Furthermore the chairman (a new incumbent) spoke to all managers (grade 7 and above) about what he expected from them. According to an interviewee, many trial site managers told the project team that they were now managing ‘perhaps in a way that we ought to have been for years’. For instance they said that they were now involving staff monthly in information and discussion about the team’s progress towards the achievement of targets ‘which hadn’t happened before’ and the focus groups of staff confirmed this. The project team was unable to establish the extent to which the chairman’s intervention, as opposed to the team bonus system, had contributed to the delivery of results. Indeed, performance targets were exceeded both in the trial sites and the control sites, with all the trial team members receiving the 5 per cent bonus, which severely limited the effectiveness of the evaluation.

Even though the Makinson report (2001) delineated the main elements of the scheme, the implementation of the trial for some 700 staff and the evaluation were resource intensive. Apart from the time of the trial site managers and the members of the working group, the two senior staff who formed the project team devoted their time entirely to the trial. There was also a sum paid to IES (not disclosed for commercial in confidence reasons). According to the project team leader, however, it was most useful to have external input into the evaluation, not only for help with the staff attitude survey but also to act as ‘critical friend’ and a ‘sounding board’.

This case study is not reporting on whether the trial was a ‘success’ or whether or not certain aspects should be modified. Its focus is how the team bonus system was evaluated and any evaluation problems encountered. It has been decided, however, that there will be another, more extensive trial commencing early in 2002, but at the time of writing (November, 2001) decisions had yet to be taken on the details.

A.6 Royal Mail

A.6.1 Overview

In February 2000 Royal Mail introduced a complex new pay and conditions package aimed at improving efficiency and basic pay and reforming working patterns. Evaluation is primarily centred on joint management/union reviews and a range of personnel data are collected and shared with the union to inform the reviews. Evaluation, however, has not taken place as planned, essentially because of implementation difficulties.

A.6.2 Context

Consignia plc (formerly the Post Office Group) is a public limited company owned by the government and regulated by PostComm under the Postal Services Act 2000. It is facing increased competition as the European Union Postal Services directive 97/76/EC heralded greater liberalisation in the supply of postal services across the European Union, while PostComm has begun licensing private sector companies to compete with Royal Mail (Brown, 2001a).

Consignia is divided into 12 business units, with three core services: Parcelforce Worldwide, Post Office branches and Royal Mail (RM) (Consignia, 2001). The latter is responsible for the collection, sorting and delivery of letters and packets with some 80 million items carried every day (Post Office, 2000). Consignia has in total 200,000 employees. Of these 150,000 work for RM as postal operatives or in operational support and the vast majority belong to the Communication Workers Union (CWU).
A.6.3 Background

Industrial relations in Royal Mail is carried out against the background of the Industrial Relations Framework, agreed in 1992 and then revised in 1994. It sets out the principles for reaching local agreements, including the resolution of disagreements and the arrangements for so-called strategic involvement, ie discussions between managers and the CWU nationally about the future of the business (Sawyer et al, 2001).

In 1994 Royal Mail and the CWU began discussions at national level on what was termed the ‘employee agenda’, which included new productivity arrangements through the use of teams of six to 15 people and a shorter working week. The CWU’s Postal Executive rejected this agreement, concluded in 1996, and industrial action ensued with the letter monopoly suspended. The dispute ended with the establishment of joint working parties and then agreements in 1998 on a conduct code and attendance procedures, delivery issues and a performance bonus scheme (PBS). In addition, a new package called The Way Forward was negotiated. Rejected by the membership in September 1999, it was revised essentially in respect of overtime pay and the driving allowance. After a second ballot in February 2000, a bare majority accepted the package (CWU undated; IDS 2000c).

A.6.4 Aims and objectives

The Way Forward package comprises eight agreements on employment security, pay and grading, shorter working week, annual leave, meal breaks, way of working, working time regulations and deployment. In short, the objectives were to improve customer service and efficiency; create a better working environment, improve pay and conditions and provide the capability for quick and successful introduction of change through timely consultation and negotiation at all levels (CWU 2000a). Within these overarching objectives the pay and grading agreement introduces a single operational grade in place of the two postal grades in order to:

- increase the skills, pay and range of opportunities;
- improve operational performance and flexibility;
- provide a significant increase in pensionable pay… [and] a move away from excessive levels of overtime.

(CWU, 2000a:6)

The way of working agreement has five objectives as follows:

a) to improve customer satisfaction through delivering service to specification consistently and reliably throughout the Business;

b) to improve efficiency by ensuring accurate alignment of staffing to workload;

c) to create a better working environment through ensuring a fair approach to allocation of duties, overtime and annual leave;

d) to provide better understanding and opportunities for movement and development through and across the Businesses;

e) to develop the capability for speedy and successful introduction of change whilst protecting services to our customers in a way that builds on the principles within the Industrial Relations Framework.

(CWU, 2000a:23)

The working time regulations agreement aims ‘to move towards socially acceptable patterns of attendance that will ensure all employees have proper breaks from work, thus promoting family-friendly employment which is beneficial to both employees and the employer’ (CWU 2000a:39). The deployment agreement is concerned with the approach to the implementation of all the other seven agreements and sets out target dates. Its objectives are:
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- the deployment of The Way Forward agreements in full, everywhere and to the agreed timescales and specifications;
- the achievement of the agreed performance improvements in all operational units in line with the PBS agreement;
- the implementation of the agreed improvements to terms and conditions for all employees covered by The Way Forward agreements, including an increase in the number of five-day week attendances in line with the associated agreements on delivery, PBS and The Way Forward;
- maintaining the balance through deployment between implementation of improved terms and conditions and performance improvement.

(CWU. 2000a:45).

A.6.5 The details

The eight agreements are complex. The agreement on employment security provides a management undertaking and ‘if circumstances change’ the undertaking will be reviewed ‘with full strategic involvement of the CWU nationally’ (CWU, 2000a:5). The pay and grading agreement, as noted above, introduces a new single operational grade and also a new operational support grade, though there are certain personal reserved rights. These new grades have a higher basic rate, partly made up of new money and partly made up of the consolidation of Saturday premia and weekly supplements, with non-consolidated overtime payments at an enhanced cash rate (instead of a multiplier of basic pay) and new shift pay allowances. The shorter working week agreement provides for a working week of 40 hours gross, instead of 41½, with new standard meal breaks, to be implemented on a unit-by-unit basis after a restructuring of duty patterns and an adjustment of the bonus scheme.

The agreement on annual leave incorporates RM’s 2½ customary days and its main change is to provide six weeks after 20 years’ service, instead of five weeks after 30 years’ service. In addition, those with less than 20 years’ service can increase their annual leave to six weeks a year in return for foregoing an element of basic pay. The meal break agreement establishes a new national standard, with the actual pattern of breaks to be arranged locally.

The way of working agreement ‘is a key enabler and the final step in securing and introducing improvements in terms and conditions’ (CWU, 2000a:23). It is a detailed agreement which covers, for instance, the filling of vacancies, employee development, workload forecasting, new seniority mechanisms and employee resourcing procedures. The working time regulations agreement defines working time and reduces the gross hours an individual is allowed to work in any single week in phases: to a maximum of 80 hours from 3 April 2000, to 70 hours from 2 October 2000 and to 65 hours from 7 October 2000. The final agreement in The Way Forward package covers deployment, or what might be called implementation, setting out, for instance, the roles and responsibilities of managers at different levels, union officers and union representatives and referring to deployment aids, such as guidelines, training and workshops.

A.6.6 Evaluation

The Way Forward agreements set out certain evaluation measures by establishing joint reviews. Thus the way of working agreement says:

There will be formal joint reviews of progress at key agreed milestone dates during and after implementation. These will assess progress against the aims of the agreement, take appropriate corrective action and identify good practice (CWU, 2000a: 33).

Similarly, the working time regulations agreement provides for formal joint review meetings in April each year to determine whether the timetable and implementation steps remain achievable when assessed against the agreed success criteria. (The latter include progress towards socially acceptable attendance patterns and statistical confirmation of the maintenance of average earnings.) In the same
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vein the pay and grading agreement provides that ‘to protect both the value of the new package to employees and Royal Mail’s financial position, the actual effect of these changes will be reviewed nearer or just after implementation’ (CWU, 2000a:12). Finally the deployment agreement says that ‘both parties agree that progress will be regularly monitored at all levels… In addition there will be a formal review of progress at national level. This will happen monthly’ (CWU, 2000a:47).

These joint reviews are to be supported by a range of data already collected by Royal Mail and shared with the union. Thus Royal Mail monitors paybill costs and collects data on all the different elements of earnings, for instance on average basic pay, average shift payments, average overtime payments, average performance bonus system payments and average hours worked, broken down for full-time and part-time operational grades and operational support grades and by location. Furthermore, there is a regular print-out of all those who are working over a given number of hours for several weeks and frequent reports from local managers to RM headquarters on progress on restructuring working patterns. In addition, it collects other information which is shared with the union but has not been specifically used to evaluate the pay system: the results of the annual staff attitude survey and the customer satisfaction surveys, overall measures of the time taken between the posting of letters and delivery, monthly labour turnover figures and data on sickness absences.

According to a union interviewee, RM supplements its extensive information with frequent discussion with the union. Also, the so-called indoor secretary, dealing with staff in mail centres, and the outdoor secretary, dealing with delivery staff, are ‘constantly in contact’ with divisional representatives who monitor progress, according to an interviewee. Until recently, however, the union has been reacting to problems brought to light by members and/or their representatives, but it is now taking a proactive stance and visiting workplaces to talk to members and examine their pay. A particular and on-going concern for the union has been the monitoring of overall earnings and basic pay as a proportion of total pay and this is being done by the union’s research department to inform future pay negotiations.

In short, there is a sophisticated evaluation system comprising the collection and production of a wide range of information, with formal joint management/union reviews. In practice, however, evaluation has been stymied because of implementation problems. The Way Forward agreements require change to be deployed throughout mail centres and delivery offices through detailed, negotiated revisions to working arrangements; but in September 2001 The Way Forward package had ‘yet to come into force in more than a third of the 870 delivery offices’, including 104 in London’ (Brown, 2001a:9).

According to an independent report primarily this stems from the fact that the overall majority in favour of acceptance of The Way Forward agreements was very small and in many workplaces a majority voted against them. As a result, workplace negotiations have often been protracted and even when agreement has been reached, members have voted to reject it. This same report also criticised both local managers and local union representatives, finding that often there was a ‘vicious circle of hard attitudes and hard responses’ (Sawyer et al, 2001:19).

According to a CWU official interviewed, problems of implementation partly stemmed from the fact that RM sent out numerous directives to local managers explaining The Way Forward deal and how it should be implemented, without allowing time for the union to go through the draft directives and highlight its concerns. This has led to differences at workplaces between management and the union on interpretation and national union officials have spent their time fire-fighting local disputes. In summer 2000 a former Post Office manager and a former CWU deputy general secretary conducted an internal inquiry into the implementation process. Although the inquiry’s report was not given to the researchers, interviewees said it criticised payroll. Employees, particularly those entitled to pay protection, were sometimes not being given their correct pay. It also made a number of recommendations, including pay audits, whereby ‘those who understand the complexities of the pay deal go out and talk to the people in the largest mail centres, the ones where they have had the most problems’, according to an interviewee.

1 The Consignia annual report for 2000 – 2001 puts the number of delivery offices at 1,400 and the number of mail centres at 70.
The same union official also pointed out that the PBS had proved contentious. He took the view that it was a ‘dubious measure’, particularly for outdoor workers. At the time of writing only 10 per cent of offices in the PBS were getting ‘any real financial benefits’, though 90 per cent of offices are in the scheme and so are set to receive benefits. This may be partly because PBS is not paid where there are circumstances beyond RM’s control which affect delivery, eg railway disruption following the Hatfield crash in 2000. Both management and the CWU have recognised problems with the PBS system and, as a result, agreed a joint statement on a ‘PBS recovery plan’ as part of the 2000 pay deal for delivery staff (CWU, 2001). At the time of writing, however, problems with ‘targetry’ and productivity improvements had yet to be resolved. Another area of contention is the working time regulations agreement. Although hours of work have been reduced, staff have not always received compensatory earnings opportunities.

According to a RM manager interviewed, although in theory RM is a unified, command and control organisation, in practice there is considerable local autonomy. As a result, it has not been easy to implement a nationally agreed package which leaves many of the details, for instance the structure of delivery rounds, for local agreement.

Whatever the reasons for slow implementation, against this background there has been a rise in industrial action, mainly unofficial, none of it nation-wide, mostly triggered by the conduct code and the attendance procedures, but partly triggered by Way Forward disputes (Sawyer et al, 2001). In the year to 25 March 2001 there were 60,000 working days lost (Consignia, 2001).

Perhaps not surprisingly, while information for evaluation as detailed above is collected by RM and shared with the CWU, some of the formal joint reviews have not taken place. For instance, according to an interviewee, there has been no formal joint review of the costs incurred in respect of the pay and grading agreement though ‘there is ongoing dialogue between senior managers and senior union officials’, according to a management interviewee. Similarly there have not been formal joint reviews of the way of working agreement at key agreed milestone dates during and after implementation. On the other hand there are monthly joint meetings to review the deployment agreement.

A.6.7 Comment

The latest annual report (Consignia, 2001) says that there has been an unexpected increase in employee costs of £33 million over budget (in the context of a paybill of £3.5 billion). According to a management interviewee, this is partly because RM front-loaded the money before realising the efficiency savings obtained through restructuring duty patterns. He added, however, that ‘because other things have been going on’, the accountants had not been able to pinpoint the costs solely arising from the agreements.

Clearly there have been problems of implementation, which have in turn led to interruptions in an agreed and sophisticated programme of evaluation. One result is that RM’s central personnel department has formed project management teams in respect of various aspects of the agreements, reporting to a project board. The announcement by Consignia in October 2001 that it needed to make £1.2 billion cost savings has led to a deterioration in the industrial relations climate and is likely to set back implementation of the agreement further (Brown, 2001b).
A.7 Telecomco

A.7.1 Overview

In October 2000 the company introduced a new pay and grading system for its 80,000 non-managerial employees, after two and a half years of negotiation with the trade union. This involved the harmonisation of pay and grading and conditions of service for several separate occupational groups. While the company regularly monitors employment costs, employee turnover, absence rates and employee attitudes, there was no specific evaluation of the new pay and grading system. There are costs and off-setting savings from the new pay system and the major issue from the management perspective is whether the new agreement meets its objectives of delivering flexibility at reasonable cost.

A.7.2 Context

This organisation is a large multinational telecommunications company registered in England and listed on the New York, London and Tokyo stock exchanges. Its principal activities include local, long distance and international communications services, mobile communications, internet services and IT solutions. In April 2000 the company was restructured into four new self-contained business units which reflect market sector rather than geography. In May 2001 the company announced the creation of two separately listed companies (Telecomco, 2001).

The company employed 137,000 people in 2001, of whom 117,900 were based in the UK. In addition some 13,000 temporary people were employed during the financial year to April 2001. An estimated 75 per cent of the company’s UK workforce belong to one of two recognised trade unions (Communications Workers Union and Connect). The company continues to restructure its workforce and in the year to April 2001 some 3,500 managers and professional people left the company through voluntary redundancy. The company has recently formed a joint venture with Accenture (formerly Anderson Consulting) to deliver outsourced human resources services to large organisations, as well as to Telecomco itself (Telecomco, 2001).

The company operates an employee share ownership scheme under which each year a percentage of pre-tax profits is set aside to purchase shares for employees. Employees also have the opportunity, from time to time, to buy shares at a discount under the Employee Sharesave Scheme. The company runs an annual employee attitude survey and a staff suggestion scheme which generated 8,000 suggestions in the year to April 2001 and which contributed £85 million of savings (Telecomco, 2001).

A.7.3 Background

Pressure for reform of the existing pay and grading system built up over a long period, mainly because technological change led to major changes in the organisation’s staffing needs and highlighted the structure’s inflexibility. With the development of new areas of business, such as call centres and high-tech data communications, fitting new job titles into the existing structure became increasingly difficult. In parallel, a number of existing areas declined and hence the demand for some existing jobs (such as telephone operators) diminished. Moving staff from declining areas of the business to expanding areas was restricted by the multiplicity of terms and conditions and by notions of status attached to particular occupations.

Accordingly management and unions wanted to replace several grading systems, which dated back 40 years, and bring together a number of distinct bargaining groups on to a single pay and grading
structure. Joint discussions began in 1996 and a union interviewee commented that the first 18 months were ‘spent on deciding the big picture and what the joint vision was’. While there was communication with managers and staff from the start, a lot of testing out of ideas took place jointly with the union at national level. Negotiations began in earnest in 1999 and separate joint management/union working groups were set up in three areas: grading, terms and conditions and learning and development. Because the company does not have a core activity, the priority was to find a framework that was acceptable internally to the managers of the different businesses and was broadly acceptable to the union. It was therefore decided not to concentrate on the differences between businesses but on how they all related to the external market.

Nearly all the details were encapsulated in the agreement and this avoided misunderstandings during implementation and a full communication exercise with all employees only began once the agreement was signed. In September 2000 the final proposals were put to the union’s membership in a ballot, which was successful, and in the following month the main aspects of the new pay and grading system were introduced. Entitled NewGRID, it represented a major overhaul of the terms and conditions of the company’s non-management grades, covering over 80,000 employees: cleaners, clerical, secretarial and sales staff, engineers, operators, technicians and computing staff.

A.7.4 Aims and objectives

The three main aims of the new agreement were to:

- create an integrated pay and grading structure;
- introduce common terms and conditions for all non-management employees; and
- establish an ‘open culture’ in learning and development.

According to an interviewee, the company stated that its ‘overriding background principles’ were to remove barriers to flexibility and to introduce arrangements that were simple, ie easy to understand and administer; and affordable, ie cost effective and beneficial to staff. The company also sought to take account of external and internal best practice. The vision for NewGRID was ‘to provide a single integrated non-hierarchical structure’ that will remove existing rigidities and barriers to people moving to new roles, as well as enabling organisational effectiveness and productivity/efficiency improvements. The new structure was also designed to support career development of staff and enable them to meet the changing needs of the business, customer requirements and product innovation (CWU 2000b:1). While equal value is a consideration, this was not a prime driver behind the changes (interview with HR manager).

The benefits of NewGRID were listed as follows:

1) **Enable flexibility by**:
   - introducing a simplified structure and reduced number of grades;
   - introducing a single set of improved terms and conditions;
   - taking a fair and consistent approach to everyone.

2) **Help people to take control of their own careers by**:
   - providing development and progression opportunities;
   - providing a structure to encourage people to adopt the will to learn to enhance their own careers.

3) **Lead to a changing culture by**
   - enhancing the relationship between the company and individuals;
   - enhancing the relationship with the union.

4) **Boost performance by**
   - getting people with the right skills into jobs;
• increasing the movement of people through jobs;
• reducing the risk of intractable surplus.

5) **Support commercial behaviour by**
• pay levels being amongst the best against our competitors and other leading companies;
• reducing administration costs;
• ability to anticipate future trends;
• enabling easier change in the future;
• facilitating the company’s transformation to ‘the next wave’.

6) **Provide improvements to existing arrangements through**
• reduced hours;
• improved holiday arrangements;
• unparalleled pay and pension protection arrangements;
• greater number of highly paid roles;
• improvements to shiftworking and on-call.

**A.7.5 The new pay system**

**A.7.5.1 The pay and grading structure**

To meet the differing types of business, to harmonise and simplify the pay structure and to cut across functional boundaries, four broad levels (known as skillbands) and eight salary ranges replaced more than 100 separate grades covering four separate occupational groups - clerical, computing, engineering and operator staff - each with their own terms and conditions.

The minimum of each salary range is worth 80 per cent of its maximum. The main exception is the sales function where the minimum is worth 70 per cent. Young people and modern apprentices start at 50 per cent of the maximum for the relevant salary range. The skillband descriptors, which define the skill level required within each of the four skillbands, are as follows:

• skill,
• experience/knowledge,
• entry requirements,
• complexity,
• customer & commercial breadth,
• communications/interpersonal,
• responsibility/discretion.

In order to determine the appropriate salary range for the job within a skillband, job dimensions allied with existing and future job descriptions have been developed to analyse further a job’s role and skill requirement.

**A.7.5.2 Pay progression**

Under the old system, employees received increments on the anniversary date of their appointment. Now all staff receive their progression increase on 1 October. This simplifies administration and makes it easier to calculate the paybill. Adult employees receive an annual progression increase worth five per cent of the salary range maximum but the agreement allows for fast tracking so that staff can receive up to 10 per cent. Although the company has a performance management system, this is not directly linked to pay. Nevertheless, poor performers can have an increment withheld.
There are also a limited number of skill progression points for those jobs that do not fall within the standard NewGRID structure. Although these employees have been assigned to one of the eight salary ranges their progression is limited to defined skill progression points. An example is the professional sales grades, where bonus payments provide an important part of the pay package.

A.7.5.3 Pay and pension protection

An important part of the agreement is the protection of existing pay, progression and pension entitlement. This applies to a minority of employees whose jobs have been assimilated on to the new structure at a lower maximum than their old grade and has been achieved through payment of a salary supplement to the new salary. These employees will continue to receive progression awards up to the new maximum. The supplement does not count for overtime or unsocial hours but is included in pensionable earnings and for redundancy pay. As the company seeks to restructure its operations every effort will be made to move displaced staff to new areas of business expansion. Where this leads to redeployment to a new job on a lower salary range, similar pay and pension protection will apply.

A.7.5.4 Terms and conditions

Before NewGRID, the various bargaining groups had many different terms and condition including different hours of work and holiday entitlement (IDS 2001). Under NewGRID, the standard working week became 37 hours net from October 2000, moving to 36.5 hours on 31 December 2001 and 36 hours from 31 December 2002.

NewGRID introduced a common holiday entitlement for all grades with simplified service related entitlement from 1 April 2000. From 1 April 2001 all non-management grades received 25 days holiday per year, 28 days after 10 years’ service and 30 days after 20 years. (From 1 April 2002 employees will receive 30 days after 18 years). Staff with holiday entitlement higher than the new levels at the time of implementation had existing entitlements protected.

As to premia, Sunday working is now paid at double time. Saturdays no longer attract an unsocial hours premium. Night work is paid at time and a third between 9pm and 6am. Christmas day working is paid at triple time and all other bank holidays at two and a half times the hourly rate. Overtime is now paid at time-and-a-half Monday to Saturday and time-and-three-quarters on Sundays. Overtime is not pensionable unless part of a Sunday shift. Shift allowance became a new monthly payment, the amount depending on the shift pattern. Responsibility allowances were also changed. These include allowances for covering a higher graded job and the long term and short term supervisory allowances. NewGRID also introduced a new contractual on-call allowance, where the requirement is part of the job.

A.7.5.5 Implementation

Implementation of NewGRID began on 1 October 2000 when all staff moved to the NewGRID salary ranges. Changes to basic pay were made where appropriate; new pay and pension protection arrangements and changes to allowances were also introduced. The hours harmonisation to 37 hours and changes to overtime premia were implemented from 5 October 2000 while improved holiday arrangements were introduced from 1 April 2001. A few issues were left for later discussion. These included a common overtime rate for Monday to Sunday; equal opportunities issues; an audit of non-core arrangements; and efficiency.

According to the union interviewee, the only problem area that has emerged in implementation has been the issue of working time reductions. This is because the agreement left attendance procedures vague. They are now being dealt with locally.
A.7.6 Evaluation

The company says that there has been no specific exercise in monitoring and evaluating the impact of NewGRID. The union stated that ‘in terms of evaluation, very little has been done objectively after it’s been implemented’ (CWU interview).

From the management perspective a major issue when approaching the board for approval was the cost of the changes. The company says that financial data are the key to measurement of the agreement’s impact upon the business. ‘The hard measures used were the projected costs of aligning hours modelled against proposed new overtime rates, costs of adjustments to the pay structure, costs involved in changing holidays, attendance related premia, allowances etc. This involved a range of costs and savings in hard and soft form’ (HR manager’s comments).

NewGRID was not a cost cutting exercise (HR manager’s interview; CWU interview). Each business, however, was required to cover the cost of its own implementation of the agreement, but the balance of costs and savings varied in different parts of the organisation dependent on the grade make-up of their population, ie the extent to which they were affected by various elements of the package. Each business is quite distinct and so there has been no general monitoring and evaluation exercise of NewGRID. According to the HR manager: ‘Jobs vary quite a lot and the businesses lack the uniformity of a manufacturing environment’.

Some aspects of the agreement have clear costs that can be measured and the company is checking whether the actual costs are the same as the projected costs. For example, the introduction of the hours reduction is a major item that can be costed. But specific benefits are expected from the agreement which will offset these costs. Benefits could accrue, for example from changed grades, faster set-up of new jobs, faster dispersal of old jobs, incentive arrangements, removal of allowances, savings in management time because there is now a single set of standards for staff across all functions. The company is seeking to find out how managers are using the new flexibility and whether the new attendance arrangements are working. In addition, the businesses are constantly monitoring overtime working. This is not directly related to NewGRID but factors that are of interest in the context of developing NewGRID are reductions in overtime from improvements in attendance arrangements, overtime patterns and premia costs at different parts of the week.

Changes in productivity directly linked to the new agreement are not being measured. The company states that it is difficult to find effective measures of productivity for many of the activities it undertakes. The only potential linkage is between incentives and changes in productivity because NewGRID enabled the delivery of incentive arrangements. The company’s view is that NewGRID is about changing the culture of the organisation and that this will deliver improvements in efficiency and productivity. The new agreement gives the company ‘the opportunity to introduce financial incentives to change behaviour and hence productivity’ (interview with HR manager).

Recruitment and retention has not been measured in relation to the new agreement although the company monitors recruitment and retention on an ongoing basis. The company has been losing people at the upper end of the grading structure but this has been more to do with remuneration levels in comparison to competitors than the pay and grading system per se. Changes for these people would have been necessary even without the new agreement but the new pay structure should mean that these people are now retained. At the lower end there were previously few grades available to consider when looking to match roles with low pay in the marketplace. The new grading structure opens up the potential to recruit new, lower graded people at this level. The HR manager’s view is that, ‘if the pay structure is right, this should impact upon staff turnover’.

The company measures customer satisfaction regularly but sees a tenuous link to remuneration changes. Where incentive schemes exist (eg for sales staff) there may be some linkage between staff performance and greater customer satisfaction but ‘this is not currently measured in any general sense’.
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(interview with HR manager). The major department within the company monitoring the agreement is Finance, in conjunction with the employee relations and compensation and benefits departments.

From the union’s perspective, the monitoring of the new agreement is primarily designed to ensure that its members receive their correct grading and pay. The CWU commented: ‘We have got a non-hierarchical, more simple, unified structure; a common set of terms and conditions; a reduction in the working week; pay and pensions protection; and a learning and development statement. We know all those have happened’. The union also sees the new single agreement as a protection of national bargaining. As to the impact of the agreement on the company’s costs, productivity or employee motivation, the union regarded that as a focus for evaluation by management, not the union.

A.7.7 Comment

According to the management interviewee, a major measure of the success of NewGRID has been the transition from an outdated pay and grading system to a new ‘cutting edge’ system without losing a single day in industrial action. Also, the new pay structure is about changing the culture of the organisation, but culture change is a slow process.
Glossary

AfC  Agenda for Change
AEEU  Amalgamated Engineering and Electrical Union, merged with MSF to form Amicus in Jan 2002.
C & E  Customs and Excise
CIPD  Chartered Institute of Personnel and Development
CWU  Communication Workers Union
DZ  Development zone in the grading structure of BAE Systems
EP  Effective performance – a work study based system at Royal Mail
EZ  Enhanced zone in the grading structure of BAE Systems
GCG  Government Communications Group – the union at GCHQ
GCHQ  Government Communications Headquarters
HM  Her Majesty
HR  Human resource(s)
HRM  Human resource management
IES  Institute for Employment Studies
IPM  Institute of Personnel Management, now the Chartered Institute of Personnel & Development – see above
JE  Job evaluation
JEP  Job Evaluation Project at the Council
JPG  Job Pay Group at GCHQ, ie a functional occupational group
JWG  Joint working group
MBA  Masters in Business Administration
MSF  Manufacturing, Science and Finance Union, merged with AEEU, see above.
NJC  National Joint Council
ODA  Operating Department Assistant in the NHS
ODP  Operating Department Practitioner in the NHS
PBS  Performance bonus scheme at Royal Mail
PCS  Public and Commercial Services Union
PDR  Performance development review
PZ  Progression zone in the grading structure of BAE Systems
RM  Royal Mail
SW  software
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