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Indicators of Broad Challenges to the Current System

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FAIRNESS IN ISSUES OF PAY FOR FEDERAL EMPLOYEES

AS INDICATORS OF BROAD CHALLENGES

TO THE CURRENT SYSTEM

A Thesis
submitted in partial fulfillment of the requirements for the
degree of
Bachelor of Arts in Liberal Studies

By

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ABSTRACT

With approximately 1.6 million federal civilian employees, the U.S. Federal Government is the largest employer, public or private in the United States. Today there are significant challenges to the policies and rules governing the personnel and pay systems for the U.S. Civil Service. One of the areas receiving the most criticism is the pay system. There are accusations that the systems are culturally biased, gender biased and inadequate to recruit and retain the best and brightest.

Also impacting the system are pressures to balance the budget resulting in proposals to cut back the cost of salaries through downsizing, delaying, and proposed new pay systems. On the other hand, reforms are suggested to make the system more representative of the ethnic diversity of the population and more broadly competent to meet growing professional demands while ridding the system of alleged biases that have created disproportionate salary inequities.

This paper will briefly examine the evolution of the civil service and some of the major pieces of legislation that shaped it. I will explore the current pay system and the proposed alternatives, focusing on their strengths and weaknesses and review three major challenges that are currently being deliberated: cultural bias
(glass ceilings), gender bias (comparable worth), and pay disparity between private and public sector.

There has been no consensus on which, if any of the alternative pay system demonstration projects could be the basis for reform government wide. This is because each system is trying to achieve different results just as different reformers aim to maximize different values in their proposals.

In recent years, several federal agencies have been conducting, with some success, special demonstration projects that test broadbanding classification systems within the GS framework. A broadbanding system involves both the consolidation of job categories (job banding) and the merging of grades or pay ranges (grade banding). This application has not been developed for Federal wide use, but it is seen by many human resource specialists as the trend for the future. This system has been the most responsive to satisfying the needs and wants of various employee interest groups, minorities and management.

As new philosophies focus on how to accomplish government change and as expectations of productivity from federal civil service employees escalate, reform of the compensation system will continue to be part of a larger debate. Those who are in search of easy answers, will find there are no easy solutions.
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CHAPTER 1

INTRODUCTION

Today there are significant challenges to the policies and rules within the personnel and pay systems for the U.S. Civil Service. One of the areas that receives the most criticism is the pay system. Many employees, supervisors and managers believe the system is culturally biased, gender biased and inadequate to recruit and retain the best and brightest. On the one hand, new approaches are being tested to remove the alleged biases that have created disproportionate salary inequities and on the other hand, lawmakers are focusing on ways to cut back the cost of salaries.

Approximately 1.6 million federal civilian employees work as civil servants. ¹ This places the Federal Government as the largest employer, public or private, in the United States. In terms of the budget for personnel, number of employees, variety of occupations, complexity of labor-management relations, and effect on the public welfare, no corporation or business can compare.

To pay this diverse workforce, the Federal government has over 50 different compensation systems. The majority of employees are covered by the General Schedule (GS) which includes a broad range of diverse occupations covering typists, secretaries,

¹ This paper will refer to General Schedule (GS) Civil Service employees in the general sense of the term. The discussions will not refer to Postal employees, blue collar Wage Grade (WG), military personnel or any special pay category. Any references to employees in special salary rates will be as an illustration to a specific point.
engineers, administrative personnel, research scientists, as well as occupations which are neither white-collar nor blue-collar in the traditional sense - police and firefighters, for example. Some of the systems are similar to the General Schedule, such as those of the Nuclear Regulatory Commission and the Energy Research and Development Administration. A few of the pay systems cover relatively small numbers of employees, for example, police at the National Zoo and faculty at the service academies, i.e. Naval Academy, Naval War College, Merchant Marine Academy and the Coast Guard Academy.

There is a continuing debate on the methods or systems that should be used to pay the federal workforce fairly yet maintain a fair market comparability with private industry. Other considerations which affects public pay are the political influence on budgetary allowances, and the size, structure and the widely diverse roles of the federal workforce. There is also consideration of internal and external equity costs involved.

The primary issue, then, stems from the question: "How does the Federal employer determine the value of a job?" The answer to this question lies at the center of the debate over compensation, which is often an emotional and highly charged proposition. This paper will review how the current U.S. Civil Service system evolved, and some of the major pieces of legislation that shaped it. The challenges to the current system have centered around fairness and equitable treatment for all employees. Several alternatives are being proposed and the pros and cons of the most common ones will be examined. Finally, the direction toward which the current system is headed and how the "best practices" of alternate systems are being incorporated will be discussed.
The evolution of payment for an individual's labor has been addressed by philosophers, economists, politicians and by the individuals themselves. The payment of wages can be both a moral and an economic issue. For example, slavery is morally wrong. Yet, slavery is a form of payment for labor. The owner receives all rights to the product the slave produces by his/her labor. The compensation for the slave's labor is the food, shelter and clothing they receive. But the economic issue is that the food and shelter must be sufficient to keep the slave healthy enough to be productive. At the other end of the spectrum is the self-reliant worker, who owns his/her own shop or farm, supplies his/her own labor to produce the wares or produce to sell. This enables self-reliant workers to sustain themselves and their families. These are only two examples of the extremes that the payment of wages can take. In the middle of these two examples is the exchange of labor for wages.

Exactly how is the rate of pay for work established? Early economist and philosopher Adam Smith (1723-1790), concluded that an individual's labor is exchanged for wages and if one kind of labor is more severe than another, some allowance should be made for the greater hardship. If the labor requires an uncommon or unusual degree of dexterity or ingenuity, this also adds value to their labor².

Smith further theorized that the wages must be sufficient to maintain an individual's basic needs: food, shelter and clothing. The wages must also be, upon most

occasions, in excess of the worker’s basic needs, or it would be impossible to raise a family.

For a wage to be a true motivator, it must be perceived as something which can be significantly impacted by successful performance - positive work is rewarded by a positive payoff. If minimal performance is rewarded by a guaranteed paycheck every two weeks, there is no motivation to perform at any higher level. Under the current pay system, the government has little ability to substantially reward outstanding performers, although, in some agencies bonus awards are given.

The difference in pay flexibility between public sector and private sector employers is substantial in their latitude to give monetary rewards or bonuses. The biggest difference between public and private systems is their organizational purpose; private sector is driven by a market based or “for profit” economy. This is governed by two basic and oftentimes conflicting constraints in procuring essential labor services: the employer must provide sufficient monetary incentives to attract, retain, and motivate capable employees and to limit wages to a level which allows their products to be competitive in local, regional, national, and/or international markets.

A debate rages over the issue of whether the productivity of public and private sector employees can be compared directly to determine comparable salary rates. Many of the services of government are publicly funded because “for profit” market solutions are not in the best interest of the nation, such as military defense and police services. Many of the services, such as some segments of health care and education, are relatively labor-
intensive, and not profitable. Public employees mainly provide services that citizens have come to depend upon regardless of their economic profitability. The range of activities the government provides include programs such as military defense, law enforcement, safety, health care, research, education and social services, especially care for the poor and the vulnerable. Activities that are taken for granted are programs such as military defense which is a collective concern of the nation as a whole; health, education and pensions which affect the basic needs of individuals and households; agriculture, industry and infrastructure programmes which affect the economy. ³

These services are of value to all citizens, individually and collectively. The government as the employer must a fair wage to their employees. Yet the government also has the responsibility to remain accountable to the citizens to adequately justify any expenditures of tax dollars. Citizens expect civil servants to provide high quality services, yet work for wages that are no more than the “market rate.” This polarizing issue has been a long debated concern throughout history.

CHAPTER 2

THE HISTORY OF CIVIL SERVICE

The term "civil servant" refers to nonelected civilian government employees. The origin of the civil service as an institution dates from the earliest times. In the ancient river civilizations of Asia and the Near East, the operation of irrigation networks required bureaucracies composed of clerks, secretaries, and royal advisors. The ancient Egyptians assigned civil functions to principal officers under the monarch. In China, a centralized, pyramidal civil service with competitive examinations was introduced in the early centuries AD and lasted until 1912. The bureaucracy of the Roman Empire recognized five administrative categories: Justice, military affairs, finance, foreign affairs, and internal affairs.

In Great Britain there was a slow acknowledgment that the skill and experience of the employees in the service of society (civil servants) was limited. The civil service around the 1800's was small in numbers, limited to executive work in the major departments (e.g. Treasury, Commerce), and was recruited entirely by patronage. As a result of a furor over the administration and control of the East India Company, a college for training the employees of the Company was set up in 1800. In 1813, it was proposed that candidates should be given an examination prior to appointment. No examinations were instituted on a government wide basis, though between 1834 and 1841 a few
departments established easy qualifying examinations. The recognition of a higher standard of professional competence was viewed as one of the greatest needs of the time.  

The Trevelyan-Northcote report (1854) led to the creation of the British Civil Service Commission, which introduced difficult examinations based on the classics and humanities. This attracted university graduates who were trained by daily confronting the administrative problems of the empire, to become chiefs of ministries and advisors to cabinet members. Since 1968, British examinations have called for a more specialized background, particularly in management.

In the United States, Alexander Hamilton (1757-1804), the first Secretary of the Treasury and an advocate of a strong central government, wrote at some length on his views of pay and compensation for public employees. Hamilton’s ideas concerning the rewards of public service were based upon his general conception of a public administration. His vision of a successful bureaucracy required the employment of competent men to fulfill the tasks needed for administering the new government. Hamilton was not oblivious to other non-monetary rewards of public service; the prestige of office, honors, citations, and promotions which were also incentives for a man to seek a public career. Ultimately though, adequate financial compensation was indispensable, although the American people seemed unwilling to pay their public servants to this standard. The strong disinclination of Americans to pay taxes, together with a Colonial legacy of

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suspicion toward holders of public office, resulted in the provision of meager compensation for most public employees.\textsuperscript{5}

Obviously, a strong and lasting public administration could not be built on a weak foundation. Adequate salaries were required to attract the kind of person that Hamilton believed was needed. Irresponsible, necessitous, and sometimes dishonest persons were attracted to the lower civil positions, and the top executive offices were nearly impossible to fill properly. President John Adams (1735-1826), it has been alleged, retained Washington’s cabinet throughout most of his own administration because it had become virtually impossible to replace.\textsuperscript{6} The landed gentry were the only ones who had the financial means to be able to work for minimal or no wages. This led to concerns that the new government would be administered only by the prominently wealthy, a fear that had lead the new country to separate from England.

Hamilton believed that without adequate compensation for public service, the affairs of the nation would pass into incompetent or unfaithful hands. Hamilton also did not believe the duties of public office were so simple that any person of ordinary ability could fulfill them. “To secure the right man for the right place was the task of appointment, but that could not be adequately undertaken unless due compensation could be promised.”\textsuperscript{7}


\textsuperscript{6} Caldwell 85.

\textsuperscript{7} Caldwell 87.
Soon after 1800, successful office seekers in local, state and provincial
governments gave jobs to supporters and discharged officeholders that were affiliated with
the defeated party. This practice soon spread to the federal level and the presidency of
Andrew Jackson (1829-1837) legitimized the spoils system where political sympathy and
partisan activity were required as a condition of appointment. Most office seekers were
looking for Cabinet level appointments. However, many clerical positions were
given to constituents who could not find employment. For example, a widow who needed
a job would go to her Congressman for help. This loaded the Federal payroll with persons
who were hired not for their ability to do a job but for their inability to find a job
elsewhere. This type of reward for political activity resulted in the lack of continuity and
experience, appointment of unfit incumbents, corruption and outright theft. The spoils
system eventually caused deterioration in the morale of public servants and led to the
disrespect of government employees throughout the nation.

In 1851 Congress passed a resolution to remedy some of the worst defects of the
spoils system. It requested that Cabinet officers formulate:

"...some plan of classifying the clerks in the several departments; for
apportioning their salaries according to their services; also, some plan to provide
for a fair and impartial examination of the qualifications of clerks and for
promoting them from one grade to another, upon due regard to their qualifications
and services."

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8 *Biography of An Ideal* (U. S. Civil Service Commission, 1974) 16.

9 *Biography...* 25.
For the next 20 years, scarcely a session of Congress went by without the introduction of at least one civil service reform bill. Finally, on March 3, 1871, a rider was attached to the last appropriations bill reading:

“The President is authorized to prescribe such regulations for the admission of persons into the civil service of the United States as may best promote the efficiency thereof, and to ascertain the fitness of each candidate in respect to age, health, character, knowledge, and ability... and for this purpose may employ suitable persons to conduct such inquiries, and establish regulations for the conduct of persons who may receive appointments in the civil service.”

Under the 1871 Act, President Ulysses S. Grant, appointed an “Advisory Board of the Civil Service,” later called the “Civil Service Commission.” The rules recommended by this early Commission provided for:

- Classification of all positions into groups according to the duties to be performed, and into grades for purposes of promotion;
- Competitive examinations for appointment to positions;
- Competitive promotion examinations, and;
- A 6-month probationary period following appointment.

The Civil Service Commission was abandoned in 1875 after Congress failed to allocate further funding for the “experiment.”

After a disappointed office seeker assassinated President James A. Garfield in 1881, Congress passed the Pendleton Act of 1883 which profoundly changed the administrative process of civil service. The Act introduced the concept of “merit” appointment and minimal qualifications. It also permanently established the Civil Service

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10 *Biography*... 33.
Commission, which was charged with conducting examinations and ruled out political interference in civil service appointments and removals. The positive changes which were brought about by the Pendleton Act are still the basis for public employment today.

The next important piece of legislation affecting the way civil servants are paid was the Classification Act of 1923. This was the defining law that established the principle of equal work for equal pay. Though it was amended in 1949 to reinforce equity in salaries, the Act implemented criteria by which positions were to be evaluated and pay grades determined. This was to ensure that other positions performing duties of the same complexity and having the responsibilities would be paid the same wage.

Unfortunately, the process of job evaluation is not an “exact science,” and has brought about wide spread disparities throughout the Federal Government. These disparities are what have led to the search for “a better mouse trap” to determine the amount of wages earned by civil servants.

The current system as defined in the Classification Act of 1949 is believed by many to be antiquated. There are new systems being proposed, some which have been successful, and others which have not.
CHAPTER 3

THE CURRENT SYSTEM

The current General Schedule (GS) classification and pay system covers about 75 percent of the nonpostal civilian workforce. The GS system was established as a result of the Classification Act of 1949 and was intended to provide a standard framework for establishing the pay hierarchy for federal employees in white-collar occupations. As stated in the law, the purpose of the classification system is to ensure that equal pay be provided for substantially equal work and that work be classified based on its difficulty, responsibility, and qualification requirements. The law established 15 incremental grades and described the level of work at each grade. The higher the numerical grade the more responsibility, knowledge or skills were required. Basic pay rates within any GS grade are set at one of 10 fixed step rates. Employees performing at an acceptable level of competence progress through the 10 steps, with statutory waiting periods between steps of one to three years depending on the step. This type of system is commonly referred to as a “time-based” system.

Attractiveness of public employment was that it offered security, relatively high pay compared to the private sector, a well-ordered promotion ladder, and a guaranteed pension. Inflation, however, placed public employee in an unenviable position as the years passed. By the 1980’s and 90’s there was an increasingly larger lag behind the private sector in wages and salaries. It was easier for large numbers of private firms to give salary increases and through normal business methods increase prices thus passing the
cost to consumers. In the public sector, operating costs and salaries had to be met from taxation.\textsuperscript{11}

As the "pay gap" widened in the late 80's, federal agencies began to experience problems recruiting and retaining employees. Turnover increased and the time needed to fill vacancies lengthened. In the high pay areas like New York and Los Angeles the number of vacancies in some offices threatened to disrupt agency operations and federal officials in these areas referred to the situation as a crises.

While there was widespread recognition of the problem, there was little evidence to document its severity. The government has so many work sites that it was virtually impossible to collect adequate comparative data. Moreover an unstated but critically important aspect of the problem was the decline in the caliber of job applicants. Diminished employee qualifications were difficult to document and any attempts to do so could produce an employee backlash and have political implications.\textsuperscript{12}

Along with falling wages, the impact of the civil rights movement of the 1960's and 70's began to influence the way standards of equal and fair treatment were applied to all facets of life. People began to become more aware of equality for women and minorities.

These movements contributed to the perceived inequity of pay within the Federal


government. Issues of pay equity or comparable worth, glass ceilings, and racial or cultural biases grew up. Though these movements are not unique to the public sector, they have brought about dissatisfaction with the government as an employer.

One category of pay inequity that has caused much debate is coined “Comparable Worth.” Wage differentials between female and male workers have not improved much within the past several decades. Today, women earn about 64 cents for every dollar earned by men. Despite some gains in non-traditional jobs, the vast majority of women in the federal workforce today are concentrated in the lowest-paying salary grades, GS 1-8. This wage gap between females and males is at the heart of the comparable worth debate. Comparable worth is intended to eliminate gender based pay inequities which afflict females in the labor force. It is important to note that comparable worth is not explicitly mandated by any federal legislation. Comparable worth is not a comparison of jobs per se. It is a comparison of jobs usually performed by women with jobs usually performed by men and an evaluation of importance to the employer, between the two. Pay equity is equal pay for work of equal value. It is more abstract than pay equality, due to its emphasis on measuring the intrinsic worth of jobs.

Comparable worth is not equal pay for equal work which is mandated by the Equal Pay act of 1963. That law is aimed at pay equality between women and men who are performing similar or equal work. Wage differences can be justified only if they are based on merit, seniority, measures of the quality or quantity of the work performed, or “any other factor other than sex.”
It is undeniable that women in the federal workforce have made some gains in the past years. Some have been promoted to higher grade jobs; others have entered non-traditional male-dominated fields and, as a result, are receiving higher wages. Employment of women in the federal work force increased from 40.6 percent in 1985 to 42.9 percent in 1995, according to the Office of Personnel Management (OPM). The percentage of women who are at the GS 15 level increased to 19.1 percent from 9.8 percent in 1986.\textsuperscript{13} But, women are still concentrated in female-dominated occupations that pay low wages. Two main arguments exist that try to explain the differences in pay. First, the wage gap can be attributed largely to discrimination in the federal workforce or second, that employers undervalue jobs dominated by women.

By law, the federal position classification system provides that:

"...variations in rates of basic pay paid to different employees will be in proportion to substantial differences in the difficulty, responsibility, and qualification requirements of the work performed..."

This is essentially, a requirement for "internal equity" among jobs. However, reliance on "internal" comparisons has prevented appropriate consideration of "external equity" with market wage rates and "performance equity" among employees. As a result the system overpays some workers and underpays others. A system which is "internally consistent" but also closed to outside influences cannot function effectively over the long term. In fact, the government's pay system has been forced to rely increasingly on the escape mechanics of "special pay rate authorities." Through a detailed, individualized process,

\textsuperscript{13} "Women Increase In Ranks," \textit{Federal Times} 12 August 1996: 4.
agencies may request that salary rates for particular occupations and grade levels be raised above the normal General Schedule pay rates. Such special rates are now in effect for over 100,000 jobs. Interestingly, the occupations covered tend to be either female-dominated or male-dominated, e.g. nurses, medical officers, clerical workers, and engineers. Most recently, the market forced re-evaluation of the “worth” of clerical employees in the Washington D.C. metropolitan area, resulting in wage increases of between 2 and 22 percent for an estimated 42,000 employees.14

President Nixon first ordered Federal agencies in 1969 to create programs fostering equal employment for minorities and women in the civil service. Nine years later, the Civil Service Reform Act set the goals of making sure the federal workforce mirrored the population and ensuring women and minorities were present in all grades and jobs in proportion to their presence in the workforce.

The Merit Systems Protection Board (MSPB) is required by law to periodically assess trends in employment of women and minorities in federal employment. A recent report said that despite apparent progress there remains evidence of racism and gender bias. Today 17 percent of Federal employees are black, while blacks constitute only 10 percent of the nonfederal workforce. Minorities more than doubled their representation in career and political senior executive jobs from 4.8 percent in 1978 to 11.5 percent in 1995. But a review found downsizing already has begun eroding progress in the upper

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ranks. Staff cuts eliminated most of the Navy's recent gains in moving women and minorities to the GS-13 through GS-15 levels. However, the MSPB could not find evidence of "flagrant" discrimination that minorities believe exists in the government. Instead of intentional racism, the MSPB found "a built-in favor of the status quo" which was established when white men held the vast majority of professional jobs. 15

Other MSPB findings:

- In professional and administrative positions, minorities receive, on average, lower performance ratings and fewer cash awards than nonminorities.

- While nonminorities in general believe that discrimination is "minimal," minorities tend to believe it's rampant. About 55 percent of minorities surveyed by the board saw both blatant and subtle discrimination; conversely, 4 percent of the whites indicated this observation.

The controversies over pay gap, comparable worth and racial bias are the creation of a society, but affect employees on an individual level. Major in-roads have been made, but the inequities have not been totally eliminated.

Minority employees are the targets of comparable worth and racial bias. The correction of these inequities is the goal of alternative pay systems being proposed and tested. These pay systems shift the focus to individual performance and contribution.

CHAPTER 4

CONSIDERATION OF ALTERNATIVES

Why is the conventional pay system being challenged? What are the alternatives that are being proposed? Could the answer to the growing dissatisfaction with the traditional pay system be due to the current political and economic climate which promotes "fed bashing," or are the pressures coming from public employees themselves who are pushing for more innovation, reform and greater flexibility?

The traditional pay system in the public sector is time-based in that the rate of pay is based solely on an employee's tenure. Time-based pay increases salary levels over time without making the increases contingent upon high level of performance or productivity. The employee must only survive on the job for a sufficiently long enough period of time in order to be paid substantially above the average market rate. This type of pay system sends a strong signal to employees that performance does not matter, which in turn typically sends better performers to jobs where they feel they will be paid for their greater efforts. This system also encourages those who are left in Federal jobs to play it safe and protect their turf.16

Due to budgetary limitations and pressures by outside parties such as tax payers and special interest groups, most public organizations must be able to predict and control costs. Time-based pay allows an organization to predict costs with more certainty than

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merit systems and also avoids the difficulties associated with the performance evaluation process. A merit based pay system rewards performance with large or small bonuses based on the employees performance and contribution to the organization. The predictability of time-based pay seems to fit it into the public environment where projected budgets are legislatively determined and approved.

There has been unrelenting pressure to control government expenditure, which is leading to tighter budgetary constraints on public sector pay increases. The growing pressure "to get more for less" will only intensify during the remainder of the 1990's and into the 21st century.

The private sector has influenced proposals for pay reform within the federal sector. Public employees realized the employees in private industry were getting big increases through alternative pay systems. These included pay banding, productivity and pay for performance. But problems have surfaced in trying to adopt these pay systems in the federal sector. Part of the problem is that it is often difficult to measure output as a link between pay and efficiency in public services. As discussed earlier, services such as military defense have no public market in which to compare wages.

Looking for rapid and sometimes cosmetic applications of private sector practices may often prove fruitless in the governmental workforce. The sheer size and accountability imperatives of the public sector prohibit making change for change's sake. Moreover, simply imitating the private sector will not guarantee a successful pay system or the desired optimal flexibility needed for efficiency and accountability.
There are two broad strategies of reform, one placing stronger emphasis on the need for cost control and the other stressing greater efficiency. The first strategy has been to maintain relatively centralized systems of pay determination and pay administration and to seek flexibility by other means. This strategy addresses the concerns of the citizens and the law makers over the exorbitant federal deficit and the unrelenting pressure to control public expenditure, which has lead to tighter budgetary constraints on public sector pay increases. The second strategy has sought to break up large employment units into smaller ones and to delegate some management and pay decisions to individual government agencies. In this context, there has been pressure for changes from supervisors, managers and employees to move to pay systems involving more use of performance-related pay of one kind or another.\(^{17}\) This strategy rests on the assumption that such pay systems will elicit higher productivity for each unit of pay expended, thus controlling costs thru productive workers.

Recognizing there was a need for change in the way the Federal Government does business, Congress included provisions for research programs and demonstration projects in the Civil Service Reform Act of 1978 (CSRA) so that the U.S. Office of Personnel Management (OPM) and other Federal agencies could test innovative approaches to personnel management.\(^{18}\) Until recently there was not much interest in using the

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\(^{18}\) The areas identified as needing up-to-date research in public personnel management included seven topics: compensation, diversity, participation, performance management, recruitment and retention, training and development, and workforce demographics.
provisions in CSRA which allow agencies to try innovative approaches to the traditional pay system and OPM had not done much to promote them.

Politicians, employees and managers all play a key role in developing new pay initiatives but each has different concerns. Politicians are often concerned with rapid change, cost reductions and efficiency gains within the life of an administration. Managers are concerned with longer term issues of maintaining the integrity, resources, cost and quality of the services provided. They emphasize the need for time to develop the required new managerial skills and pay strategies that will successfully implement the changes. A balance must be attained between individual and collective approaches to reward systems which preserve good working relationships while promoting higher standards of performance and improvements in the delivery of public services.

Employees are concerned with the loss of purchasing power and a decrease in the quality of working life that changes may bring. Their misgivings focus on the loss of safeguards, and predictability provided by centralized pay systems and about management’s ability to deliver fair, consistent and acceptable pay decisions. In short, the government is competing with private sector corporations and other employers across the country that can offer competitive wages. Employees always have a choice and government salaries are not often viewed as being the highest, particularly after recent debates in Congress proposing cut-backs in appropriations for civil service payroll budgets.
The private sector has had a strong influence in the federal government to experiment with alternative pay systems. Much of this is seen through the introduction of tougher, more focused financial management practices and performance indicators, and practices such as management by objectives, performance appraisal, performance management, total quality management and customer service improvement programmes.\textsuperscript{19}

As a rule, private sector pay practices have little in common with those used in the public sector. In general, private corporations have considerable latitude to respond to labor market trends and to change pay system components that are found to be overly costly or ineffective. In the Federal government, law makers are cautious about quickly making sweeping or radical changes for two reasons. One, because the impact is not only felt by public employees but may also carry over and influence workers in the private sector. Secondly, the impetus to go back to the old system, which was determined to be "broke," would not be a viable option. There would need to be an acceptable alternative to fix the new system that would be agreeable to all the various interest groups, i.e. employee unions.

One type of incentive pay that is resurgent and promoted by OPM as an alternative to developing a new pay plan is recruitment and retention bonuses. These are sums of money, which can be quite sizable, that are given either as a payment "up front" or spread incrementally for a period of years. Recruitment bonuses in response to skill shortages,
will not solve recruitment and retention problems alone. Only if the interest and challenge of the work and/or the attractiveness of the employer is perceived to be high will recruitment bonuses help improve the recruitment in a tight labor market. Employees who perceive themselves as a scarce resource tend to look for a rounded organization with a high potential for job satisfaction rather than straight financial reward. These employees take a relatively long-term perspective on what will provide the greatest personal rewards, which includes motivation and career prospects.

The management environment within the public service has traditionally been the administration of an organization. Individual accountability typically has not been the way government has been managed. Many of the private sector systems that are being duplicated in the federal sector have forced a shift in focus from the organization to individual. They have instilled the importance to make individuals feel and act with more personal ownership of the service they deliver. Only in this way are quality and efficiency likely to improve.

By linking pay more closely to individual skills and performance, pay is seen as a management tool. One system that has been established to accomplish this is Person-Focused or “skill-based” pay rather than the traditional job-focused system. Skill-based pay rewards individuals for demonstrating the mastery of specific skills needed to perform work-related tasks. A determination is made of the number of work-related skills that are necessary for an employee to possess. An employee who is able to competently perform two of the defined tasks would be paid more than an employee only able to competently
perform one; likewise, an employee able to perform three would be paid more than someone able to perform two, etc. Skill-based pay requires organizations and managers to shift from managing jobs to managing people and skill sets.

The major challenges to the effectiveness of skill-based pay lie in developing a fair, credible process for testing skill mastery and fully utilizing a multiskilled work force to realize productivity potential. When the number of skills involved are few and physical in nature, measuring skill mastery is often straightforward. But when the number of skills needed becomes numerous, or when the skills involve complex mixtures of behaviors and results, there can be considerable controversy over whether an incumbent has adequately mastered a specific skill.\(^{20}\)

The advantages to a skill based system are that it gives managers flexibility in job assignment because it encourages employees to cross-train, both vertically and horizontally. This can lead to a leaner staff. If implemented successfully, using skill based pay for all employees places everyone on the same footing and creates a homogeneous culture. This creates a new work culture. Instead of the old “fair day’s wage for a fair day’s work” concept when an employee had to punch a time clock, managers are trying to turn downtime into productive time. Supervisors want employees to know how to perform many different jobs. If one worker is out sick, companies want another to be able to pinch-hit.

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The disadvantages that have surfaced are that the system encourages employees to become more valuable to the organization as a basis for being paid more and that employees develop an expectation of being paid for any extra duty they perform. This practice limits the managers flexibility in assigning work on a short-term basis. Also if not carefully controlled, costs can quickly escalate. The first Federal demonstration project testing skill based pay is with the Veterans Administration’s New York Regional Office, which is expected to be implemented in 1997.

Although skill-based pay plans are found predominantly in blue-collar environments, there currently is a movement to find a way to evaluate skills and knowledge of nonexempt workers. This movement is called competency-based pay. A competency is a trait or a characteristic that’s required by a job holder to perform that job well.

Competency based pay is similar to skill-based pay in that it rewards learned skills and knowledges. In addition to encouraging mastery of necessary skills, two other desired behaviors are encouraged: (a) the type of work attitudes and values needed to perform a job; and (b) the motive and drive to be achievement orientated. In short, just because a person has the skills to do the job doesn’t ensure he/she will be a top performer. Companies that use competency-based pay encourage and promote superior performance when an employee demonstrates a high level of competency.

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The advantages of a competency-based system is that employee attention is focused on work improvement that supports the organization's core mission. It also encourages involvement in new initiatives, de-layered work structures and teamwork. The disadvantages are that payroll costs may increase dramatically if there is an adequate bonus pool to promote continued acquisition of new competencies.\textsuperscript{22} The Senior Executive Service (SES) is a competency based pay category in the Federal service.

Knowledge-based pay is different from skill-based and competency-based pay in that an individual is rewarded for possessing work-related knowledge gained through formal education or work experience. The philosophy behind this approach is that the nature and level of an individual's knowledge impacts his/her potential value to the organization. In other words possessing the knowledge means the person is equipped to deal with the type of work the job entails. This pay system has been popular for scientific and professional occupations for many years. The Senior Biomedical Research Service is a federal pay system designed in this manner. The criticism of this type of pay system is that the emphasis for pay is not based on the work an employee is assigned presently, but rather the level of work-related knowledge the employee brings to the organization. The knowledge-based approach may allow organizations that can not separate and count skills or measure skill command to still use a person-based pay approach.

A third person-focused pay system is defined as credential-based. On the surface, credential-based pay appears to be the same as skill-based or knowledge-based pay. It is

\textsuperscript{22} Hausser, 20.
similar to knowledge-based pay in that it focuses on what a person knows and it is that 
which makes the person valuable; it is also similar to skill based pay because it is often 
based on how many tasks the person can accomplish. The distinguishing feature of the 
credential-based approach is that it relies on the licensing, certification, or examination 
performance requirements imposed by third-party professional or regulatory entities (e.g. 
CPA designation, bar membership, engineer registration, or nuclear reactor operator 
license).

What distinguishes a credential-based system from other person-based approaches 
is how the person’s qualifications affect their status and pay. The person either has the 
required credentials or does not - and having the credentials is a prerequisite for the 
position. The system also can operate to regulate occupational entry or to determine if a 
person can serve in a specific capacity in the work place.

Research in one federal agency showed that 80 percent of public service managers 
supported the concept of performance-related pay, but that satisfaction after 
implementation plummeted because many who expected high financial recognition did not 
receive it. It is important to realize how employees’ expectations need to be managed to 
avoid disillusionment – and increased costs – when flexibilities are introduced.23

23 Carlo Dell’Ariminga and Helen Murlis, “Agenda for the Future Public Sector Pay Polices in the 
1990s,” Pay Flexibility in the Public Sector, Public Management Studies, Organization for Economic Co-
### Person-Based Pay: Typical Pay Systems for What is Being Rewarded

<table>
<thead>
<tr>
<th></th>
<th><strong>Skill-based</strong></th>
<th><strong>Knowledge-Based</strong></th>
<th><strong>Credential-Based</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Has command of skills that enable person to perform specific critical job-related tasks</td>
<td>Has formal education, specialized training and/or work experience that equips person to deal with subject matter/work effectively in field</td>
<td>Possesses knowledge and skills necessary to meet licensing or accreditation requirements.</td>
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<tr>
<td><strong>Examples</strong></td>
<td>Machine Set-up</td>
<td>Ph.D. in Physics</td>
<td>Registered Engineer</td>
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<td></td>
<td>Machine Operation</td>
<td>Law degree</td>
<td>CPA</td>
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<td></td>
<td>Machine Maintenance</td>
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<td>Member of State Bar</td>
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<tr>
<td><strong>Typical Pay System</strong></td>
<td>Skill-based pay rates or lump-sum awards for skill acquisition.</td>
<td>Professional career management system (ladders) or maturity curve system.</td>
<td>Rates or differentials based on level of licenser/certification or use of qualifications as gate-keeping device for controlling entry into occupation.</td>
</tr>
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</table>

In recent years, several federal agencies have been conducting, with some success, special demonstration projects that test broadbasing classification systems within the GS framework. A broadbasing system involves both the consolidation of job categories (job banding) and the merging of grades or pay ranges (grade banding). The main purpose is to broaden pay ranges and simplify job classification, which have been one of the biggest complaints of supervisors and managers.

There are three methods for placing positions into bands: 1) combining current grades, 2) whole job slotting, and 3) market-value slotting. The most common one used

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24 Green 47.
in the Federal demonstration projects, is to combine current grades into bands relying on job ranking.

Typically, banding systems are designed around career paths based on occupations with similar pay potential, e.g.: 1) professional (positive education requirement), 2) administrative, 3) technical, and 4) general support.

To address the problem of complex job classification, most systems moved from series-specific classification standards to generic standards covering an entire occupational group e.g. all scientists or all engineers.\(^{25}\)

A typical Broadband Grade Model would look like the following:

<table>
<thead>
<tr>
<th>GS Grade</th>
<th>Clerical</th>
<th>Assistant/Technician</th>
<th>Technical &amp; Admin.</th>
<th>Professional Scientific &amp; Engineering</th>
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The oldest and most well-known broadbanding demonstration project is the Department of the Navy project which covers two research laboratories in Southern California, commonly referred to as the "China Lake" project. The Navy grouped their occupational series into 5 career paths containing similar kinds of work and similar requirements for formal training and credentials. Each career path consisted of entry and trainee, developmental, full-performance, senior expert, and supervisory levels, permitting dual career paths for experts and supervisors.

The following are private sector employers who are using a broadbanding system:

Aetna
Chrysler
Data General
Duke Power
General Electric
Harley Davidson
Merrill Lynch & Co.
Northern Telecom
Pennzoil
The Scotts Company

Agencies that are using or considering broadbanding in the public sector include:

U.S. Air Force
   (Sacramento Air Logistics Center)
U.S. Central Intelligence Agency (CIA)
U.S. Defense Logistics Agency (DLA)
U.S. Department of Defense (DoD)
   (Non-appropriated Fund Components)
   (DoD Acquisition Workforce)
U.S. General Accounting Office (GAO)
U.S. National Institute of Standards and Technology (NIST)
   (Washington, DC/Gaithersburg, MD & Boulder, CO)
U.S. Navy
   (Labs at NCCOSC San Diego, CA)
   (Labs at NAWCWPNS China Lake, CA)
Some of the common objectives that federal broad-banding systems are trying to improve in their demonstration projects include:

- A simplified classification system by reducing the number of job series into career paths and combines several GS grades into broad pay bands (up to six).
- A performance appraisal system that links pay to performance.
- Change the basis for pay progression.
- Delegate classification authority and responsibility for cost control from human resource function to line managers, thus reducing conflict over job upgrades.
- Support dual career ladders for experts and supervisors.
- Broaden the range of pay for each broader level of work in order to improve recruitment and retention.

The advantages seen in broad-banding is the shift from a centralized, bureaucratic system to a more flexible system that can be administered by managers who are accountable for how well an organization accomplishes its mission. The disadvantages are that broad banding supports the rank-in-person approach to classification. Therefore banding appears to be more appropriate for professional jobs, especially those in shortage categories where the Government is experiencing recruiting difficulties. Secondly, the broad bands permit higher starting salaries than under the GS system, and this recruitment advantage may create competition between Federal agencies for new hires. The third concern is that broad-banding may result in higher salaries and bonuses than can be
justified, especially for jobs in non-shortage categories.\textsuperscript{25} Finally, there is concern that broad-banding may legitimize past overgrading practices, resulting in a bloated organization.

Ultimately, the real debate in the compensation community is about whether broad bands should be developed for the purpose of salary administration, or whether bands are better-suited for career development.

CHAPTER 5

CONCLUSION

It is a time of experiment and change, of learning from initiatives that did not quite deliver either the results or the behaviors intended. Improving the civil service system is complex and pay reforms alone cannot accomplish everything. Well managed, they can help change the behavior of an organization. They can help to alleviate particular recruitment problems and help retain the best and the brightest – even in the face of cutbacks. They can also be used to provide equity between pay levels and the living standards in different localities. But, the slow realization is that pay reforms are not mechanisms for producing cost savings and there is little evidence of short-term pay back. Also, the increased managerial empowerment given by pay flexibilities can if abused, work against the efficiency of any management system. If inconsistencies, unfairness or insufficient integration of performance management and reward systems lead to demotivation of staff, then pay flexibilities may produce major obstacles in terms of what organizations are seeking to achieve.27

Separate pay systems as a remedy for perceived problems not only frustrate Human Resource personnel in trying to apply multiple systems. They also create strong feelings of inequity among employees who perform the same kinds and levels of work but

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are paid under different compensation systems. As a result of these problems, considerable pressure to achieve equality is brought up by employees, unions and ultimately the agencies involved.

There has been no consensus on which, if any of the demonstration projects could be the basis for government wide reforms. This is because each system is trying to achieve different results just as different reformers aim to maximize different values in their proposals.

The present system has shown favoritism to non-performers who are not held accountable for the quality or quantity of the work they complete. There is no incentive to perform above “fully successful.” From a budgetary stand point, costs are predictable year in and year out based on numbers of authorized employees. This encourages a “status quo,” mentality within the Federal workforce and is part of the frustration lawmakers and the public are complaining about.

The current pay system also has not been able to encourage minority and female career progression. It’s estimated that by the turn of the century, 47.5 percent of the work force will be women, and 29 percent of the net additions to the work force will be non-whites.26 It is not an issue that the doors are not open - minorities make-up a larger percentage in the Federal workforce than in the private sector. It is more an issue of removing organizational barriers that prevent them from moving up.

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The Pendleton Act of 1883 mandated:

"appointment to the public service shall be apportioned among the several States and territories and the District of Columbia upon the basis of population as ascertained at the last preceding census."

The purpose of this was to ensure a representative public service. The Federal workforce was meant to be a reflection of the citizens it serves. It also needs to be viewed as an employer of choice by a diverse work force which represents different subpopulations in the nation. Like reinvention of the way government does business or any other change issue, if diversity doesn’t receive top-level support, it will simply not be achieved.

Diversity in the Federal workforce needs top-level support to succeed for several reasons. First, a shift in recruitment strategies must focus on adequately reaching and recruiting in minority communities throughout the nation. This recruitment strategy is simply a goal to achieving the apportionment that was envisioned in the Pendleton Act in 1883.

Secondly, any animosity surrounding affirmative action and the idea of preferential treatment the must be diffused. This can only happen with training and education. In the mid-‘60s and the ‘70s there seemed to be enough jobs to go around. When laws were passed that encouraged employers to hire minorities and women to achieve diversity, both public and private businesses were expanding. There was no thought given that any new hires would not be able to be absorb into the current strength levels. But in a climate of downsizing and delayering, there are less layers and less positions available for upward
mobility. And that means less opportunities for everyone in the work force. It has created a very competitive work environment. There is a need for educational programs to emphasize to all levels of employees, not just the managers who do the hiring, the importance of creating diversity at all levels, because thirdly, diversity in the workforce shouldn’t be sought just because it is fair. It must be achieved because people from different backgrounds bring with them a unique range of experience and ideas. This is the true value of achieving a cross section of backgrounds and cultures. The concept of diversity needs to extend past the traditional gender and ethnic ideal. It has to expand to international cross-cultures. Immigrants make up as much as 40 percent of the annual growth in the U. S. workforce. Cross-cultural awareness broadens the focus to include hyphenated Americans (Asian-Americans, for example) and foreign-born Americans. Awareness expands to international cross-cultural styles. The government as an employer needs to know about and embrace diversity.

Finally, diversity should be sought to gain a better understanding of the customers, the taxpayers. It is very important that the Federal government (which is a representative government) understand the differences in cultures, differences in languages, differences in ethnicity’s, because it achieves an important understanding of the wants and needs of all the people it serves.

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30 Solomon 65.
The new pay programs try to incorporate the goal of fair payment for all levels of employees, regardless of race, sex or nationality. The trend has been to try to structure a pay system based on the peculiarities of the work, and not to use a "one size fits all."

Skill-based pay programs are most common in manufacturing or service type environments that rely on sustained processes. As a result, most federal employees covered by these plans are non-exempt workers, who are generally GS 9 and below. The reason for this concept is that it is easier to identify skill sets for task oriented service jobs than to identify the skills needed by supervisors or professional employees.

Knowledge-based and credential-based systems are designed to acknowledge and reward employees with degrees and professional occupations. This type of compensation program is not designed for implementation on a wide basis since perceived disparities can result between clerical and other technical support personnel.

Broadbanding systems decrease job classifications and increase salary ranges. Banding clusters jobs into wide categories or groups for purposes of managing employee careers and administering pay. Bands are organized around job competencies that are approximately at the same organizational level. It also eliminates minor distinctions between jobs enabling movement of people in the organization. Broadbanding can be a plus for leaner, downsized organizations that are flatter, with reduced promotional opportunities. Broadbanding can break the focus on grade levels and focus on movement within a wide pay band.
As discussed, one of the purposes of a broadbarding pay system is to bring the accountability for pay and performance down to unit level management and away from a centralized Human Resource Office. It also links performance appraisals to performance, and in turn to salary increases and pay progression.

The broadbarding application has not been developed for Federal wide use, but it is seen by many human resource specialists as the trend for the future. This system has been the most responsive to satisfying the needs and wants of various employee interest groups, minorities and management.

Within the broadbarding system, the concept of grouping professional, clerical or technician positions into a separate pay scale must be present. Management has realized the need for adjustment in compensation for positions that involve specialized education and high levels of experience. Likewise, administrative, managerial, technical and clerical pay could be separately administered, taking into consideration external market rates.

However, the use of one system nationwide does not address the sometimes extreme differences in the levels of cost of living from one region of the United States to another. Prior to locality pay, there were problems of recruitment and retention of qualified employees in high-wage areas and overpayment in low-wage areas. In any system designed in the future, locality pay is a critical concern and must be retained.

When considering all the various pay systems being tested, it is clear that there is no one system that meets the needs of all the various types of organizations represented in the Federal civil service. Yet, the current climate is focused on trying to re-invent the way
business is done and broadbanding has been endorsed as the probable future system. The emphasis on changing the way business is done has even been legislated.

The Government Performance and Results Act of 1993 (GPRA) is one example of the changes that are expected to be made. GPRA has mandated that each federal agency develop strategic planning goals which are to focus on the accomplishment of each agency’s mission. As discussed earlier, managers were managing jobs and performance success was not always relevant. I foresee the end result of GPRA will be in the establishment of specific performance objectives for executive and senior management personnel. These objectives will not be so specific, such as “Will purchase 71 new widgets in FY 1997.” But, the performance objectives must reflect exactly how managers will positively impact on successful accomplishments of the agency. The trickle down effect will create a new philosophy that each employee is responsible for contributing to the success of the organization’s strategic goals. The employees will individually and collectively have to contribute to the level of accountability necessary to accomplish the desired result.

The only way to accomplish the desired shift in organizational paradigm is to place the emphasis on performance and its impact on compensation. There is a movement to transition to a pass/fail performance appraisal. But the current system is still time based and not performance based. Though this system may be streamlined, if used in conjunction with the current pay system, it will validate the philosophy that performance does not matter. This is not the direction that should be encouraged.
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