How could pay practices in New Zealand Public Service organisations contribute to the gender pay gap?

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ABSTRACT

This paper examines pay practices in selected Public Service organisations in New Zealand and analyses how those practices might lead to gender-based pay discrimination. We find that there is a little awareness in the departments of potential gender biases in their pay systems and that departments have limited capabilities to monitor the work of extensively employed remuneration consultants. Conversely, departments seem to better understand the limitations of salary surveys they utilise. Line managers play a central role in implementing each organisation's remuneration policies. However, their training focuses on performance management. In order to minimise gender bias in pay practices we suggest that departments carry out a gender audit of their remuneration practices; introduce gender-neutral job evaluation systems, and broaden line management training and that government actively promote best practices that reduce gender discrimination in remuneration.

Introduction

This paper sets out to examine pay practices in Public Service organisations in New Zealand and analyses how those practices might lead to gender-based pay discrimination. We focus on organisational pay practices, as pay inequalities between males and females are the product of remuneration decisions carried out by organisations. The NZ Public Service comprises 38 departments, employing around 33,000 workers of which 56% are female and 58% are unionised. In 2002 women full-time public servants earned 86.2% of equivalent male gross annual base salary (Gosse and Ganesh, 2002). This raw gender pay gap is divided into two parts: the "explained" gap, which shows how much the differences in the wage determining characteristics between males and females contribute to the gender pay gap (e.g. differences in tenure, age, etc.) and the "unexplained" gap, focusing on how much the differences in the returns to the same wage determining characteristics contribute to the gap. If no gender discrimination in pay exists, there should be no differences in the returns to the same characteristics. Usually the "unexplained" part of the wage gap is considered to be the result of discrimination, although its size is also dependent on how well the wage determining characteristics are defined and measured. At the same time, being part of the "explained" pay gap does not automatically mean that no gender discrimination exists, the best example being the horizontal and vertical segregation of female employees into lower paid occupations.

We first review the literature that identifies the various elements in pay practices that could be the subject of gender bias and, as a result, may contribute to the gender pay gap. We focus on both direct and indirect discrimination. Direct discrimination happens when women are disadvantaged because of decision-making directly related to their gender, while indirect discrimination occurs when a criteria universally applied to both men and women has a disproportionately negative impact on women compared to men (Bryson *et al*., 1999).

The literature review is followed by the description and analysis of organisational pay practices that we collected through structured interviews with HR managers in five government departments, focusing on three occupations. We conclude with highlighting the major problem areas we identified in the pay practices of these selected organisations that could lead to gender-based pay discrimination and with suggestion for action.

Literature review

In this section we review the literature on the different elements of the pay setting systems that could produce gender bias. These include job evaluation systems; processes surrounding the decisions regarding starting salaries; use of market data, and performance pay systems, including the performance criterion, performance evaluation processes; the link of performance to pay.

Job evaluation is a process whereby the relative worth of jobs are determined systematically to establish their differential worth. It is built on a series of subjective judgments; however, those judgments are arrived at by going through a set of systematic steps. There are several studies that point out how job evaluation systems could produce biased estimates of the worth of female jobs (Arvey, 1986; Steinberg and Haignere, 1987; Weiner and Gunderson, 1990; Figart and Kahn, 1997; Steinberg, 1999,). . Gender bias could be found in job evaluation in the choice, definition and application of compensable factors by (1) differentially valuing a factor when is found in male jobs vs. female jobs; (2) confusing job contents with stereotypes about inherent female attributes; (3) ignoring factors that are found in women's jobs (invisibility of women's skills); and (4) having an insufficient range of a given factor to reflect the difference between male and female jobs. Using current salaries for calculating weights could also lead to pay discrimination as gender bias is likely to be embedded in current wages leading to existing gender inequities to be further perpetuated (Weiner and Gunderson, 1990). Mount and Ellis (1989) identifies indirect bias in job evaluation, where jobs perceived to be high paying are assigned higher job evaluation points than those perceived as low paying. Grams and Schwab (1985) report a similar result on how current pay level consistently influences the relative and absolute value of job evaluation scores.

Looking at *starting salary setting* processes, Gerhart (1990) and Kunze (2002) found that there are substantial differences in starting salaries between females and males even after controlling for differences in various employee and job characteristics. Aigner and Cain (1977) and Nieva and Gutek (1980) argue that employers engage in "statistical discrimination" when hiring new employees.. Sex stereotypes about women's labour market behaviour – such as higher expected turnover or higher absenteeism negatively affecting their productivity – could lead to gender bias and discriminatory behaviour by risk averse employers. Other researchers argue that women's cultural conditioning leads to their less assertive behaviour in salary negotiations that, in turn, could result in lower starting salaries for females (Rubery, 1995).

As to the use of *market data*, commercial salary surveys used by organisations are seldom representative, as they contain salary information only from those organisations that are their customers. However, if current pay practices represented in market wages undervalue women's work then even representative survey data will contain gender bias. Further systematic gender bias could be introduced by the use of market data if lower-paying organisations are surveyed for typically female jobs, while higher paying ones for male jobs. This could happen relatively easily, as low wage industries are often employ a high proportion of females (Weiner and Gunderson, 1990). Research in the UK shows that employers' increasing use of flexible and market based pay systems has contributed to the widening of the gender pay gap between men and women (IRS, 1992).

Regarding *performance related pay,* there is mixed evidence of gender discrimination in performance evaluation processes. A study by Bevan and Thompson, (1992) reported distinct gender bias in performance assessment. Women tend to be evaluated more highly on stereotypical female behavioural traits and less highly on stereotypical male traits (Bryson *et al*., 1999). Auster (1989) argues that variation in task characteristics influences the degree of evaluation subjectivity and the degree of job sex typing, which could lead to gender bias both in the performance appraisal and salary allocation processes. Peterson *et al.* (1971) posit that when clear standards exist and when there is increased information regarding performance, evaluation bias is reduced. In terms of differential access to performance pay, it has been well established that women are less likely to receive performance pay as men (Dickens, 1998). In addition, performance pay is more common in larger organisations, for senior staff, who are more likely male, and forms a higher portion of income the higher level the job is in the organisational hierarchy (Clare, 1995, Dickens, 1998 and Bryson *et al*., 1999). It has also been found that men received higher level of performance pay than women for the same appraisal rating (Drazin and Auster, 1987).

In a recent NZ study on performance pay by Bryson *et al.*, (1999) only very limited evidence of direct discrimination against women was found. However, indirect discrimination has been reported as far more widespread. Skills that women bring to the organisation are often not included in the performance criteria. When performance payments are made in percentage form, occupational segregation of women in lower paying jobs results in women receiving a lower amount of performance pay on average then men. It is also suggested that the further managerial discretion is removed from head office or from higher-level management to line – management, the less consciousness and awareness there is of gender discrimination issues (Colling and Dickens, 1989).

Methodology

This study is based on information collected from structured interviews that were carried out in five selected departments in November and December of 2004. Primarily HR managers were interviewed who, in some departments, were accompanied by remuneration specialists and the focus was on pay practices of three occupations:(1) office clerk; (2) policy analyst; (3) corporate manager. Questions were asked about job structures, the use of job evaluation and market data; practices related to setting starting salaries and salary reviews, the use of performance related pay; benefits offered by the organisation for these three groups of employees; and the role of the union in pay setting. Questions were sent to HR managers in advance. The interviews also solicited the opinions of HR managers on possible sources of gender bias in pay practices. However, a detailed "gender audit" of those practices and their outcomes was not carried out. Several departments indicated during the interviews that they would not be able to provide the necessary information for such a gender audit due to the limitations of their current data collection methods. A focus group discussion was also held with Public Service Alliance - the largest union in the NZ Public Service - organisers and departmental representatives about the gender pay gap and their role in the reduction of it.

Office clerk and corporate manager positions correspond to broad two-digit Statistics NZ classification definitions, while the policy analyst position is defined at the five-digit level and is specific to the Public Service. The office clerk occupation includes all clerks, except customer service clerks, while the corporate manager occupation contains all managers, except Chief Executives, managing directors and diplomats.

The five departments represent small, medium and large departments; three of them are service delivery departments, one is a policy department, and one is a mixed policy and service delivery agency. Two departments have more than 60% of their employees female, one department has almost 67% of their employees male and two departments have a more even gender mix. The five departments employ together somewhat more than one third of the New Zealand Public Service (36%). Four of the five departments have staff on collective agreements and the percentage of staff on collectives in those departments varies between 59% and 69%. However, policy analysts' and managers' pay is usually set by individual agreements. While individual agreements often use the collective agreement as their base, they usually offer improved terms and conditions.

The three occupations were selected because they could be found across all departments and are considered important for the operation of the Public Service. They also represent female-dominated (office clerk); a somewhat male-dominated (corporate manager) and mixed (policy analyst) occupations (see Table 1). An occupation is usually considered female/male dominated if 70% or more of those who are employed in the occupation are female/male. The three occupations represent jobs at different levels of the occupational hierarchy. In accordance with the occupational segregation literature (Hakim, 1996), the higher the occupation is located in the hierarchy, the less females are employed in the occupation. Among our three occupations females are over-represented in the low–end, office clerk occupation, are almost evenly represented in the professional policy analyst occupation and are under-represented in the corporate manager occupation. There is considerable variation among the five departments in the share of females in the three occupations. For office clerks the share of females varies between 76% to 90 %, for policy analysts 36% to 57% and for managers 25% to 53%. Salary bands for the three occupations and unadjusted female-male base salary ratios are also presented in Table 1.

TABLE 1 *Selected statistics for the three occupations*

Occupation	% of females	% females (males) collectivised	Average salary band	Average female salary	% of males in occupation	Average male salary (female-male ratio)
Office Clerk	77%	58% (70%)	$30-39K	$35409	23%	$37176 (0.95)
Policy analyst	49%	27% (26%)	$40-69K	$61323	51%	$70962 (0.86)
Corporate manager	41%	13% (9%)	$50-79K	$78969	59%	$87759 (0.90)

Source: SSC dataslicer, June 2003 data, FTE, open term staff

Findings and analysis

JOB EVALUATION: All five departments use job evaluation and use the same system for all jobs in the organisation. Only one department reported that for certain high demand jobs (e.g. IT) salaries are matched directly to the market. Job evaluation is used in all departments for establishing internal relativities, linking job sizes to market information, and pay setting purposes. All departments purchase proprietary systems such as Hay (4) and Compeers (1) and three departments reported that the Hay system had been modified slightly for their purposes.

Job descriptions, a crucial element of the job evaluation process, could be source of gender bias. Most departments use standard job/position questionnaires provided by their consultant. Those are filled out usually by line managers. Only one department reported that job incumbents had filled out the questionnaires. Line managers also write the job descriptions after consulting the incumbents. Several instances the consultants and/or HR are also involved in the process.

None of the departments reported the existence of job evaluation committees; in fact one department expressed a strong aversion against setting up such a committee. Most often the consultant carries out the job evaluation with HR playing a quality control and/or moderation role. In those departments where there are collective agreements unions participate to varying degrees in the job evaluation process ranging from the consultant talking to the union when a union job is resized to the union participating in the selection of the consultant, joint approval of job evaluation results, and participation in the implementation.

Only one department carried out an analysis of job evaluation results by gender. Some explain their lack of gender focus with the fact that there are no predominantly male or female jobs in their organisation. In contrast, another department argued that most of their jobs were female-dominated; hence there was no need for checking for gender outcomes of job evaluation results. Generally HR managers in these departments believe that their job evaluation system is free of gender bias. When probed further, they acknowledge that there might be some sources of gender bias in the system by not all aspects of female jobs being picked up. However, even in that instance they believe that the factors that their systems utilise are independent of gender and the weighting may not introduce any bias either. It has also been emphasised by one organisation, which also carries out gender audits, that the major source of gender bias may be not the job evaluation tool itself, but the application of the job evaluation tool and the historical way in which that market has valued particular occupations. All organisations believe that the job evaluation system they use could be utilised for pay equity purposes.

Job evaluation results are often used for creating job hierarchies, important tools for career advancement and salary growth within the same occupation. While there is some variation within the departments, generally the lower level office clerk job family provides fewer opportunities, for advancement, than the professional policy analyst or the managerial jobs. Policy departments created more career progression opportunities for their key policy analyst job class than service delivery departments. The managerial hierarchy was remarkably similar in all departments, although smaller departments have less managerial layers.

SALARY STRUCTURES: In four departments salary structures are created by linking job evaluation results with salary survey data. Usually, the higher level the position is, the bigger the spread of the range. Departments operate with relatively small spreads ranging from 15% - 40% to control costs. A low spread reduces the variation in salaries that could be attributed to gender bias. Two departments have fixed steps in their ranges. Several departments mentioned that, while they pay great attention to market movements in adjusting salary ranges, their actions are also dependent on the extent of recruitment and retention problems they experience; business objectives and affordability. In two departments range movements are subject to collective negotiations, in a third department staff is consulted. Three of the departments carry out annual reviews and the fourth currently reviews two-yearly. When new ranges are set most employees are automatically moved to the new values. One department requires their managers to deliver on their performance objectives in order to move with the range. None of the departments provide automatic inflation adjustments. Individual employees' placement and movement within the range is based on their performance evaluated either in the form of competency ratings or performance ratings.

SALARY SURVEYS: All five departments use Hay's salary survey and four of them also utilise Hay's job evaluation system as well, therefore avoiding some of the pitfalls of job matching and are able to access salary information based on job size. However, four departments use a variety of surveys, such Watson Wyatt's, Cubiks' and Mercer's policy analyst surveys. The State Services Commission's salary survey is used by two of them although one manager expressed the opinion that results are outdated by the time it is released.

For *office clerk* positions the mid-point in the salary range is based on the public sector median for similar jobs in four departments, while one department uses the all organisations' median. For *policy analyst*, two organisations rely on the public sector median, one aim for the public sector upper quartile, and two bring in private sector comparisons as well. For managers three organisations use the public sector median, the fourth positions managers 10% above the public sector median, while the fifth uses the all organisations' median, aiming for the upper quartile.

HR managers seem to understand some of the shortcomings of the salary surveys they use. However, a majority of them believe that the available surveys are reputable, and provide a reasonable coverage of the market. The major problems identified relate to survey representativeness both in terms of the number of organisations in the sample and the type of positions/jobs that are covered. In order to mitigate these problems departments rely on several surveys. One department also mentioned reliability problems for higher-level positions. Large fluctuation in survey results has also been reported caused most likely by changing organisational membership.

STARTING SALARIES: The departments use various procedures to setting starting salaries. Only one department, which operates a strong internal labour market sets starting salaries centrally. In two departments line managers have discretion in setting starting salaries within the defined salary ranges for the position, while in the remaining two departments the selection panel's recommendation is based on policy guidelines and need further approvals by a higher level manager. Major factors considered are the skills, attributes and qualifications, projected future performance of the applicant; recruitment difficulties and the state of the labour market. One department mentioned that the current salary of the applicant and salary expectations also play a role.

Overall these processes leave considerable discretion for line managers and middle managers in setting starting salaries that could lead to differential results for female and male candidates. As a result, training of line managers may be crucial in avoiding any gender bias in these processes. However, only one of the five departments provides training for line managers in this area. This is the only department that carries out a gender audit of starting salaries as well. Another department addresses the issue in its recruitment manual. As four of the five departments do not analyse starting salaries by gender, HR managers do not know whether there are any gender differences in starting salaries at their organisation and, if there is any, whether that is caused by gender bias.

PERFORMANCE PAY: In all departments individual performance plays a very important role in setting base pay In three departments individual performance is measured solely by competencies, while in two departments competencies and performance on key deliverables are combined. There is a direct link in all five departments between the overall competency/performance rating the individual receives and his/her positioning in the salary range (e.g. 99% competency rating results in base salary at 99% of the range).

The extensive use of competencies could introduce bias in to the performance management system as ratings on competencies are based on subjective evaluations mainly by line managers. However, most HR managers assert that the criteria used in performance evaluations are relevant, objective and observable. In one department they have recently moved away from Management by Objectives approach to competencies based on best practice behaviours, as they felt that the outcomes of their main activities were very hard to measure. In another department competencies are interpreted rather broadly, as performance competencies include expected results and generic organisational competencies as well. HR staff in this department expressed the view that the results-oriented part of the performance competencies is more objective than the organisational competencies.

In three agencies the line manager carries out performance evaluation after the individual completed self-assessment. One agency uses multiple rater assessment for all staff and 360 processes for managers, while another one uses 360 feedback for all of their staff. All organisations use some moderation process of competency /performance ratings across the organisation, however only two departments analyse those ratings by gender. One of those departments reported that females generally out-perform males. Most department's use standardised performance evaluation forms and thoroughly document the process. One department has just completed an audit of the performance evaluation process - but not its outcomes - and found it 85% compliant.

As line managers play a key role is performance evaluations training on interpersonal skills, evaluator biases and gender issues are crucial for avoiding any gender bias. All departments carry out line manager training in performance management, although the amount of training time and the issues covered varies considerably. In three departments ordinary employees also receive information and training about the performance evaluations process. Union involvement in the performance management process also varies across the departments. Two agencies report that the union has been involved or consulted in the development of competencies.

All departments also offer bonuses (lump-sum payments) for exceptional, one-off performance. In most departments it is awarded based on individual performance, in most departments the size of the bonus varies between 4-10% of base salary and generally it does not build into the base. Two departments have a separate evaluation tool for bonuses; in one department they are based on performance competencies, while in another on delivery of key tasks and contribution to a significant business outcome is considered. None of the departments analyse the distribution of bonuses by gender.

Conclusion

Remuneration practices in the five departments are remarkably similar. They also use largely similar remuneration system for all three occupations we have studied. All of the five departments rely heavily on the services of remuneration consultants. However, those consultants make very few modifications to their products to accommodate the special needs of these departments. The extent of departmental oversight of their products and services varies across the departments.

There is a little awareness in the departments of potential gender biases in their pay systems. Moreover, the extent of gender discrimination in their pay processes is largely unknown, as only one from the five departments carries out a detailed analysis of gender outcomes - a gender audit - of the various remuneration practices. HR managers seem to equate gender bias with direct discrimination against females and believe that their remuneration systems are free of that. Only when probed further would these managers acknowledge that various, mainly indirect, forms of gender discrimination could be present in various elements in their pay system systems.

There is an almost universal reliance on salary survey information for setting salary ranges and adjustments to those ranges. HR managers seem to understand some of the limitations of those surveys and try to overcome those by using several surveys. For most positions midpoints are established based on public sector medians, consequently, public sector organisations generally base their salary movements on each other's actions. Salary ranges around the midpoints are relatively small reducing the room for gender differences.

Line managers play a central role in implementing each organisation's remuneration policies. However, training of line managers is generally restricted to performance management, although they are instrumental in the job evaluation processes and setting starting salaries as well.

Individual performance plays a key role in each department in setting base salaries. As a result, what is evaluated, by whom and how is crucial. Performance is measured primarily by competencies and is evaluated by line managers. The subjective nature of this process is mitigated by (1) the careful selection of competencies, sometimes in consultation with employees and unions; (2) the use of standardised forms and procedures; (3) management training; and (4) moderation processes to ensure consistency and fairness across the organisations. However, gender awareness is not a key component of these, otherwise laudable, practices. For example, only one department analyses performance evaluation outcomes by gender and moderation processes do not include any gender focus either.

In order to minimise gender bias in pay practices we suggest that all departments carry out a detailed gender audit of their remuneration practices at regular intervals. The audit would include, at minimum, a detailed analysis of job evaluation results, starting salaries, performance evaluation practices and results, and bonuses by gender. We consider the introduction of a gender-neutral job evaluation tool in each department a cornerstone of achieving pay equity. We also suggest that government actively promote best practices that reduce gender discrimination in remuneration in the NZ Public Service including the use of standardised procedures and forms, and the development of detailed policy guidelines to reduce managerial discretion There is also a need for increased union and staff involvement in every step of the pay process in the form of joint committees. Existing moderation processes need to include a gender focus as well. As line managers are key decision-makers in pay processes, management training is crucial. Similar training of employee representatives and union delegates are also necessary to enable them full participation in the work of those joint committees. Departments rely very heavily on the products and services of remuneration consultants. There is a need to strengthen departmental capabilities in these areas so they could carry out effective oversight over the consultants' activities.

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