A ROLE FOR REWARD IN ORGANISATIONAL CHANGE?

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Introduction

In studies of organisational change there has been a growing recognition of the fact that the processes of change involve much more than simply changing formal organisation structures, (Schein 1985; Carnall 1995, Kotter 1995) and that changes in human resource management (HRM) practices are almost invariably an important dimension of the change programme. This paper considers the findings of a study of how one large public sector organisation in the UK, HM Customs & Excise, has sought to use changes in HRM practice, in particular changes in its pay and grading system, to help drive an organisational change programme, and reflects upon the degree to which this strategy for change has proved successful.

Change and Reward Management

There is a broad consensus of opinion that throughout the 1990s change has been forced upon organisations by four main pressures - competition; globalization; customer demands and costs. They have responded to such pressures in a variety of ways; by adopting flatter and more flexible structures; by moves to cellular and team working; and by increasing emphasis on a range of HRM activities. In no area of HRM activity has the response been more marked, however, than in the development of newer and better ways to reward employees. Indicative of this are two key findings of a mid '90s survey on reward carried out by the Confederation of British Industry (CBI) and Hay Management consultants (1996). Fifty percent of participating organisations -490 in all, employing around 1.3 million people, had changed some aspect of their pay strategy in the previous two years 1993 - 95. A further 30% were in the process of changing the design of their benefits package, most with the declared aim of enhancing flexibility. Commenting upon these findings Stevens (1996) observes that "Pay is switching from a negotiating or 'pay and rations issue', and is becoming part of a web of practices aimed at developing organisational outcomes by changing attitudes and actions" (p 32).

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Change and Reward in the Public Sector

In the UK, the 1990s drive for organisational change has been felt as keenly in the public sector as elsewhere, and in particular there have been profound changes in the thinking behind public sector pay. Such thinking has been driven both by the influence of broader international debate on reforming the place and nature of the public service as a whole, and more specifically, by the beliefs and consequent policy initiatives of successive Conservative governments in the period 1979 to 1997. UK public sector changes and reforms have rested on the two principal ideals, or ideologies, of flexibility and competition; and underlying initiatives for change has been the Citizen's Charter white paper (cmnd. 1559) of 1991. This outlined the principles and methods through which the British Government sought to achieve better service delivery. The white paper emphasised that the general drive to improve the performance of public sector employees might best be achieved by tying pay to performance.

Despite such common underpinnings however, the public sector is far from homogeneous, and the drive for change has been forced to recognise this in structures and systems, including pay which are fit for a specific purpose. Hence there have been attempts to develop pay structures for different parts of the public sector which would be appropriate to the specific, and often very diverse, labour market needs of various activities. One theme which has been common throughout however has been that of decentralisation of pay arrangements and the impetus for this accelerated from the early 1990s. The rationale for devolution came from a series of factors:

- the belief, based on observation of practice in many large private sector companies, that devolution produces a better strategic fit between reward and business strategy;
- the view that the heterogeneity of most of the public service required a diversity of approach not possible under centrally negotiated pay systems;
- the desire to accommodate local and regional labour market pressures and cost variations;
- the perception that centralised performance related pay (PRP) arrangements are unlikely ever to work effectively because they tend to be seen as part of annual appraisal schemes based on centrally-designed systems and reporting procedures, and related to a review cycle which is aligned to neither the values nor the operating cycles of individual organisations.

Hence decentralisation of pay arrangements and arguably of human resource management generally, has been progressing across the whole of the UK public service in recent years, marked by milestones such as:

- the breakup of the central Civil Service pay agreement into the constituent union bargaining groups and the associated move away from uniform annual settlements (a somewhat belated consequence of the implementation of recommendations from the 1982 Megaw Report on Civil Service pay);
- the creation of "Next Steps" agencies in the Civil Service, following the Ibbs Report which enabled large agencies to assume pay delegation;
- the government decision, announced in the white paper "The Civil Service - Continuity and change" (cmnd 2627, 1994) which required all departments and agencies to take full delegated responsibility for pay from April 1996.

A critical aspect of the pay delegation that has taken place in the public sector has been the requirement upon agencies and departments to develop and articulate strategic goals for their organisation. The assumption of responsibility for pay and the management of human resources has forced them to address the issue of fit between their reward strategy and organisational goals relating to their customers; the nature of the service they provide; and how best delivery of that service might be achieved in the "business case" required by HM Treasury as part of the delegation process. Hence changes in pay and reward practices are seen very clearly as facilitators of, and powerful levers for, overall organisational change. While the recent change of government may lead to a reversal of some aspects of policy on the public sector, it does seem likely that many of the changes which have taken place, in the Civil Service in particular, over the past decade will remain in place, including changes in thinking on public sector pay.

HM Customs & Excise

The present study looks at the way in which changes in pay and reward practices have been used to facilitate organisational change in one major government department - HM Customs & Excise - and the degree to which they have succeeded in achieving their stated objectives. Customs & Excise is managed by a board of Commissioners which has a statutory responsibility for the collection of customs and excise duties, VAT, and for the enforcement of import and export prohibitions and restrictions. The operational work of Customs & Excise and the provision of major services is organised into "next steps executive units". One such unit is located in Northern Ireland and it was this unit which provided the focus for the present study.

In 1991 Customs & Excise published the report of an internally commissioned review into the effectiveness of the department's pay and grading system, as it was then operating. Entitled "Managing Pay and Rewards: a Review of the Pay System and Grading Structure in HM Customs & Excise" (Eland et al 1991), the report concluded that, not only was the pay system and grading structure failing to serve the needs of the department but it was actually impeding the achievement of significant strategic objectives. Given such findings, and following the announcement of a new approach to Civil Service pay in July 1992, Customs & Excise agreed with ministers that it would take responsibility for delegated pay bargaining arrangements with a view to putting new systems in place by 1996.

The process began however, not with a review of pay but with a human resource strategy. This reflected the thinking of a report from Hay Management Consultants on Civil Service pay a full decade earlier. It claimed that "the starting point for taking decisions about pay is not an analysis of the merits of different kinds of grading structure, incremental patterns ... the starting point is the (organisation's) mission ... To serve that mission ... (it has) a marketing strategy, a financial strategy, a personnel strategy ... pay is part of the personnel strategy ... (it) cannot be treated in isolation". (Hay Management Consultants 1982). It reflected also the views of Eland (1991) that "a well targeted PRP system working in isolation may improve motivation and ... performance, but it will not have the full impact that a system integrated into wider systems of performance management and development will have" (p34).

Customs & Excise claimed that an important first step in the design of a new, effective pay system was to be clear about the general principles guiding the development of such a system. Hence it concentrated first on the development of a human resource strategy, central to which was performance management and the development of "Customs & Excise People". Deriving from that human resource strategy, and acknowledging that "pay is one of the strongest communicators of how an organisation values the contribution of an individual or group" (Braiding and Wright 1988) Customs & Excise set the following aims and objectives for its pay and grading scheme, that it should:

- support business needs;
- secure the confidence of staff;
- provide a clear link between performance and reward;
- be consistent with other HRM policies and practices eg performance management and development;
- be affordable and lie within the framework set by government for public sector pay.

Such aims and objectives reflected both Customs' views on pay strategy and the main threads of government requirements on public sector pay.

The research reported in this study sought to establish the extent to which the new pay and grading system actually achieved those objectives. Before presenting the findings, however, it will be useful to consider, firstly, problems associated with the pay system in existence before reforms were introduced, and secondly, what actually changed in terms of the practicalities of pay and grading as a result of the reforms introduced in 1996.

Pay and grading problems

Eland's (1991) team had identified a number of key weaknesses in the existing pay and grading system for Customs & Excise, including:

- an "incongruous mix" of incremental scales and performance pay ranges;
- poor targeting of performance related pay so that it was seen as a blunt tool, with performance related ranges tagged on to scale maxima merely to provide some sort of incentive to those "stuck" at the top of their grade range;
- insufficient delegation of discretion and control over rewards to managers in the executive units;
- lack of scope for productivity based efficiency improvements which would enable a recycling of savings made, back into pay;
- too many grades for job purposes and too few for pay purposes - a situation which had come about as the result of putting too high a premium on physical mobility at the expense of job flexibility;
- an appraisal system which was not sufficiently robust to tie the individual to personalised, work related objectives.

The New Pay and Grading System

The system for pay and grading introduced to Customs & Excise in 1996 has a number of "key" features, many of which have sought to address Eland's criticisms. Firstly, and perhaps most fundamentally, the new pay and grading system is rooted in a revised Performance Appraisal system, designed to manage and to measure the performance of the individual. The system is designed to operate as follows. "A performance agreement" is drawn up for each individual. This consists of operational objectives, linked to local plans. The objectives are classically SMART, in that they must be specific, measurable, agreed, realistic and timebound. They state what the individual is to achieve; how they are going to do it; and in what timescale. Success in achieving these objectives is measured by "performance indicators", supposedly objective criteria by which successful performance is to be judged. Performance is assessed and recorded on an ongoing basis throughout the year, using appropriate documentation. At final review stage achievement against objectives is assessed as either "met", "not met" or "exceeded". An overall performance rating in the range 5 - 1 (unacceptable to outstanding) is then agreed and the rating directly related to the size of the eventual pay award. In recognition of the fact that certain skills, attributes and personal qualities will need to be demonstrated and exercised in the achievement of objectives, the process is supplemented by a "competency agreement". This identifies the key competencies required to perform effectively in a particular job. An assessment of such competencies is discussed throughout and at the completion of the appraisal year and, where necessary, development objectives are identified and a personal development plan devised.

A further feature of the changes at Customs & Excise is a flatter organisation structure, with no more than four levels of management below director. This restructuring perhaps more than any other aspect of change, both facilitated and necessitated a new pay and grading system that would support the widespread introduction of teams formed from different grades, and a general expansion of team working. The new grading system is based on a departmental "menu" of generic jobs, developed by managers and staff throughout Customs & Excise, and underpinned by an analytical job evaluation scheme. Each job has been allocated to one of 12 pay bands and is represented in a functional group under its own code number. Each band consists of a number of jobs relating to specific former grades. On transition to the new system approximately 85% of staff were assimilated to the lower of the pay bands equivalent to their former grade. The remainder were slotted into the higher band, with a few being mismatched as a result of grade drift, where the job more properly belonged in the higher band of the lower grade.

Perhaps the most visible manifestation of change of all, however, and the one which will potentially make most difference to the employees of Customs & Excise, is the new, single, wholly performance based, pay scheme which is now in place. This replaces the former grade related, spine point system, with its annual progression based on a mix of length of service and performance achieved, with scope to earn non-consolidated performance-related bonuses on reaching the scale maximum for the grade. There is a national pay range for each of the twelve pay bands, each range having a single entry point and a single upper point, with no fixed points in between. Progression is by means of performance alone, with the percentage award for each positive performance rating-a so-called "box 3" or above-being negotiated annually with the trade unions. No award is made for a negative performance rating at box 4 or lower.

The new system is a modification of Broadbanding - said to be one of the most significant trends in pay and rewards in the 1990s (Palmer 1996). Under broadbanding tiers of grades are collapsed into a few wide pay bands, each with a minimum and maximum but no intervening pay points. Thus a single band will span the pay opportunities formerly covered by several separate salary ranges. The main characteristics of broadbanding are said to be:

- focus on lateral career development and skill/competence growth;
- reduced emphasis on hierarchical labels;
- focus on flexibility and paying for the person rather than the job;
- reduced emphasis on structure and inflexible guidelines;
- use of analytical job evaluation to underpin internal relativities within bands;
- progression within band governed by performance and/or competence
- comparisons between similar roles, and as a consequence the development of job clusters or "families". (IPD Guide on Broadbanding 1997)

Customs & Excise was, however, concerned that a true broadbanding system, in particular if its implementation was to be fully devolved to unit level, would lead to lack of control over wage costs. Hence the system which was actually introduced sought to retain the advantages of broadbanding modified by the introduction of narrower pay "divisions". A number of jobs of the same type were placed in functional or "career" groups, but the pay band for that group was subdivided into a number of ranges to reflect the different levels of complexity of the various jobs. The advantages of such a "hybrid" system were seen to be:

- control over the pay bill, achieved by giving managers flexibility and discretion to fit jobs to the work that needed to be done;
- avoidance of problems associated with tall hierarchies where bands simply replace grades;
- the ability to underpin the process by job evaluation, without the need to evaluate each individual job.

On 15 May 1996 the results of union ballots on the 1996 pay offer were published - the pay offer had been made conditional upon acceptance of the new pay and grading proposals. In an overall turnout of 40.8% of Customs & Excise employees 59% voted in favour and 41% against. The new arrangements thus came into effect on 1 September 1996 - the culmination of almost six years planning and development.

A Success Story?

HM Customs & Excise hoped to achieve a number of aims and objectives by the introduction of the new pay and grading scheme outlined above. In summary, the new scheme was designed to:

- support business needs;
- secure the confidence of staff;
- provide a clear link between performance and reward;
- be consistent with other HRM policies and practices eg performance management and development;
- be affordable and within government guidelines.

To what degree has it succeeded in those aims? In a practical sense it must be said that it may quite simply be too soon to tell. The new pay and grading system was fully implemented over one year ago, in September 1996. Hence the first round of appraisals and pay rewards under the new system have only just been completed. Nonetheless, the research conducted over the past year, which it is hoped will form part of an on-going, longitudinal study, has produced preliminary findings which may be regarded as indicators of the success or otherwise of the scheme thus far in meeting its stated aims and objectives.

Business Needs

The quota sample of Customs employees interviewed for this phase of the study was chosen to be representative of the grades experiencing the greatest impact of the new arrangements. Those employees largely agreed with Customs & Excise Board member, also interviewed in the course of the study, that the new pay and grading arrangements supported business needs and they cited linkages with other elements of the performance management system in support of their views. A minority, however, claimed that this had never been a "real" objective of the new system, which had in fact been introduced with the sole aim of supporting and furthering a move to performance based pay. A further minority criticised a failure to address a perceived mismatch between business needs and the existing skills of the workforce. A mismatch which, it was felt, would impede the success of any initiatives designed to support business needs.

Staff Confidence

Findings regarding the new system's ability to secure staff confidence were rather different. A clear majority of those interviewed disagreed with the view of the Board member that "in time they will (secure the confidence of staff)". A number did concede that it might be too early to say, and claimed that the success or otherwise of the scheme in securing confidence would, in the longer term, depend upon implementation by local management. Comments overall, however, reflected a general lack of confidence in any aspect of public sector pay policy, given the experiences of eighteen years of Tory rule, and a perceived commitment to dismantling the public sector in general. They reflected also a concern with the" bewildering" pace with which such major changes had been introduced, and the damage which this was perceived to cause. More specifically interviewees claimed that the new arrangements could not secure the confidence of staff because of a "quota" system which was believed to exist for performance ratings. This was seen as a device designed to control costs, but was felt to make a mockery of rewards commensurate with contribution. A number of those interviewed pointed to weaknesses persisting in other aspects of performance management, in particular in appraisal and appointments, which continued to undermine staff confidence, whatever the merits of the new pay system.

The Performance - Reward Link

Those interviewed were almost equally divided on the question of whether the new arrangements were succeeding in providing a clear link between performance and reward. Those who felt the link was not being successfully developed focused largely on the lack of skills and impartiality amongst appraisers, and again on a perceived quota system for ratings. Even amongst the, roughly half, of interviewees who thought the aim of providing a clear link between performance and reward was being achieved, there was general dissatisfaction regarding the differentials between ratings. These were not considered of sufficient magnitude to effectively stimulate substantial performance improvements.

Consistency with other HRM policies and practices

The majority of interviewees could identify the linkages between the new pay and grading system and other HRM policies and practices, with appraisal and training and development the most frequently mentioned. Despite the ability to identify linkages, however, not everyone felt that consistency was being achieved. In particular concerns were expressed regarding the implications of the pay and grading system for human resource planning, and a lack of "professional" standards in training and development was believed to impede the link between pay and competencies.

Affordable

Perhaps unsurprisingly, all interviewees were of the opinion that the new pay and grading system was succeeding in its aim of being affordable and within the guidelines set by government for public sector pay. Even those who had seen the new system as generally successful in terms of its other objectives, acknowledged that staff confidence was somewhat dented by suspicions that the whole system was being driven by an over-riding imperative to control costs and remain within budget.

To summarise then, Customs & Excise staff largely felt that the new pay and grading system was proving successful in it stated aims of supporting business needs and of being affordable. There was consensus too, although in the opposite direction, regarding the aim of securing staff confidence, which it was felt was not being achieved. Staff were divided as to whether the new arrangements did in fact provide a clear link between performance and reward, and again, as to whether the new pay and grading system was consistent with, and supportive of, other HRM policies and practices - although most could see linkages across the spectrum of HRM activities.

Conclusion

If the organisation's employees may be regarded as a barometer for gauging the success or otherwise of Customs & Excise's new pay and grading system, then it must be said that the preliminary findings of this study are somewhat inconclusive. A number of points are, however, worthy of note. It must be reiterated that it is still early days for the new system, which may not yet have "bedded-in" adequately. Further, it should be noted that many of the interview responses were characterised by a negativity and cynicism which did not seem directly or wholly attributable to the success or otherwise of the new pay and grading arrangements. Such attitudes may have been bred largely from the experiences of eighteen years in which there was perceived to be little regard, indeed in some instances mere contempt, for the public sector in all its manifestations. The mood of the past two decades, in which Civil Service employment as a whole has dropped by over 33%, from 732,000 in 1979 to 486,000 in 1996 (Cabinet Office, Press Office 1997) and in which for Customs & Excise alone, staff cuts of 20% were proposed by the year 2000, may have done little for the morale of staff such as those interviewed. Customs & Excise staff, faced by cuts in their number, as well as by shifts in strategic and operational policy away from universal blanket controls in favour of more selective risk-based controls, and by ever increasing obligations under the Citizen's Charter etc. might well be forgiven a degree of cynicism regarding "yet another" initiative. It would perhaps then be "unsafe and unsound" to rely solely upon the views of employees, especially at this early stage, regarding the success of this new system and its contribution to the change process. Similarly, it would not do to rely solely upon the views of the Board member and principal architect of the new reward system who also contributed to this initial study.

For Customs & Excise, however, as for any organisation, "success" in achieving change must involve striking an appropriate balance between the needs of the business on the one hand and the needs of employees on the other. These preliminary findings would suggest that the organisation has, to date, had a greater degree of success in meeting the needs of the business, than it has had in meeting the needs of its people, as measured by their confidence in the system.

The indicators are, however, that that imbalance may be redressed using a range of approaches. The successful implementation of any change programme is facilitated by the energy and commitment of enthusiastic change agents. The key to securing staff confidence may well lie in the hands of local management who in turn need to be given the opportunity to develop skills and competencies which will enable them to exert considerable personal influence. Staff confidence could be enhanced also by a greater transparency in the performance management and appraisal systems. These still appear clouded in complexity which provides a breeding ground for allegations of inconsistency, unfairness and quota rigging.

The evidence is that organisations are increasingly using changes in pay and reward systems to drive organisational change (CBI/Hay 1996). This paper is the outcome of a study of one such organisation, HM Customs & Excise, which, through a new pay and grading system, has sought to change direction to a more business focused strategy with greater delegation, greater involvement of its people, more coherence in policies and practices, and clearer links between performance and reward. While it may yet be early to claim success or otherwise, and much remains to be done, early indications are that it has made a good start and has embarked upon a road from which there will be no turning back. It is perhaps appropriate then to close with the words of one Customs & Excise Board member who observed that "we are only starting out, not finishing. People need time to adjust, and trust needs time to develop ... we have laid the right foundations and the new structure now provides a basis for moving forward".

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