



OPINION

Stability rhymes with agility, pay structure needs to go with flexibility

Duncan Brown, Head of HR Consultancy, Institute for Employment Studies, and Steve Munday, Senior Manager Reward, KPMG

Listening a couple of weeks ago to Kenneth Clarke's demolition of the Brexit case on the BBC's Any Questions, we were reminded of his similarly dismissive comments on job evaluation almost 30 years earlier. It was at the peak of Thatcherite individualism, free market economics, and monetarism when he described job evaluation as a pseudo-scientific and restrictive driver of pay inflation. At that time, the process was also the source of power and control for many personnel functions.

Plenty of others have prophesied 'the death of job evaluation' since, with the 'New Pay' proponents arguing in favour of market, person and performance, and contribution-based pay instead (eg Lawler, 1986 and 2000). Flexibility and market-focus have been the watchwords for the last two decades as, driven by the demands for 'agility' and 'lean' organisations, employers have replaced multiple grades and points factor evaluation with fewer levels and bands, and market-aligned job families, pay ranges and zones. Such demands have driven a significant proportion of our pay advisory work in recent years.

One recent survey (Mercer, 2016), however, found 58 per cent of employers using job evaluation to cover all of their employees - hardly a death-throes situation.

So why is job evaluation still alive, even thriving? The early research conducted by Armstrong and Brown (2001) on moves to flatter, broad-banded structures found that the benefits of improved external market fit and more flexible, less hierarchical working had in many cases been achieved. But this had commonly brought with it complex and opaque pay systems which employees didn't understand and perceived to be unfair, and managers struggled to operate.

Since then, the greater flexibility to reward performance within broader bands has also hardly been a roaring success, with academic research studies highlighting the very mixed record and problems (Bajorek and Bevan, 2015).

Performance management has proved to be a particular challenge and we have seen recent moves by practitioners away from the associated over-engineered and ratings-obsessed processes, for example at Deloitte (Buckinham and Goodall, 2015).

According to the CIPD, sustained low pay inflation meanwhile has encouraged some firms to move away from performance-based progression in broad pay bands towards variable pay and bonuses as the performance-reward vehicle of choice (CIPD, 2015). The numbers operating broad-banded structures have fallen from 35 per cent three years ago to 26 per cent today.

But whatever form individual performance pay takes, research highlights that a precondition for any motivational effects is that employees perceive pay processes to be fair and well managed – see for example Andersson-Straberg (2007). In a recent Glassdoor survey (2016), 47 per cent of employers deliberately didn't provide salary information beyond the legal contractual minimum to their employees. Hardly surprising then that 69

per cent of employees wish they had had a better understanding of what fair pay is for their role and skills and only a third feel that their pay is fair. Cue job evaluation...

Growing perceptions of unfairness have undoubtedly driven a backlash, with the forthcoming gender pay reporting requirements (Government Equalities Office, 2015) being perhaps the best illustration that employers are no longer trusted to manage their pay systems in a fair, effective, motivating and non-discriminatory manner.

Job evaluation's survival certainly reflects our more litigious employment context today. If our current consulting workload is anything to go by, the reporting requirements will almost certainly drive an increased incidence of legal-risk-avoiding job evaluation systems, particularly in smaller organisations just above the 250 employee limit. ACAS already provides an excellent free summary, entitled *Job Evaluation: Considerations and Risks* (2014).

We both worry though that if firms are purely responding to the legislation, then this could create a mere 'tick-box' response, with a continuing failure to address the underlying causes of the pay gaps that are revealed. A significant body of employers remain opposed to the requirement.

So, just as the EU referendum debate seems irreconcilably divided between a Remain camp stressing the economic benefits and an Exit camp focusing on immigration, so we now seem to have similar irreconcilable positions on job evaluation and pay management. HR and senior leaders still want performance- and market-driven practices (despite their highly ambivalent record), with 74 per cent of employers operating performance-related base pay progression according to the CIPD's *Reward Management 2014-15* survey.

Trade unions and government, however, increasingly want to see fair pay underpinned by objective, analytical job evaluation. The excellent, newly updated pages on equal pay and job evaluation on the Equality and Human Rights Commission website (2016) stress the need for analytical job evaluation more strongly than ever, as 'vital' to achieving effective pay management and ensuring equal pay for work of equal value.

So, are these opposed positions reconcilable? It was instructive in this light to read the latest thinking on organisation design just published by McKinsey (Aghina, De Smet, Weerda; 2016).

Rather than just emphasising the usual management mantra for maximum flexibility and efficiency, which has driven the controversial moves in UK employment towards more low-paid employees on insecure zero hours contracts and the growth in contracting to the self-employed, these authors emphasise the need for balance in successful organisational change. They write that 'truly agile organizations, paradoxically, learn to be both stable...and dynamic', combining 'looser dynamic elements that can be adapted quickly to new challenges' with 'a relatively unchanging set of core elements – a fixed backbone'. This would provide 'the stability of an organisation home [for employees]...with little of the disruption and fear over job losses that traditionally deter and hinder change'.

Job evaluation can and should have multi-dimensional uses and indeed can be a very effective tool in supporting organisational change, for example, acting as the basis for comparing and integrating current reward structures when two organisations are merging.

This combination of structure and agility is also emerging in job evaluation and pay management. We are seeing a growth in the use of balanced, hybrid, 'semi analytical', classification and job-levelling systems which are faster, more efficient and flexible than the ponderous points factor systems of old, but still provide an objective, robust and effective foundation for fair and consistent pay setting and management. Employers such as Unilever, Novartis, Sheffield University and Vodafone have defined their pay bands much more clearly in terms of organisation requirements and responsibilities, and career development needs, skills and competencies.

Points factor evaluation may still be undertaken for difficult or controversial jobs, but most jobs are simply slotted into the appropriate level, and then the focus is on developing people's skills and contribution which drives their pay progression up clearly communicated career pathways. Managers understand and accept banding decisions, while employees are engaged by the clarity and links between their pay progression and development of their skills and talents.

We developed this type of tailor-made and hybrid pay management approach, for example, for a newly formed professional services organisation in the public sector. Combining career civil servants with recruits from the financial services sector, we slotted the newly specified and filled jobs into broadish pay bands, using published competency and responsibility profiles, so that staff could see the basis for their banding and what was required to develop their careers up the structure. Points factor evaluation was used to underpin the new structure, however, and to check for the robustness of placements and ensure equal pay. Pay bands were largely set to market, with different ranges for their locations in London and the North, while bonuses were used to reward a combination of team and individual performance, again against clear and published criteria.

So job evaluation isn't dying, it is growing once again. But it is changing and evolving. Fairness and equity continues to be the heart of any design, but one size definitely doesn't fit all.

If you are in an HR or reward role, operating a traditional, generic, complicated, pseudo-scientific points factor system which your employees and managers don't understand and support, and which fails to align with your other HR and talent processes, then you are at just as much risk as the small and medium sized enterprises that have no job evaluation at all.

Effective job evaluation today is straightforward, tailored and transparent, and reinforces and rewards the organisation design and individual skills and competencies that will further employee development and organisational success in the future.

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Duncan Brown has more than 20 years' experience in HR consulting and research, with firms including PricewaterhouseCoopers and Towers Perrin. He also spent time as Assistant Director General at the CIPD. His latest book is on reward effectiveness. Human Resources magazine placed him in its listing of the top five most influential thinkers in UK HR in the past three years.

Steve Munday is a senior manager within KPMG's UK Executive Compensation practice, with over 15 years' experience. He specialises in broad-based and Executive reward, and advises businesses on how to most effectively link pay and benefits to the strategy of a business.

To find out how IES can support reward strategy in your organisation, contact Duncan Brown on 020 7104 2080 or email Duncan.Brown@employment-studies.co.uk.

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