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A STUDY TO ASSIST THE DEPARTMENT OF STATE
IN AN EVALUATION OF THE COMPENSATION SYSTEM
OF THE
UNITED STATES FOREIGN SERVICE

VOLUME I

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FOREWORD

This study was initiated by the Department of State and carried out by Hay Associates pursuant to Contract No. 1025-925135 under the aegis of the Office of the Director General of the Foreign Service. The project was directed by the Washington Office of Hay Associates between January and May 1979; and the members of the Hay Project Team are as follows:

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The assistance of Mr. Robert S. Gershenson, Deputy Assistant Secretary of State for Personnel, and Mr. Jack E. Melton, Director of Position and Pay Management (PER/PPM) was instrumental in the performance of the study. Particular assistance was also provided by Mr. Robert R. West, PER/PPM, and by a number of others at the Department of State.

SUMMARY

The management consulting firm of Hay Associates was retained by the Department of State to assist with its response to a number of internal and external personnel management considerations which directly impact upon the Foreign Service of the United States. A central element of any such examination is the clear intent of the Pay Comparability Act of 1970:

- Foreign Service work, i.e., job content, should be defined;
- Foreign Service pay should relate to levels of work;
- Foreign Service levels of pay and work should be, respectively, comparable to that of the private sector; and
- Foreign Service pay levels should be interrelated with the Federal (GS) pay system.

The results of such assessments would provide meaningful data and insights which the Department could, as appropriate, translate into constructive responses to the Congress, the Executive, and the Service itself.

To this end, the consultants were requested to undertake four primary objectives:

- Employ Hay Job Evaluation techniques to determine the relative job content of selected Foreign Service positions, domestic and overseas, and the relationship of Foreign Service work and pay, both within the Department and to other external employers, including the U.S. Civil Service.
- Utilize Hay's extensive data bases to determine the comparability and competitiveness of Foreign Service compensation (base salary, benefits, and overseas allowances) to that of the General Schedule, the domestic private sector, and 13 selected U.S. multinational corporations with expatriate employees.
- Apply Linkage Analysis statistical techniques to selectively test relationships between the Foreign Service and General Schedule pay/grade classification systems on the basis of evaluated job content.

- Utilize the findings from the linkage analysis and compensation comparisons to examine the multiple Foreign Service grade systems and propose alternatives, as appropriate.

As Hay undertook each of the foregoing, it consistently introduced three elements which, in the consultants' opinion, were critical to the quality and utility of the end results:

- Sensitivity to the uniqueness of the Foreign Service;
- Concern for the quality of data gathering, analysis, and presentation; and the
- Involvement of Departmental personnel in all phases.

It is clear to any observer that the Department of State is a cadre of individuals carrying out a unique purpose -- the Foreign Service is the only element of the Federal establishment charged with the development and implementation of U.S. foreign policy on a daily basis. Equally apparent is the special mission and nature of the Foreign Service vis-a-vis the rest of the Federal establishment, and the consequential fact that the Department's personnel management environment has characteristics, objectives and problems necessarily unlike other governmental entities: the integration of the rank-in-person concept with compensation and classification systems; the ever-changing elements of expatriate compensation; the problems associated with the high mobility and rotational timetables; the conal system; the mix of personnel classified and paid under a variety of different systems and scales; and the circumstances attendant to living and working in various overseas environments.

Necessary preconditions to linkage analyses, compensation comparisons, and grade structure development are carefully implemented statistical procedures and job evaluation techniques. Working closely with Department personnel, the consultants designed a statistical sampling approach which resulted in the identification of 119 positions representative of the Foreign Service domestically and overseas. Similarly, the consultants, in concert with a committee of Foreign Service employees, evaluated the job content of each of the 119 positions through the use of the Hay Guide Chart-Profile Method. This multi-stage job measurement process resulted in a quantitative assessment, expressed in points, of each Foreign Service position which, in turn, served as the foundation for the several analyses which would follow.

Linkage analysis is a statistical process used to establish the relative degree of difficulty of jobs in the pay grades of different classification systems. This technique was employed to determine the comparability between positions in the Foreign Service and Federal Civil Service at selected pay grades. Among its several findings, this process identified three significant links -- FSO-1 to GS-18; FSO-3 to GS-15; and FSO-6 to GS-11. Analysis of several FSS grades revealed statistical anomalies suggesting historic classification irregularities. This is not a surprising condition when it is recognized that up to about a year and a half ago, Departmental classification responsibilities were decentralized to each bureau. The consultants suggest that proper classification is critical, especially in a rank-in-person system which necessitates the very careful administration of the assignments process, but it must also be recognized that unsuitable conditions, permitted over time, unfortunately cannot be instantly corrected. In general, the results established the existence of internal relationships sufficient to undertake, at least preliminarily, the internal integration of the two principal Foreign Service classification/grade systems.

Utilizing the Hay private and public sector data bases, the consultants were also able to assess the competitiveness or comparability of Foreign Service compensation. In order to meaningfully equate the Department to appropriate markets and sectors, the Foreign Service was examined at two levels -- Support and Officer. In terms of base salary, the Support Level is slightly but consistently ahead of the General Schedule, and consistently competitive against the private sector. Such a competitive posture in the private sector is clearly desirable; but the findings also revealed certain features, e.g., overseas service, strenuous entrance requirements, etc., which legitimately distinguish the Foreign Service Support Level from its traditional counterparts. These unique features should not be ignored when drawing conclusions with respect to compensation.

At the Officer Level, the lower segment of the Foreign Service salary policy is competitively positioned against both the GS and U.S. private sector; however, the mid-level policy is less competitive against both survey groups. The salary ceiling similarly impacts upon the Foreign Service and General Schedule; but its effect is clearly depicted in the American Business comparison where the most senior levels of the Foreign Service are competitively

disadvantaged. The comparison of total cash compensation (the addition of bonus payments to base salary in the private sector) revealed the Officer Level policy to be slightly less competitive than it was in the base-to-base examination.

In terms of domestic total remuneration (base salary plus benefits), the Foreign Service benefits program is slightly above that of the Federal Civil Service because of the difference in pension systems. This results in a Support Level policy which is consistently higher than the Civil Service and an Officer Level posture which is competitive except at the mid-level where it continues to appear below the General Schedule.

To assess the comparability of Foreign Service overseas compensation, the consultants, in consultation with the Department's Allowances Staff, presented a carefully constructed comparison with selected U.S. multinational companies. Overall, the overseas allowances and benefits typically provided by the Foreign Service are quite comparable to those provided by the U.S. multinationals except at the more senior levels where the Foreign Service is less competitive due to the salary ceiling. Although the higher housing (quarters) allowance and paid time-off for home leave provided by the Foreign Service almost balances the overseas premium (inducement) available only in the private sector, the consultants suggest that the Department review and consider the appropriateness of increasing the quarters allowances at the Foreign Service levels affected by the salary cap.

The final project phase entailed the utilization of linkage and compensation findings, in conjunction with the consultants' experience, to examine the feasibility of restructuring the multiple Foreign Service grade systems. The consultants statistically and empirically tested the suitability of a great many approaches in the context of a number of essential criteria:

- Structural compatibility with the General Schedule should be sought.
- Transitional cost consequences should be minimized.
- Personnel inequities or dislocations should be avoided.
- Rank-in-person flexibility should be maintained.

- The special needs and unique circumstances of Foreign Service employment should be recognized.
- The relationship of the Agency for International Development (AID) and the International Communications Agency (ICA) to any new Foreign Service grade structure (and thus to the General Schedule) must be established by similar methodologies independently employed.

The consultants concluded that a single Foreign Service classification system/grade structure most appropriately accommodated the foregoing. However, the process of integrating technical considerations with established criteria is complex; and to this point the consultants emphasized three concerns:

- All conscious and unconscious personnel practices, understandably marked with inconsistencies and exceptions accumulated over more than 30 years, cannot be immediately remedied;
- The sampling of Foreign Service positions, designed and undertaken for other purposes, permitted only tentative propositions; and
- There is no one correct solution -- a number of different approaches may validly respond to the Department's needs, although in different ways.

Building upon these considerations, the consultants proposed two optional grade structures -- a ten (10) grade system and a nine (9) grade system. Each, in slightly different ways, seeks to repond to the established criteria and recognize certain inherent characteristics of the Foreign Service in a responsible and realistic fashion.

This study was initiated by the Department to assist with its response to a number of internal and external personnel management considerations which directly impact upon the Foreign Service. Three separate circumstances came together to create an opportunity for the Department to address the interrelated and complex issues relating to the Foreign Service Compensation system: the Congress, through the FY 1979 State Department Authorization Bill, directed the Department to review and evaluate the suitability of the current Foreign Service Compensation System; the enactment of the Civil Service Reform Act in October 1978 dramatically altered, both structurally and procedurally, the Federal Civil Service and, by extension appeared likely to have considerable, if not well-defined, impact upon the U.S. Foreign Service; and, the Department decided to address basic and structural human resource management deficiencies in the Foreign Service the remedy for which lay only in substantial revision of the Foreign Service Act.

The significance of these initiatives to the Foreign Service is obvious; but central to any meaningful response is the legislative intent of Section 5301 of Title 5, United States Code -- the Pay Comparability Act of 1970. The essence of this statutory enactment is that, within the Federal Statutory Pay System, which includes the Foreign Service, (a) there is equal pay for substantially equal work; (b) pay distinctions be maintained in keeping with work and performance distinctions; (c) Federal pay rates are comparable with those of private enterprise for the same levels of work; and (d) pay levels for the statutory pay systems be interrelated. The direct effect of Section 5301 upon the key aspects of the Foreign Service reorganization effort is clear:

- Foreign Service work, i.e., job content, should be defined;
- Foreign Service pay should relate to levels of work;
- Foreign Service levels of pay and work should be, respectively, comparable to that of the private sector; and
- Foreign Service pay levels should be interrelated with the Federal (GS) pay system.

The Department recognized that to do these things, and thereby develop an accurate and credible informational and analytical framework which would

permit meaningful responses to the Congress, the Executive, and, indeed, the Service itself, would require methodologies, data bases, and substantial and relevant experience not readily available. Consequently, the Department called upon Hay Associates, possibly the largest consulting firm in the world exclusively devoted to the management of human resources. Hay was retained to conduct this study, the initial objectives of which are as follows:

- Employ the internationally established Hay Method of Job Evaluation to determine the relative job content of selected Foreign Service positions, domestic and overseas, and the relationship of Foreign Service work and pay, both within the Department and to other external employers, including the U.S. Civil Service.
- Utilize Hay's extensive data bases to determine the comparability and competitiveness of Foreign Service compensation (base salary, benefits, and allowances) to that of the General Schedule, the domestic private sector, and 13 selected U.S. multinational corporations with expatriate employees.
- Apply the unique Linkage Analysis statistical techniques developed by Hay to selectively test relationships between the Foreign Service and General Schedule pay/grade classification systems on the basis of evaluated job content.

As the project progressed, the Department broadened the scope of consultant activity by the addition of a fourth objective:

- Utilize the findings from the compensation comparisons and linkage analyses to examine the multiple Foreign Service grade systems and propose alternatives, as appropriate.

It must here be noted that the consultants undertook this additional project element with the explicit understanding of certain inherent limitations: the initial project design did not, quite properly, envision a grade structure analysis of this dimension, and this fact, coupled with time constraints imposed by a variety of requirements, dictated that the results of this particular activity are to be regarded as tentative. Although the grade structure modeling undertaken by the consultants produced useful insights, its validity will need to be affirmed by the acquisition of some

additional data by the Department with or without the aid of consultants.

As will be seen, Hay Associates endeavored to introduce three overriding elements into every facet of this study:

- Sensitivity to the uniqueness of the Foreign Service;
- Concern for the quality of data gathering, analysis, and presentation; and the
- Involvement of Departmental personnel in all phases.

Indeed, these three elements are integral to the Hay approach which is founded upon the ability to adapt methodologies and fashion solutions to meet the special needs of a client. Inherent in this philosophy is integrity -- Hay is not always the messenger of "good news," as defined by the client; nor does the firm contend that well-established technologies provide easy or immediate answers to every complex question facing an organization. It does, however, apply technologies and human resource management experience with an appreciation of the client environments and the involvement of client personnel in order to responsibly address complex organizational issues in ways which enhance the nature, continuity and purpose of an organization. So was the Hay approach with respect to the Department of State.

It is clear to any observer that the Department of State is a cadre of individuals carrying out a unique purpose -- the Foreign Service is the only element of the Federal establishment charged with the development and implementation of U.S. foreign policy on a daily basis. At the outset, Hay recognized the special mission and nature of the Foreign Service vis-a-vis the rest of the Federal establishment, and consequently appreciated the fact that the Department's personnel management environment has characteristics, objectives and problems necessarily unlike other governmental entities: the integration of the rank-in-person concept with compensation and classification systems; the ever-changing elements of expatriate compensation; the frequent need for internal reorganization of varying degrees; the problems associated with the high mobility and rotational timetables; the conal system; and the mix of personnel classified and paid under a variety of different systems and scales. The consultants were similarly sensitive to a number of specific human resource conditions which exist at the Department in direct response to the needs of its worldwide mission: strenuous entrance

requirements, even at the staff support level; the absolute need for personnel inherently capable of adapting to overseas environments; the value of retaining specialized staff support personnel; and the development of internal mechanisms to enhance career opportunities at all levels of the Foreign Service.

In the area of quality control, the study is as explicit as possible with respect to the origin of data, the rationale for approach, and the evolution of analysis. For example, where statistics were provided directly by the Department, it is so noted. Similarly, the report observes that 13 multinational companies were used for overseas compensation comparisons because of the Department's need for immediately-available data, and the generally representative nature of the companies. In another case, the report explains the utility of portraying the Foreign Service in professional (Officer Level) and staff support (Support Level) terms, rather than through the four overlapping, and somewhat redundant, classification systems that currently exist.

With respect to Departmental involvement, the consultants interacted almost daily with State personnel for two principal reasons: (1) to gain as much insight about the client personnel management environment as possible; and (2) to develop a Departmental understanding of and facility with Hay techniques to enable it to not only utilize but also build upon the findings of this study.

The Hay project team was ever sensitive to the foregoing understandings, objectives, and concerns for accuracy as it applied its experience to a range of personnel management activities:

- Statistical Sampling
- Job Evaluation
- Linkage Analysis
- Cash Compensation Analysis
- Noncash Compensation Analysis
- Expatriate Compensation Analysis
- Grade Structure Development

The report which follows relates the consultant activities in these

areas; and the findings presented were guided by the following view: the Foreign Service of the United States has characteristics and purposes atypical of other U.S. Government entities, but it is no less a part of the Federal establishment. The role of the consultants was to provide independent observations which would assist the Department to responsibly address its special needs and further harmonize its personnel management activities with those of the Federal Government.

II. HAY ASSOCIATES

The headquarters of Hay Associates are located in Philadelphia, where the firm was founded over 35 years ago. Overlooking Rittenhouse Square, the home office is the locus of The Hay Group and houses most of its specialized units, research divisions, and support and administrative facilities. Included in The Hay Group are Huggins & Company, actuarial and pension consultants; Groupe Gamma, a Paris-based business strategy company; and MSL International, Ltd., a London-based management development and recruitment firm. World-wide offices now number about 65, and are located in more than 20 countries.

The Hay staff is comprised of more than 300 full-time professional and 230 technical and support employees. In the United States, the professional consulting staff has, collectively, over 150 advanced degrees primarily in the behavioral sciences, business administration and the legal disciplines. Hay is a member of the Association of Consulting Management Engineers (ACME), and is, in fact, one of the largest management consulting firms in the world.

Hay Associates is extensively involved in the international community, and the 1976 United Nations Geneva Conference on International Compensation resulted from our professional association with the International Civil Service Commission and was, in fact, chaired by a Hay General Partner.

The Hay methods of position evaluation and compensation comparison and analysis have been employed in more than 4500 public and private organizations throughout the world; and Hay was recently described by Fortune magazine as having "... the most celebrated ... method (of job evaluation)." For example, the Hay system has been utilized by the Government of the United Kingdom; and our methodologies have been used to evaluate military occupations in the Officer Force Structure of the British Armed Forces and the Australian Permanent Defense Forces. The firm is currently in the process of adapting the Hay system to the needs of the Government of Canada.

In the United States, of the corporations listed in the 1978 Fortune Directory:

- 190 Hay clients are among the 500 largest industrials;

- 22 Hay clients are among the 50 largest commercial banks (including three of the first five: Citibank, Chase Manhattan, Manufacturers Hanover); and
- 22 Hay clients are among the 50 largest life insurance firms.

Hay techniques have also been utilized by a variety of international organizations and U.S. Government entities including the Council of International Economic Policy, the Department of Labor, the U.S. Secret Service, the Inter-American Development Bank, the Congressional Budget Office, HEW, and so forth. Other recent governmental activities of pertinence here include:

- For DOD's most recent Quadrennial Review of Military Compensation (QRMC) - a study to test and evaluate linkages between military and Civil Service pay grades for pay comparability purposes.
- For the International Civil Service Commission - a comparison of selected U.S. Civil Service and UN positions.
- For the Organization of American States - a comparative study of the classification and compensation systems of selected international organizations.
- For the U.S. Civil Service Commission (now OPM) - a research project comparing Hay evaluation techniques and compensation comparisons to those of the USCSC.
- For the President's Commission on Military Compensation - a study of the comparability of military pay and benefits to the U.S. private sector.
- For the Federal Aviation Administration - an evaluation of the feasibility of adopting a classification and compensation system separate from the General Schedule.

Hay's research and development capabilities are particularly unique in the sense that both government and private sector clients throughout the world are served. This allows Hay to maintain and easily interchange the latest data and experiential techniques between sectors. In addition,

Hay maintains current computerized data bases on thousands of clients which permit a variety of comparisons unavailable anywhere else in a way which protects the confidentiality of both participants and the data.

The range of Hay's technologies and services is extensive and flows from its substantial experience, unique data bases, and highly trained professional staff. Hay's pioneering efforts in such fields as job measurement, reward management, and compensation administration have given rise to the ever-broadening dimension of the firm; and an organization chart and a discussion of total Hay capabilities is found in Volume II, Appendix A.

III. APPROACH

A. BENCHMARK SAMPLING

A precondition to any meaningful linkage or compensation analysis is a representative sample of jobs in the pay grades of the client population. In order to gain such an appropriate and defensible organizational "snapshot" of the Foreign Service, the consultants employed statistical sampling techniques designed specifically to identify a sufficient number of positions to recognize and accommodate the specific characteristics of the Foreign Service -- multiple grade/classification systems, ^{1/} overseas and domestic service, and inter-conal^{2/} distribution -- and thereby accomplish the two initial study objectives. The 119 positions sampled were sufficient to permit preliminary grade structure observations; however, the integration of AID and ICA is clearly a critical element which should only be accomplished by similarly careful and independent analyses.

1. Sampling Approach

A three-stage statistical sample of Foreign Service positions was undertaken employing the consultant-designed approach.

- Stage I identified benchmark positions for the compensation analysis study phase.
- Stage II identified benchmark positions for the linkage analysis study phase.
- Stage III identified positions which, on an empirical basis, supplemented the first two samples.

^{1/} The Foreign Service system is composed of four systems: FSO (Foreign Service Officer), FSR (Foreign Service Reserve Officer), FSRU (Foreign Service Reserve Officer Unlimited), and FSS (Foreign Service/Staff). FSO, FSR, and FSRU are identical 8-grade pay systems, while FSS is a separate 10-grade system.

^{2/} The Foreign Service is comprised of four functional areas or cones -- Political; Economic; Administration; and Consular; and five other occupational specialties -- Executive; Program Direction; Information/Cultural; Special Professional; and Staff Support.

The following sequential sampling design was employed:

Stage I - Jobs were sampled to represent benchmark pay grades (1 to 2 jobs per grade per system) for the pay comparability analysis.

Stage II - Jobs were selected to increase job representation at the selected pay grades used in the linkage analysis, e.g., up to 5 jobs per such grades.

Stage III - Jobs were selected, on an empirical basis, to supplement the first two samples.

2. Sampling Criteria

A series of sampling criteria were developed to guide the selection of representative jobs for Sample Stages I and II. For the purpose of this study, "representative" is defined in terms of numbers of incumbents, not numbers of billets. Using incumbent distribution data from the Department of State Requirement/Skill Inventory (September 1978), samples were selected to represent the following parameters:

- Classification Systems - FSO, FSR, FSRU, and FSS.
- Cones/Selected Occupational Groups - Political, Economic, Administrative, Consular, and Staff Support Groups.
- Pay Grades - 8 grades in the FSO, FSR, and FSRU systems, and 10 grades in the FSS system.
- Location - domestic versus overseas positions.

Pursuant to these criteria, highly populous jobs were selected at specified grades, cones and locations. Jobs were not included which were considered non-representative or too few in number to represent the Foreign Service in total. Department of State personnel carried out the actual identification of positions to be included subject to the above specifications since they were familiar with both the positions and the incumbent classification and inventory data from which the samples were taken.

Findings from the initial analyses to determine the representativeness of the samples within the selected Cones/Occupational Groups for each class and grade are found in Volume II, Appendix B.

3. Stage I - Compensation Analysis Sample

Having established the specifications for benchmark jobs to support the compensation analyses, positions were selected according to the following rule: "Within each classification schedule, select the one (1) job per pay grade which has the most incumbents in a 'cone' at that general location."

The sampling design was intended to provide a sample of eight (8) benchmark positions, one (1) per grade in each of the four (4) classification systems, separately for domestic and overseas locations. Since there are four classes, the resultant sample size was anticipated to be 64 positions. This estimate assumed one (1) job in each of eight (8) grades in four (4) systems (with one cone per grade) at two (2) locations (Washington/Overseas) or $8 \times 4 \times 2 = 64$. However, it was necessary to exclude certain pay grades where no (or very few) incumbents were found; and for this reason, the final sample for Stage I numbered 52 positions.

The sampling design for the linkage analysis comprised 30 positions, and these Stage II jobs were selectively added to the Stage I sample. An additional 37 jobs were drawn by the Department pursuant to Stage III, and these positions were also employed in the compensation analysis. Consequently, although the Stage I sample was sufficient for the compensation study, it was usefully and appropriately increased by the Stage II and III samples.

4. Stage II - Linkage Analysis Sample

The second sample consisted of representative jobs selected for the linkage analysis phase. The most populous jobs were selected in terms of a distribution of incumbents between cones; and positions were drawn from selected grades in the three Foreign Service classification systems -- FSO, FSS, and FSRU -- targeted for this selective analysis.^{1/} To ensure adequate representation, five or more jobs were drawn within each grade selected for the linkage analysis. The following table provides the total number of jobs sampled in selected grades and cones of the FSO, FSS and FSRU classes.

^{1/} No linkage analysis was made for the FSR system.

LINKAGE SAMPLE DISTRIBUTION

<u>Grade</u>	<u>Cones</u>					<u>Total</u>
	<u>Political</u>	<u>Economic</u>	<u>Admin.</u>	<u>Consular</u>	<u>Staff Support</u>	
FSO-1	3	2	1	--	--	6
FSO-2	2	3	1	1	--	7
FSO-3	3	3	1	1	--	8
FSO-4	2	3	3	3	--	11
FSO-6	2	1	1	2	--	6
FSS-4	--	--	3	1	1	5
FSS-7	--	--	2	--	4	6
FSS-8	--	--	1	--	5	6
FSRU-7	--	--	5	--	--	5
TOTAL	<u>12</u>	<u>12</u>	<u>18</u>	<u>8</u>	<u>10</u>	<u>60</u>

Analyses were made to establish that Stage II augmented Stage I in such a way that Stage II jobs built upon the jobs selected at the same pay grades in Sample I. The Stage II sample was also supplemented by jobs drawn for Stage III.

B. JOB CONTENT DOCUMENTATION

Current and accurate job content statements are not only essential personnel management instruments but a sine qua non to the process of position evaluation. Consequently, the collection of job content data for each of the 119 Foreign Service positions identified by the sample was undertaken with great care.

It was the consultants' view that the job documentation must reflect those institutional characteristics and functional requirements which are unique to the Foreign Service. To this end, the consultants sought from the Department position information which:

- described the critical thrust or purpose of the job;
- identified the areas of essential and key interaction with both Departmental and external positions;
- presented the elements which differentiated the position from others within the Department; and
- highlighted the vital end results or accountabilities to be achieved by the job.

In making this request, and pursuant to extensive discussions with Department officials, the consultants were well aware of several understandable conditions which dictated extreme care in collection of job content data. In all large and dynamic institutions -- and there are currently more than 7500 employees in the Foreign Service (excluding Departmental GS personnel) -- the ongoing maintenance of current position information is a task of sufficient magnitude that it must, of necessity, be undertaken in an administratively manageable fashion. This situation is accentuated at the Department by the fact that the focus of many of its positions -- principally FSO -- continually change in response to the evolving nature of the foreign policy issues they are constructed to address.

Mindful of both the necessity of accurate data and the understandably mixed quality of available position information, the consultants, in concert with the Department, developed a variety of written and oral data collection procedures which build upon the base position data to ensure the most complete presentation of job content elements.

- Existing job descriptions and/or questionnaires were obtained for each position.
- Organizational charts, staffing patterns, and Foreign Affairs Manual (FAM) narratives were utilized, as needed.
- Internal memoranda were selectively employed to highlight the most recent structural or functional changes.
- Seasoned members of the Foreign Service, representing the principal functional and specialized areas, were selected to serve on the Job Evaluation Committee; and
- "Generic Interviews" -- dialogues between Hay consultants, the Evaluation Committee, and Foreign Service personnel specifically knowledgeable about a type of position (although not the incumbent) or activity -- were selectively undertaken to further refine the quantity and quality of the position information.

Although optimal job content data is collected through an incumbent-interview process conducted by skilled consultants or consultant-trained client personnel, the foregoing alternative approach, although time consuming, has been employed by the consultants in other similar situations and has proved suitable. The base position data provided by the Department was, in some areas, excellent in itself due to recent classification efforts on the part of the Office of Pay and Position Management. The supplemental written materials usefully buttressed the base position information; and the "generic interview" process spanned question and answer sessions with Foreign Service secretaries, security personnel and office directors.

The necessity for accurate information on all positions subject to this study dictated an approach which was both thorough and sensitive; and the responsiveness of the Department to the tediously structured approach imposed by the consultants is worthy of note.

C. POSITION EVALUATION PROCESS

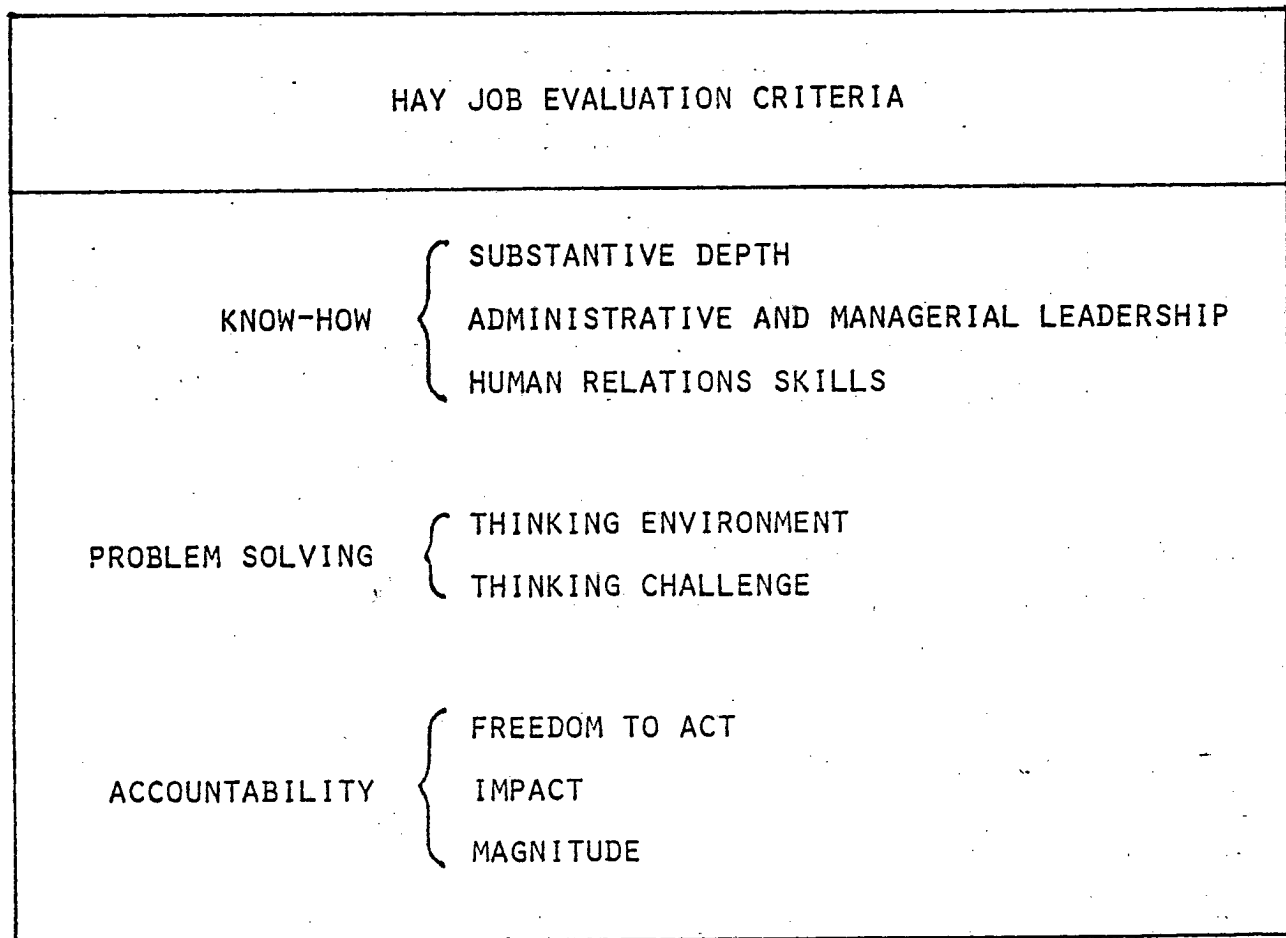
1. The Hay Guide Chart Method

The basis for all analyses in this study is the determination of the content of each job; and the methodology employed in the evaluation of the 119 Foreign Service positions is a point-factor comparison system of job measurement known as the Hay Guide Chart-Profile Method. This technique, which has been employed in public and private sector organizations throughout the world, evaluates the total content of any job through the discrete analysis of eight factors of a position falling within three job dimensions -- Know-How, Problem Solving and Accountability.^{1/}

- Know-How: Under the major heading of "Know-How," each job was studied for the depth of its technical knowledge requirements; for the leadership, administrative or supervisory demands of the position; and for the quality of human relations skills required.
- Problem Solving: Similarly, under a major heading of "Problem Solving," the positions were studied with regard to their problem challenges and to the procedural constraints involved in solving problems as part of the ongoing flow of work.
- Accountability: Under the major heading of "Accountability," the job content was studied to determine the levels of freedom to act to fulfill job objectives, the nature of the impact of these actions upon the Department of State as a whole, and the order of magnitude of that impact.

^{1/} It should be emphasized that these dimensions are used only to evaluate the content of the jobs. When Foreign Service positions were thus evaluated, there was no need to refer -- and thus no reference was made -- to the incumbent, his or her performance, or the present level of pay; consequently, the methodology is inherently raceless, sexless, and so forth. Although these techniques do not preclude on-the-job discriminatory practices, they favorably impact upon the very foundation of a personnel management system and further reinforce the Department of State's established intent to carryout an effective EEO program.

The exhibit below depicts these three dimensions and eight factors by which they are defined. Know-How is defined by: (a) the extent of knowledge required by the job; (b) the breadth of managerial skills; and (c) the human relations requirements. Problem Solving is defined by: (a) the degree of original thought required on the job; and (b) the degree of limitations imposed on thinking. Accountability is the impact of the job on end results, and is defined by: (a) the extent of freedom to act on the job; (b) the degree of accountability in the job, and (c) the magnitude (size) of the job. A detailed discussion of the Hay Method is presented in Volume II, Appendix C.



The instruments for measuring these elements are known as Guide Charts; and there is one Guide Chart for each of the three dimensions. They are referred to as Guide Charts because they serve as "guides" to the Committee evaluating the content of each job in an organization; and examples of the Guide Charts designed for the Department of State are found in Volume II, Appendix D.

These instruments are used to evaluate the relative difficulty and importance of positions within any organization. This job content measurement technique results in a semantic or qualitative judgment about the job content as well as a quantification of that judgment expressed in points. Thus, values are assigned for each of these three elements and added to obtain a total numerical value for each job, which then becomes the basic measure of its content and worth.

The numbering system used in the Guide Charts is a geometric scale with a ratio of approximately 15 percent between terms in the series. That is, the value of each aspect grows in 15 percent increments. For example, the terms in the series include 50, 57, 66, 76, 87, 100 and so on, up and down the scale. The selection of a geometric scale rather than an arithmetic scale is justified by empirical considerations and also by the fact that in both the public and private sectors salary changes from jobs of low content to jobs of high content are geometric in character.

Each Foreign Service position was evaluated by these measurement tools in the context of the following guidelines:

- Current job content only (as opposed to what the job should be or could be) was considered.
- Non-job content overseas factors were not considered.
- The qualifications or current performance of job incumbents were disregarded -- each position was evaluated on the assumption of acceptable, satisfactory performance.
- Evaluations were made without consideration of the jobs' current classification.

The Guide Charts used by the Foreign Service Evaluation Committee contain, by design, the standard elements of all Hay Guide Charts. However, certain aspects of the Charts were specifically tailored so as to sensitively measure certain unique aspects of the Foreign Service environment.

Language used in defining a number of factors was adapted to reflect the way the Foreign Service perceives work relationships. Further, the Accountability Guide Chart was modified to refine definitions of job impact on end results which would take into account the "collegial" nature of seeking and achieving end results within the Foreign Service. Specifically, the Impact definitions sharply focused the multiple levels of involvement of jobs in terms of their answerability for actions.

The Magnitude dimension of the Accountability Guide Chart was also modified to reflect characteristics of each job beyond common monetary dimensions to acknowledge the reduced control (vis-a-vis the private sector) which Foreign Service positions have over the acquisition and disposition of budgetary resources. When money magnitudes were appropriate measures, they were employed; however, the Accountability Guide Chart provided a geographical alternative which permitted an assessment of magnitude in terms of domestic and overseas considerations. It must be emphasized, however, that all Guide Chart modifications were made in such a way that the underlying consistency of the instruments and the technique were maintained.

Over the course of 35 years, the terminology of Hay Guide Charts has become part of the language of human resource management and salary administration. This came about quite logically since this terminology can so precisely define, in capsule form, the weight and character of a job at any level or within any function.

This language is naturally used within public and private institutions, but it is also widely used between organizations when personnel administrators seek to understand just what are the essentials of a job by any title.

Interesting evidence of the applicability of the Hay System is illustrated by the accompanying advertisement from a recent Wall Street Journal. It is strikingly clear how profoundly these short coded symbols define the organizational relationships and the nature and challenge of the job in question. The consultants learned that this ad had great "pull," an indication that it must have broadly conveyed a clear message.

MANAGER OF COMPENSATION	
F113	460
F4 (50)	230
E4 C.	<u>200</u>
	890
<small>Box CC-576, The Wall Street Journal An Equal Opportunity Employer</small>	

2. The Evaluation Committee

A central element to the Hay Method is the total involvement of selected client personnel in the Job Evaluation process. Hay experience has established that client participation invaluablely enhances the sensitivity of the process to the structural and functional characteristics of a position which are unique to that organization. This is especially true with respect to the Foreign Service because there is but one entity, the Department of State, charged with shaping and implementing U.S. foreign policy. Consequently, its domestic and international organizational framework, inter-governmental relationships, rank-in-person personnel system, and so forth, cannot be ignored by any meaningful job evaluation process.

For these reasons, the Department was asked to form an Evaluation Committee composed of individuals representing the major functions and specialties within the Foreign Service. Each individual was also to possess a breadth of understanding with respect to Departmental operations in order to further reinforce the job description material with which the Committee would work. Mindful of these criteria the following individuals were selected by the Department to serve on the Position Evaluation Committee:

Mr. William V. Callihan
Special Assistant to the Deputy
Assistant Secretary for Communications
Bureau of Administration
(Staff Support Specialty)

Mr. David J. Dunford
Director, Planning and Evaluation Staff
Bureau of Economic and Business Affairs
(Economic Cone)

Mr. Robert S. Gershenson
Deputy Assistant Secretary
Bureau of Personnel
(Administrative Cone)

Mr. Norbert J. Krieg
Training Coordinator
Foreign Service Institute
(Consular Cone)

Mr. Stephen J. Ledogar
Director, NATO and Atlantic Political-
Military Affairs
(Political Cone)

Mr. Jack E. Melton
Director, Position and Pay Management
Bureau of Personnel
(Department Project Coordinator)

Mr. Robert R. West, PER/PPM, served as Committee Rapporteur.

This Evaluation Committee was led throughout the process by Hay consultants -- Mr. David J. Wimer, General Manager, Hay/Washington, and Mr. Jack Blocker, Senior Principal, Hay/Washington -- expert in the measurement of job content. Both consultants possess particularly relevant experience in evaluating positions in the U.S. Government and the international community, and each participated in the process of tailoring the measurement instruments -- the Guide Charts -- to the organizational characteristics of the Department of State.

The 119 Foreign Service positions were evaluated by the consultant-led Committee over a period of several weeks; and the following multi-step procedure was employed during that time.

- Orientation - The consultants thoroughly instructed the Committee in the use of the Guide Charts. Each of the measurement elements was defined in terms of its application to a given position. The intra-factor relationships were established as was the need for consistency in interpretation of job elements and the assignment of points.
- Content Review - Each member of the Committee was provided the job description and supplemental materials for each position under study.
- Initial Evaluation - Upon reading the position content materials, each Committee member, including the consultants, independently evaluated each job on the eight dimensions represented in the three factors of Know-How, Problem Solving and Accountability. Each member assigned appropriate Guide Chart points to each of the three factors, and computed a total score expressed in points.
- Profiling - Each member also computed the "profile" of each job, another quality control procedure which assigns percentage values to each of the three principal factors -- Know-How, Problem Solving and Accountability. A further discussion of "profiling" is presented in Volume II, Appendix E.

- Consensus Scores - After each evaluator independently completed an evaluation, all scores were posted and the Committee reviewed and discussed each. Since members of the Committee had first-hand experience with many of the jobs under discussion, they were able to clarify position description ambiguities or omissions. As mentioned earlier, if questions remained with respect to particular job elements, specifically knowledgeable Foreign Service personnel joined the deliberation but only for the purpose of content clarification.

Once the Committee was satisfied with its depth of understanding of the position under discussion, the differences between the scores were extensively reviewed, and a final consensus was reached which constituted the single best judgment of the group. This considered judgment was recorded in terms of the rating on each of the eight components, and three scores for Know-How, Problem Solving, and Accountability, the total point value, and the Profile. This procedure resulted in a single estimate of the job content of each of the 119 positions.

The consensus procedure was followed for each position and was carried out under the direct supervision of the Hay consultants.

- Sore Thumbing - After consensus scores were obtained for each of the 119 jobs, all the jobs were ordered by total point value, pursuant to a consistency control procedure called "sore-thumbing." This review consisted of an inspection of the extent of consistency of component ratings of each job (by level), relative to an expected profile for each job. For example, the percentage of Know-How generally decreases for higher-level positions, while the percentage of Accountability increases. This does not mean that a junior officer requires more Know-How than a Chief of Section. It does mean, however, that the junior officer's Know-How is a larger part of his job because the more significant problems, decisions, etc. are passed on to others. The Sore-Thumb analysis was used to identify any discrepancies in the measurements in terms of the relationships between jobs at each level. This analysis was made with respect to Know-How relationships, Problem Solving relation-

ships, Accountability relationships, suitability of profile, as well as the overall position of the job with respect to the other jobs at that level. Any discrepancies noted were corrected by making changes in the Know-How, Problem Solving, and/or Accountability measures, which changed the total point value and the Profile. When this process had been completed, the final point value for each of the 119 jobs had been determined. The final evaluations for all 119 Foreign Service positions are presented in Volume II, Appendix F.

3. The Correlation Process

One of the unique features of the Hay Guide Chart-Profile Method is the ease with which the salary structure of an organization, in this case the Foreign Service, can be compared with external pay practices. A key to this capability is called "correlation" which is not to be confused with the term correlation used in statistics.

Hay correlation is simply the extension of the measurement process of job evaluation in one organization onto the evaluation structure of another. For example, two jobs of similar weight located in different organizations might be evaluated at different point levels due to the distinct analytic approaches of two different Job Evaluation Committees. To identify and compensate for such a condition, consultants skilled in this process establish an index or rate for each client which permits the translation of the numerical measurement of job content to a numerical value on a common scale. It is not unlike physical conversions in science -- pounds to kilograms, for example.

With respect to the Foreign Service, a conversion factor of 2.8 was established against a norm of 2.4. Thus, when Foreign Service salary levels are compared to a variety of other organizations, the comparison is based upon salary levels for like job content in all organizations.

The correlation rate or conversion factor is a numeric statement of the relationship between the evaluation structure in one organization and the standard evaluation structure developed from Hay experience and the Hay data bank. Correlated point values are referred to as Hay Points, e.g., 230 H, while uncorrelated point values are referenced as P or client points. With the common structure as a link, the correlation factor serves to relate one organization's evaluation structure to that of another or a group

of others. The ratio has, as mentioned earlier, no interpretive significance such as correlation has in statistical analysis.

The Foreign Service correlation was carried out by a team of two Hay Partners, Mr. Norman Lange and Mr. J. Alan Riordan. These consultants, expert in inter-organizational relationships, met for two days with the Foreign Service members of the Evaluation Committee in order to gain the fullest appreciation of the nature of the Foreign Service and the evaluation process as it was conducted for this study. To further ensure an appropriate level of understanding, Hay/Washington consultants and the Deputy Assistant Secretary of State for Personnel went to Hay's Philadelphia headquarters and reviewed this process with the Correlation Team and Mr. Charles G. Van Horn, the Senior General Partner (retired).

IV. OVERSEAS DIMENSION

In the context of this study, the relationship of Foreign Service job content and those variously-defined conditions and/or circumstances associated with official service in a country other than the United States must be discussed. There is little unanimity as to the componentry of an expatriate environment, and, more precisely, its effect upon the content of a job in that environment.

There is, however, ample recognition that there is an additional dimension implicit in most overseas employment. The Department of State, certainly one of the world's largest expatriate employers, strongly believes that a variety of elements found only in overseas environments substantially heighten job difficulty.

The Department has, through the years, developed a number of working papers attempting to describe this condition, and a recent example is presented in Volume II, Appendix G. The great majority of the American business community with international interests also acknowledge a uniqueness to expatriate employment through the payment of a premium of between 10% and 20% of base salary for simply going overseas. However, since the private sector administratively addresses this consideration, it generally has had no need to quantify the environmental elements which constitute this "difference" between domestic and overseas service. Institutional views aside, there also appears to be agreement among individuals who have served abroad that living and working overseas is clearly unlike the same pursuits in the U.S. Without question, the views of American expatriates vary because of location, profession, and particular experience, but a common thread connecting the various impressions is the existence of a "difference." In short, there seems to be an outstanding belief that there is a "difference" between domestic and overseas service, but that there is little, if any, agreement as to its exact composition.

As previously discussed, the Hay techniques of job evaluation are designed to identify the critical elements of "job content" and the Hay Method has been successfully used to evaluate the differences between jobs on that basis throughout the world. Since there is no commonly-shared quantification of which elements comprise overseas factors or how they may vary by location, the consultant-led Committee evaluated all overseas

Foreign Service positions only in terms of that which is recognized and accepted as job content -- Know-How, Problem Solving, and Accountability. To have attempted to consider anything but job content would have been inappropriate given the limits of research on this issue to date.

It must be understood, however, that there are a number of items which those unfamiliar with job measurement might consider as "overseas dimensions" which are in fact legitimate job content. A foreign language requirement, for example, is an element of Know-How and was therefore properly considered as job content when a requirement of the job. Similarly, supervisory interaction with local nationals, a condition found at U.S. embassies, was legitimately considered by the Human Relations sub-factor of Know-How. It must also be remembered that certain elements of job content -- whether Know-How, Problem Solving, or Accountability -- may be shaped by the fact that the job is undertaken in a foreign country, e.g., representational responsibilities which mandatorily attach to a position. This effect was indeed identified during the evaluation of Foreign Service overseas positions, the Hay measurement techniques were sensitive to it, and the Committee assessed it, as appropriate, within the established evaluation parameters.

The foregoing discussion is intended to establish that job "content" should not be -- and, in fact, was not -- confused or co-mingled with job "context."

It must be noted, however, that the consultants are of the belief that there is an extra dimension to expatriate employment: something additional exists -- a difference -- which should, in some fashion, be taken into account. As mentioned earlier, the U.S. private sector, whether as an inducement to overseas service or as one of several methods of keeping its expatriates "whole", administratively determines that the mere fact of serving abroad is compensable. On the other hand, the U.S. Government pays no such premium to official Americans posted overseas.

In terms of Hay experience, however, the existence of a "difference" is crucial to the understanding of job relationships and, ultimately, compensation. The Hay Method of Job Evaluation is related to Weber's Law in psychological measurement and the concept of just noticeable

differences. ^{1/} Weber put it this way: "In comparing objects we perceive not the actual difference between them but the ratio of this difference to the magnitude of the two objects compared." That is to say, the observed difference between two objects is not absolute and independent of the objects themselves but is relative to their size and is a constant fraction of one of them. As the following table depicts, the 15% step increments of the Hay Guide Charts recognize this perceptual progression:

<u>STEP DIFFERENCES/%</u> ^{2/}	
0/0%	- No job difference is perceived.
1/15%	- A just noticeable difference is detected.
2/30%	- The difference is quite evident.
3+/45%	- There is clearly a difference.

Private sector practice, State Department exposition, and expatriate experience suggest to the consultants that the existence of degrees of personal discomfort or substantial inconvenience, family dislocation, and cultural disorientation attendant to expatriate service is recognized. Secondly, it is also clear that an essential element of U.S. foreign policy is the successful performance of every member of the Foreign Service -- and this rests upon his or her "constant availability" to go anywhere in the world, "immediately adapt" to the foreign cultural, political, and social environment, and represent U.S. interests with the utilization of intellectual and inter-personal skills "cumulatively developed and refined" by all preceding overseas experiences. Thirdly, the necessary transient nature of the Foreign Service employee frequently halts altogether or forecloses temporarily a spouse's second income and/or career, which today

^{1/} See H.E. Garrett, Great Experiments in Psychology. New York: Century Co., 1930, pp. 268-274. Also see Edward N. Hay, "Characteristics of Factor Comparison Job Evaluation." Personnel, 1946, 22, 370-375.

^{2/} "Step Differences," in Hay terms, refer to a progression of perceived differences between jobs and should not be confused with intro-grade "steps" in the Federal pay structure.

can cause not only personal economic difficulty but husband-wife friction as well. Lastly, the highly specialized, even unique nature of a majority of Foreign Service jobs extensively limits transferability to other U.S. Government agencies offering promotion opportunities, easier working circumstances, and so forth.

Every member of the Foreign Service posted abroad is expected not merely to survive, but to succeed on a daily basis. Survival is addressed by allowances (payments to keep an employee "whole")-- housing, cost-of-living, hardship (for assignments determined to be extraordinary, i.e., a "quite evident" difference at the least), etc. -- but successful performance, i.e., "operating" in the "noticeably different" overseas milieu is not.

As discussed earlier, the relationship of "content" to "context" is unclear, and for this reason the consultants suggest that this "just noticeable difference" -- 15% -- be administratively translated to Foreign Service personnel but not in the form of a private sector premium which recognizes and responds to the fact that only a small percentage of a company's manpower is ever sent abroad. Rather, it should be made an incremental addition to the Foreign Service grade/salary structure because of its universal and continuous applicability to every member of the Foreign Service. Members of the Foreign Service:

- Are mandatorily eligible for overseas assignment;
- About 60% are always posted abroad;
- Between 40-50% are rotated every year; and
- Spend about 60% of their Foreign Service career away from the United States.

The impact of overseas service is necessarily and properly felt by the entire Foreign Service and for this reason it is most appropriately addressed by the grade/pay system. This concept will be developed in the Proposed Grade Structures section of this report.

V. LINKAGE ANALYSIS

A. METHODOLOGY

Linkage analysis is a statistical process used to establish the relative degree of difficulty of jobs in the pay grades of different classification systems, e.g., Foreign Service and General Schedule. Establishing comparability between jobs in the pay grades of the State Department and the Federal Civil Service is complicated by the fact that the State Department classification systems do not have the same number of pay grades as the Federal Civil Service System. There are 18 grades in the General Schedule system, compared to between 8 and 10 grades in the several Foreign Service classification systems.

While historic attempts at linkage analysis relied upon title comparisons or general classification methods, the techniques employed by Hay Associates have proven to be much more precise and defensible. The Hay approach is predicated on evaluating a representative sample of jobs in the selected pay grades using the Hay Method of job evaluation. Having so evaluated sample positions, it is possible to analyze the results by applying statistical techniques to determine if two grades have jobs of equivalent difficulty. This approach was used in the present study, and is summarized below:

- Representative samples of positions were drawn from Foreign Service pay grades and pay grades of the Federal Civil Service General Schedule classification system.
- Each job was assigned points using the Hay Method of job evaluation.
- Quantitative comparisons of job difficulty by pay grade were made using these point values.

The end-result of the analysis was: (1) a critical evaluation of the linkages between Foreign Service and Civil Service occupations which have been used to determine pay comparability in the past; and (2) a determination of the relationship between alternative Foreign Service pay grades and Civil Service pay grades of similar job difficulty.

B. QUANTITATIVE ASSESSMENTS OF LINKAGES

A series of descriptive statistics were employed to summarize the findings of the job evaluations. The same analyses were made separately for the State Department positions and for the Civil Service positions.

In particular, the following statistics were computed for jobs at each pay grade, using the total Hay Point data:

- Range (High value and Low value), i.e., the top and bottom scores in a rank; and
- Median Hay Point value (indicative of the central tendency in the data; $\frac{1}{2}$ of the values are higher and $\frac{1}{2}$ of the values are lower).

After the data were summarized, statistical tests were made to determine linkages between pay grades in the two systems.

1. Statistical Tests

A series of tests of the statistical significance of differences in job content were made.^{1/} These tests were made at each level of pay grade where a link was proposed between one pay grade in the Foreign Service and another pay grade in the General Schedule.

Thus, an operational definition of a linkage is when the distributions of job content for a Foreign Service and a Civil Service pay grade at a certain level are equivalent — or more precisely, when they are not different, based on a statistical analysis. For example, if FSO-3 jobs and GS-15 jobs have the same job content when tested statistically, they may be said to "link." Conversely, if their job content is significantly different, then they do not "link."

Note that all the sample jobs at a level are tested in this procedure, not just those jobs which have similar titles and/or job descriptions. Hence, the results of the statistical tests performed on representative job samples

^{1/} The Fisher Exact Probability Test was employed (Siegel, 1956). Non-parametric techniques are applicable when one cannot assume that the data are normally distributed. In the present study, the data do not satisfy the assumptions required in the use of parametric tests, e.g., a "t" test.

can be extrapolated to all the jobs at that level, producing a more stringent test of the proposed linkages at each particular pay level than one would obtain by comparing only single jobs which might or might not represent all the jobs in a particular pay grade.

Further, when the jobs in two pay grades are found to be different based on statistical analysis, the results may be used in determining relative difficulty as opposed to linkages. Thus, if GS-15 jobs are significantly less difficult than FSO-2 jobs, then the GS-15 level may be interpreted as a lower bound for the FSO-2 level.

For this reason, the finding that jobs in two pay grades in the Foreign Service and Civil Service do not link is important and useful. Even if a link was previously suspected or determined, the findings of the present study might well reject this linkage (since improved job sampling and evaluation techniques were employed). However, such a finding still has a salutary effect since it helps to show the relationship between pay grades in the two systems. Indeed, it provides an indication of the relative positioning, i.e., the relative job difficulty (content) in various pay grades of the Foreign Service and Federal Civil Service pay systems. If a statistical test shows that the job content in two pay grades differ significantly, then a statistical basis also exists for declaring that one pay grade bounds the other, i.e., is an upper or lower limit.

2. Other Analyses of Relationships Between Pay Grades

The statistical test results are generally precise and unambiguous. However, because of historic misclassification problems or simple differences between classification systems, it is occasionally found that a single link between two pay grades cannot be established. In some cases, more than one pay grade of one system links to a single pay grade in the other system, e.g., both FSO-1 and FSO-2 might link to GS-18. In other cases, it may be impossible to link the pay grades in two different systems because of the "gap" between pay grades.

When these problems are noted, the data are evaluated by inspection. This analysis considers the median job difficulty of each pay grade, as well as the range of difficulty of jobs in the pay grade. Where data do not exist for a certain pay grade, they are extrapolated for analysis purposes.

A graphic presentation of the results is then made to indicate the linkages determined by statistical analysis and inspection. This depiction uses the median Hay Point values for each pay grade in which sample jobs were evaluated. The results are presented as a series of "ladders" depicting the actual/expected relationship between pay grades in the Foreign Service and the Federal Civil Service systems.

C. FOREIGN SERVICE POSITIONS

Descriptive statistics are presented below for the selected Foreign Service pay grades included in the linkage analysis. These data are reported separately as follows:

- 1) Officer Level pay grades (these include positions at the FSO-1, FSO-2, FSO-3, FSO-4, and FSO-6 pay grades); and
- 2) Support Level pay grades (these include positions at the FSS-4, FSRU-7, FSS-7, and FSS-8 pay grades).

For each data set, the median job difficulty was computed at each pay grade. This is the typical job difficulty for the sample positions at that pay grade, expressed as a Hay Point (HP) value. In practice, half the jobs are more difficult than the median HP value, while the remaining jobs are less difficult. The range (highest and lowest HP values) are also reported at each pay grade to illustrate the extent of differences in job difficulty at each pay grade. Finally, the sample size (number of sample positions) at each pay grade is reported.

1. Foreign Service Officer Level(FSO) Pay Grades

Descriptive statistics for the FSO positions included in the linkage analysis appear in the table below.

HAY POINTS FOR THE OFFICER LEVEL
(FSO) JOB SAMPLE PAY GRADES OF THE STATE DEPARTMENT

SAMPLE PAY GRADES	HAY POINTS		
	Range	Median	Sample Size
FSO-1	554-912	736	8
FSO-2	434-734	521	7
FSO-3	353-484	420	8
FSO-4	219-408	318	11
FSO-6	161-268	166	6

Inspection of the descriptive statistics for these sample FSO pay grades indicated that the job difficulty tended to increase directly as a function of pay grade. The median HP value for the FSO-6 level was 166 HP's, for the FSO-4 level was 318 HP's, for the FSO-3 level was 420 HP's, for the FSO-2 level was 521 HP's, and for the FSO-1 level was 736 HP's.

Inspection for the distribution of scores in proximate pay grades revealed several instances of overlap in job difficulty between different pay grades. For example, some jobs at the upper end of the FSO-6 distribution (up to 268 HP's) are more difficult than jobs at the lower end of the FSO-4 distribution (as low as 219 HP's). Some jobs at the upper end of the FSO-4 distribution are more difficult than some jobs at the lower end of the FSO-3 distribution. Other instances of overlap were found between FSO-2 and FSO-3, as well as between FSO-1 and FSO-2.

Finally, inspection of the range of scores at each pay grade revealed differences in the degree of job difficulty at certain pay grades. Thus, there is a very wide variation in job difficulty at the FSO-4 level (219 HP's to 408 HP's). In contrast, job difficulty is less variable at the FSO-3 level (353 HP's to 484 HP's). There is fairly wide variation in job difficulty at the FSO-1, FSO-2 and FSO-6 level, but less variation than was observed at FSO-4.

This analysis suggests a rational classification system in that, on the average, FSO positions of increasing difficulty are accorded higher pay grade classifications. However, the overlap in difficulty noted between proximate pay grades is indicative of possible misclassifications and potential problems of internal equity. Finally, the wide variation in difficulty for sample jobs at some pay grades appears consistent with the historic reliance of the State Department on "rank-in-person."

It should be noted that the conditions cited above are not unique to the Department of State. The Hay Study on the 1975 Quadrennial Review of Military Compensation (QRMC) identified similar situations in both the military officer pay grades (e.g., 0-1 and 0-2 overlap) and the Federal Civil Service professional pay grades GS-14 and GS-15 overlap,

as do GS-15 and GS-18).^{1/} These Civil Service data are presented in Section D for comparison purposes.

2. Support Level (FSS/FSRU) Pay Grades

Descriptive statistics for the FSS/FSRU positions included in the linkage analysis appear in the table below.

HAY POINTS FOR THE SUPPORT LEVEL (FSS/FSRU) JOB SAMPLE
PAY GRADES OF THE STATE DEPARTMENT

SAMPLE PAY GRADES	HAY POINTS		
	Range	Median	Sample Size
FSS-4	114-251	136	5
FSRU-7	86-130	98	6
FSS-7	73-101	96	8
FSS-8	60-88	73	8

Inspection of the descriptive statistics for the sample support level grades indicated that the job difficulty tended to increase directly as a function of pay grade. The median HP value for the FSS-8 level was 73 HP's; for the FSRU-7 level was 98 HP's; for the FSS-7 level was 96 HP's; and for the FSS-4 level was 136 HP's.

Inspection for the distribution of scores in proximate pay grades revealed an instance of overlap in job difficulty between different pay grades. Thus, some jobs at the upper end of the FSS-8 distribution (up to 88 HP's) are more difficult than jobs at the lower end of the FSS-7 distribution (as low as 73 HP's).

Finally, inspection of the range of scores at each pay grade revealed differences in the degree of job difficulty at certain pay grades. Thus,

^{1/} Pappas, Fisher, and Martin (1976).

there is a very wide variation in job difficulty at the FSS-4 level (114 HP's to 251 HP's). In contrast, the job difficulty is much less variable at the other pay grades.

This analysis again suggests a rational classification system in that, on the average, FSS positions of increasing difficulty are accorded higher pay grade classifications. However, the analysis of FSS data from other pay grades suggests that the FSS classification system does not differentiate very well between certain pay grades, e.g., FSS-8 and FSS-9 have considerable overlap, as do FSS-6 and FSS-7. Indeed, there is a high degree of overlap between many of the FSS pay grades,^{1/} suggesting that there are small differences at best between jobs in adjacent pay grades. Again, the consultants caution that problems of overlap are not unique to the Foreign Service. The 1975 QRMC study found overlap between military enlisted pay grades (e.g., E-5 and E-7 overlap) as well as between staff positions in the Federal Civil Service (e.g., GS-5 and GS-7).^{2/} These Civil Service data are presented in the following section for comparison purposes.

^{1/} Overlap was found between FSS-8/9/10 positions, FSS-7/8/9 positions, FSS-5 and FSS-6 positions, and FSS-3/4/5 positions.

^{2/} See Pappas et al, 1976

D. FEDERAL CIVIL SERVICE (GENERAL SCHEDULE) POSITIONS

The table below presents descriptive statistics for General Schedule white-collar occupations.

HAY POINTS FOR THE CIVIL SERVICE JOB SAMPLES
IN THE GENERAL SCHEDULE

SAMPLE PAY GRADES	HAY POINTS		
	Range	Median	Sample Size
GS-18	526-985	627	20
GS-15	333-587	420	12
GS-14	264-346	293	20
GS-11*	151-193	185	5
GS-9	124-174	145	20
GS-7	85-143	112	20
GS-5	79-97	89	10
GS-3	43-69	53	10

*Civil Service Commission study (Pappas, Fisher and Doren, 1976). All other data are 1975 QRCM (Pappas, Fisher and Martin, 1976).

Inspection of the descriptive statistics for the General Schedule positions revealed that the job difficulty tended to increase directly as a function of pay grade. The median HP evaluation score for the GS-3 level was 53 HP's, for the GS-5 level was 89 HP's, for the GS-7 level was 112 HP's, for the GS-9 level was 145 HP's, for the GS-11 level was 185 HP's, for the GS-14 level was 293 HP's, for the GS-15 level was 420 HP's, and for the GS-18 level was 627 HP's.

Inspection of the distribution of scores in proximate pay grades revealed several instances of overlap in job difficulty between different pay grades. For example, some jobs at the upper end of the

GS-5 distribution (up to 97 HP's) are more difficult than jobs at the lower end of the GS-7 distribution (as low as 85 HP's). Some jobs at the upper end of the GS-7 distribution (up to 143 HP's) are more difficult than jobs at the lower end of the GS-9 distribution (as low as 124 HP's). Other instances of overlap were found between GS-9 and GS-11, GS-14 and GS-15, as well as between GS-15 and GS-18.

Finally, inspection of the range scores at each pay grade documents differences in the degree of job difficulty at certain grade levels. Thus, there are wide variations in job content at the GS-18 level (526 HP's to 985 HP's) and at the GS-15 level (333 HP's to 587 HP's). Wide variation in job difficulty was also found at the GS-7 level (85 HP's to 143 HP's). In contrast, the variation in job content is much less evident at the GS-14 level (264 HP's to 346 HP's) and the GS-5 level (79 HP's to 97 HP's). The ranges at the other levels are fairly similar, in contrast to these extreme instances.

It is noteworthy that there is wider variation in job difficulty at the GS-18 level and GS-15 level than was found for the FSO-1 or FSO-2 levels. The wide degree of difficulty characteristic of GS-18 positions, government-wide, is comparable to the wide variation found at the FSO-4 level, but not at the other levels of the Foreign Service Officer classification system.

E. PRELIMINARY ANALYSIS OF JOB LINKAGE DATA

Prior to performing statistical analyses of the data, an inspection was made of the historic Civil Service job linkages and the relative position of selected Foreign Service and Civil Service pay grades. A separate analysis was made for: (1) the FSO pay grades and the Civil Service pay grades judged to be similar; and (2) the Support Level pay grades and the Civil Service pay grades judged similar.

1. Inspection of Linkage Data for the Foreign Service Officer Pay Grades

Inspection of the median HP values at the FSO pay grades revealed the following:

- At certain levels where linkages were expected, the present median HP values differed, based on inspection. For example, FSO-3 and GS-15 were comparable, although FSO-3 was expected to fall between GS-14 and GS-15.
- FSO-4 jobs seemed to be similar in difficulty to GS-14, rather than GS-13 as expected from an historic linkage analysis.
- FSO-1 jobs were evaluated at a higher level than GS-18 positions, while FSO-2 jobs were evaluated at a lower level than GS-18.
- FSO-6 jobs were evaluated slightly below GS-11 jobs, while a link at GS-11 was expected.

The following table presents the median and range HP values at selected FSO grades.

COMPARISON OF MEDIUM HAY POINT VALUES AT THE PROFESSIONAL PAY GRADES:
STATE DEPARTMENT VERSUS CIVIL SERVICE POSITIONS

FOREIGN SERVICE POSITIONS			CIVIL SERVICE POSITIONS		
Pay Grade	Median Value	Range	Pay Grade	Median Value	Range
FSO-1	736	554-912	GS-18	627	526-985
FSO-2	521	434-734	GS-15	420	333-587
FSO-3	420	353-484	GS-14	293	264-346
FSO-4	318	219-408	GS-11	185	151-193
FSO-6	166	161-268	GS-9	145	124-174

2. Inspection of Linkages Data for the Support Level Pay Grades

Inspection of the median HP values at the selected Support Level grades revealed the following:

- FSS-4 jobs were evaluated as less difficult than GS-9 jobs, although it was expected that FSS-4 might link with GS-11.
- FSRU-7 jobs were less difficult than GS-7 jobs, instead of being linked at GS-9 as expected.
- FSS-7 jobs were less difficult than GS-7 jobs, although a link was expected at GS-7.
- FSS-8 jobs were less difficult than GS-5 jobs, although a link was expected at GS-5.

The following table presents the median and range HP values at the Support Level pay grades.

COMPARISON OF MEDIAN HAY POINT VALUES AT THE SUPPORT STAFF GRADES: STATE DEPARTMENT VERSUS CIVIL SERVICE POSITIONS

FOREIGN SERVICE POSITIONS			CIVIL SERVICE POSITIONS		
Pay Grade	Median Value	Range	Pay Grade	Median Value	Range
FSS-4	136	114-251	GS-9	145	124-174
FSRU-7	98	86-103	GS-7	112	85-143
FSS-7	96	73-101	GS-5	89	79-97
FSS-8	73	60-88	GS-3	53	43-69

3. Implications of Findings

These preliminary analyses suggest that FSO positions in the higher pay grades (FSO-1 to FSO-4) are more difficult than anticipated, relative to positions at the professional level of the General Schedule. Conversely, positions in the FSS system (FSS-4, FSS-7 and FSS-8) are less difficult than expected, relative to support staff positions of the General Schedule.

However, these conclusions are tentative, since they are predicated on only an inspection of the descriptive statistics. A rigorous test of the linkages is needed to determine if these conclusions are warranted. To provide this test, a series of formal statistical analyses were performed to determine if these tentative conclusions were sound.

F. STATISTICAL ANALYSES OF THE DATA

This section presents the results of a series of statistical analyses performed to test the historic job linkages identified by the Civil Service Commission and other linkages proposed by the State Department. Separate statistical analyses were made for: (1) the Officer Level (FSO) grades and the Civil Service pay grades judged to be similar; and (2) the Support Level (FSS/FSRU) grades and the Civil Service pay grades judged similar.

1. Statistical Analysis at the GS Professional/Foreign Service Officer Pay Grades

The Fisher exact probability test (Siegal, 1956) was applied to test the linkages. ^{1/} In the analysis, where the differences between the medians are small (suggesting a link), the test results are reported as Not Statistically Significant (NS). In contrast, where the differences are large (questioning the existence of a link), the probability of obtaining a difference this large by chance is indicated by the value of "p." Thus, a "p < .05" means that a difference this large could be expected to occur by chance no more often than five times in 100. Hence, a statistically significant difference can be assumed.

Based on this statistical analysis, the hypothesis that the sample of Foreign Service and Civil Service jobs comes from pay grades having the same median job content was supported at the following levels:

- FSO-1 and GS-18
- FSO-2 and GS-18
- FSO-3 and GS-15
- FSO-4 and GS-14
- FSO-6 and GS-11

Differences in medians at these levels were minor and hence, statistical linkages may be proposed at these levels. Note that the median test indicates that GS-18 can be linked to either FSO-1 or FSO-2.

^{1/} The test compares the central tendencies (medians) of the job content in the selected FSO and Civil Service pay grades.

The fact that both FSO-2 (median = 521) and FSO-1 (median = 736) link with GS-18 (median = 627) is explained by the wide variation in job difficulty of positions at the GS-18 level.

A statistical analysis showed FSO-1 and FSO-2 positions to vary in difficulty, but both FSO-1 and FSO-2 pay grades linked to GS-18 due to the wide variation in job difficulty at the GS-18 level.

The results of the statistical test strongly suggest that linkages do not exist at the following levels:

- FSO-2 does not link to GS-15; FSO-2 jobs are more difficult than GS-15 jobs.
- FSO-3 does not link to GS-14; FSO-3 jobs are more difficult than GS-14 jobs.
- FSO-6 does not link to GS-9; FSO-6 jobs are more difficult than GS-9 jobs.

In each case, the differences in medians were larger than would be expected by chance either five times in 100, or less; and the results appear in the following table.

STATISTICAL TESTS: RESULTS OF THE STATISTICAL TEST
FOR THE PROFESSIONAL PAY GRADES

FOREIGN SERVICE POSITIONS			CIVIL SERVICE POSITIONS			MEDIAN TEST RESULTS	DECISION RULE
Pay Grade	No. of Jobs	Median HP Value	Pay Grade	No. of Jobs	Median HP Value		
FSO-1	8	736	GS-18	20	627	NS	Link
FSO-2	7	521	GS-18	20	627	NS	Link
FSO-3	8	420	GS-15	12	420	NS	Link
FSO-4	11	318	GS-14	20	293	NS	Link
FSO-6	6	166	GS-11	5	185	NS	Link
			GS-9	20	145	P < .025	No Link

These findings can be interpreted as follows:

- FSO-1 and FSO-2 jobs are of comparable difficulty to GS-18 jobs. Hence, a Senior Executive Service (SES)/Senior Foreign Service (SFS) classification system for the State Department could include both FSO-1 and FSO-2 positions. ^{1/}
- FSO-3 and GS-15 link exactly. They have identical median job difficulty.
- FSO-4 and GS-14 can be considered to have similar difficulty. ^{2/}
- FSO-6 and GS-11 can be considered to have similar difficulty, but FSO-6 jobs are more difficult than GS-9 jobs.

Application of this logic helps to position the professional grades at the FSO-1 through FSO-6 levels, by establishing their job difficulty relative to pay grades in the General Schedule pay system. Thus, the relative position of these professional pay grades can be determined.

2. Statistical Analyses at the GS/Foreign Service Support Level Pay Grades

The same statistical test was also employed to test linkages at the Support Level proposed by the Civil Service Commission, as well as new linkages proposed by the State Department.

Based on this statistical analysis, the hypothesis that the Foreign Service jobs and Civil Service jobs come from the pay grades having similar job content was supported at the following levels:

- FSS-4 and GS-9/11
- FSRU-7 and GS-5
- FSS-7 and GS-5

^{1/} However, some FSO-2 jobs are less difficult than GS-18 jobs, while all FSO-1 jobs fall in the wide range of job difficulty of the GS-18 level.

^{2/} However, FSO-4 positions have a very wide range in difficulty, so this interpretation applies only to the median job at the FSO-4 level. Some FSO-4 jobs are less difficult than the lowest GS-14 position, while others are more difficult than the highest GS-14 position.

Thus, statistical linkages were found between these Support Level pay grades and pay grades in the General Schedule (white-collar) system of the Federal Civil Service. However, the results of the statistical tests suggest that linkages do not exist at the following levels:

- FSS-7 does not link to GS-7; FSS-7 jobs are less difficult than GS-7 jobs;
- FSS-8 does not link to GS-5; FSS-8 jobs are less difficult than GS-5 jobs; and
- FSS-8 also does not link to GS-3; FSS-8 jobs are more difficult than GS-3 jobs.

In this case, the differences in medians were larger than would be expected by chance one time in 100 or less; and the results appear in the following table.

STATISTICAL TESTS: RESULTS OF THE STATISTICAL TEST
FOR THE SUPPORT LEVEL PAY GRADES

FOREIGN SERVICE POSITIONS			CIVIL SERVICE POSITIONS			MEDIAN TEST RESULTS	DECISION RULE
Pay Grade	No. of Jobs	Median HP Value	Pay Grade	No. of Jobs	Median HP Value		
FSS-4	5	136	GS-11	5	185	NS	Link
			GS-9	20	145	NS	Link
FSRU-7	6	98	GS-9	20	145	p < .01	No Link
			GS-7	20	112	NS	Link
			GS-5	10	89	NS	Link
FSS-7	8	96	GS-7	20	112	p < .005	No Link
			GS-5	10	89	NS	Link
FSS-8	8	73	GS-5	10	89	p < .01	No Link
			GS-3	10	53	p < .01	No Link

It is possible to define the relative position of the several Support Level pay grades to complement (or supplement) the results of the linkage analyses. Given this approach, the following relative position of Foreign Service and Civil Service pay grades was found:

- FSS-4 can be positioned at GS-9 or GS-11 (due to the great range of difficulty in FSS-4 positions).
- FSRU-7 does not link to GS-9, but does link to GS-5 or GS-7.
- FSS-7 and FSS-8 fall between GS-7 and GS-3 in difficulty.
FSS-7 can be linked to GS-5, while FSS-8 jobs are less difficult than GS-5 but more difficult than GS-3.

However, inspection of the ranges of job difficulty indicates that some FSS-7 jobs are as difficult as GS-7 jobs, but FSS-7 links to GS-5 because the entire range of GS-5 jobs fall within the range of job difficulty of the sample FSS-7 positions. Inspection of the FSRU-7 data suggests that FSRU-7 jobs all fall in the range of difficulty of GS-7 jobs. Hence, the statistical linkage at this level is sustained by the relative positioning of FSRU-7 and GS-7. For FSS-8, the median job difficulty (73 HP's) fell between GS-5 (89 HP's) and GS-3 (53 HP's). However, inspection of the data revealed that some FSS-8 jobs are as difficult as GS-5 jobs, while other FSS-8 jobs are as difficult as GS-3 positions. Hence, the relative positioning of FSS-8 jobs is between GS-3 and GS-5.

G. GRAPHIC ANALYSIS OF RELATIONSHIPS BETWEEN THE FOREIGN SERVICE AND CIVIL SERVICE PAY SYSTEMS

A series of graphic analyses were made of the relationships between job content in the State Department and Federal Civil Service pay systems. In particular, a series of comparisons were made using the median HP values at each level of each pay grade. Since the jobs at each level were evaluated on a common scale (Hay Points), it was possible to analyze the data between pay grades within a system, as well as between the various pay systems. Thus, one can compare FSS-4 to FSS-7 to FSS-8 job content, as well as comparing FSS-4 to GS-9 or FSS-7 to GS-5. These analyses help to integrate the results of analyses presented previously.

Separate analyses were made for: (1) the FSO pay grades and the Civil Service pay grades judged to be similar; and (2) the Support Level pay grades and the General Schedule (white-collar) pay grades judged similar. The analyses took the form of graphic depictions of the relationships between the job content in the State Department and the Civil Service. The actual relationship between the various systems can be inferred from inspection of the median HP values at each level.

1. Analysis of Relationships at the Foreign Service Officer Grades

Figure 1 indicates the relationships at the FSO-1 and FSO-2 versus GS-18 level which was found in all previous analyses in this study. The possibility that GS-18 is positioned between FSO-1 and FSO-2 in difficulty is suggested by the graph.

At the FSO-3 level, statistical analyses had suggested that linkage might exist with GS-15; and this possible linkage is depicted in Figure 1. The statistical linkage of FSO-4 and GS-14 is also shown in Figure 1, as is the relationship of FSO-6 and GS-11. Although this was a statistical linkage, the medians are not very similar.

Inspection of Figure 1 also suggests that job content in the State Department FSO ranks may increase geometrically. Thus, the range of HP values from FSO-2 to FSO-1 is much larger than the range of values from FSO-3 to FSO-2. A similar but less pronounced finding is suggested for the GS system. Finally, Figure 1 suggests that the increase in job content from FSO-2 to FSO-1 is much greater than the increase from GS-15 to GS-18.

COMPARISON OF THE MEDIAN DIFFICULTY OF POSITIONS IN
SELECTED PAY GRADES OF THE FSO AND GS CLASSIFICATION SYSTEMS

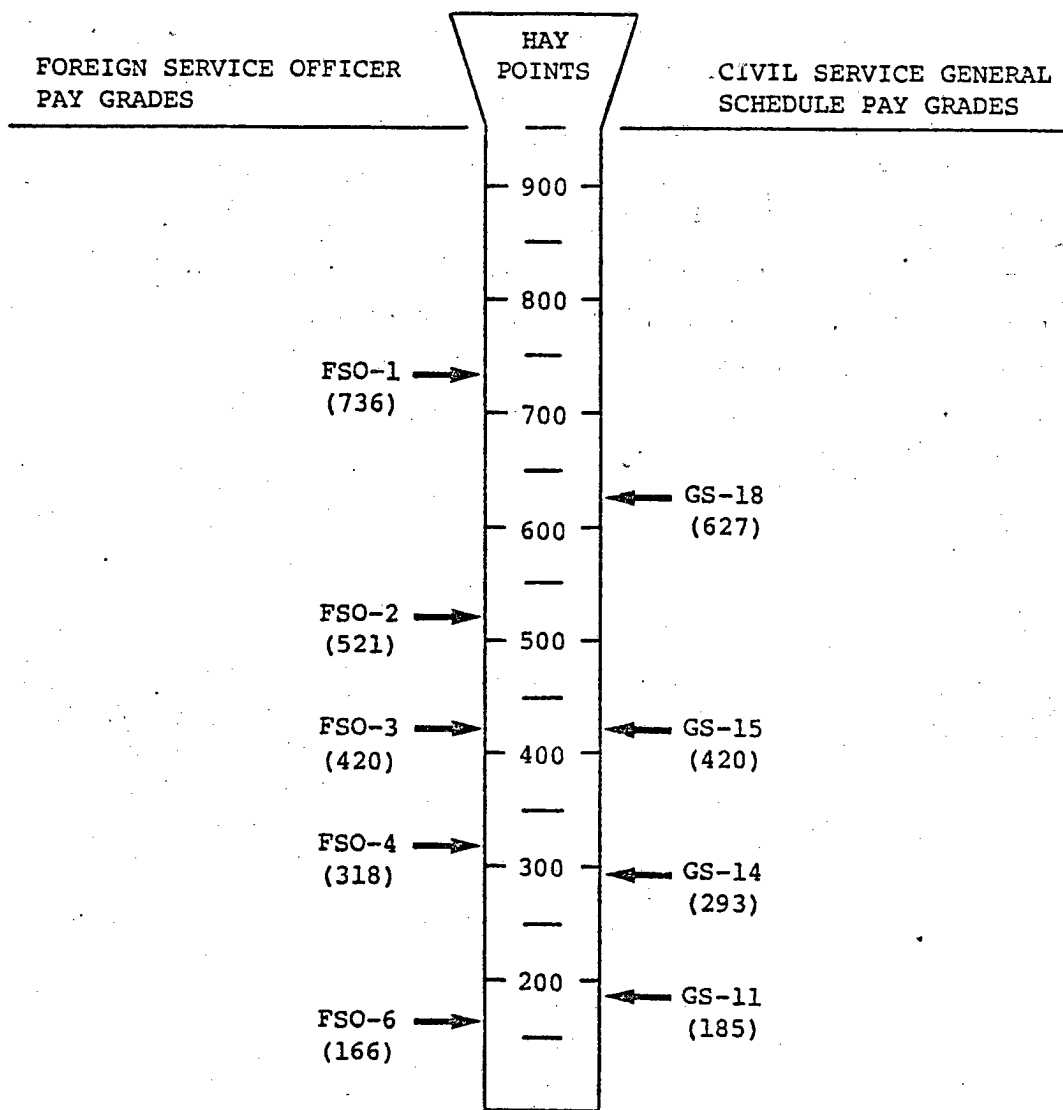


FIGURE 1

2. Analysis of Relationships of General Schedule Support Level Pay Grade to Comparable Foreign Service Pay Grades

A separate analysis was made of the relationship between job content for the General Schedule pay grades and Foreign Service Support Level pay grades. In this analysis, the median HP values for the State Department pay grades (FSS-4/7/8) were compared to the median HP values for the various Federal Civil Service pay grades.

Figure 2, illustrates the statistical linkages observed between FSS-7 and GS-5, although FSS-7 jobs appear more difficult than GS-5 jobs. They position near GS-6. The relative positioning of FSS-8 between GS-5 and GS-3 is shown in Figure 2. A positioning at GS-4 is suggested by the graph. The positioning of FSS-4 with respect to GS-9 and GS-11 indicates that, although statistical linkages were found at both GS-9 and GS-11, the typical content of FSS-4 positions falls nearer GS-9 than GS-11.

COMPARISON OF THE MEDIAN DIFFICULTY OF POSITIONS IN
SELECTED PAY GRADES OF THE FSS AND GS CLASSIFICATION SYSTEMS

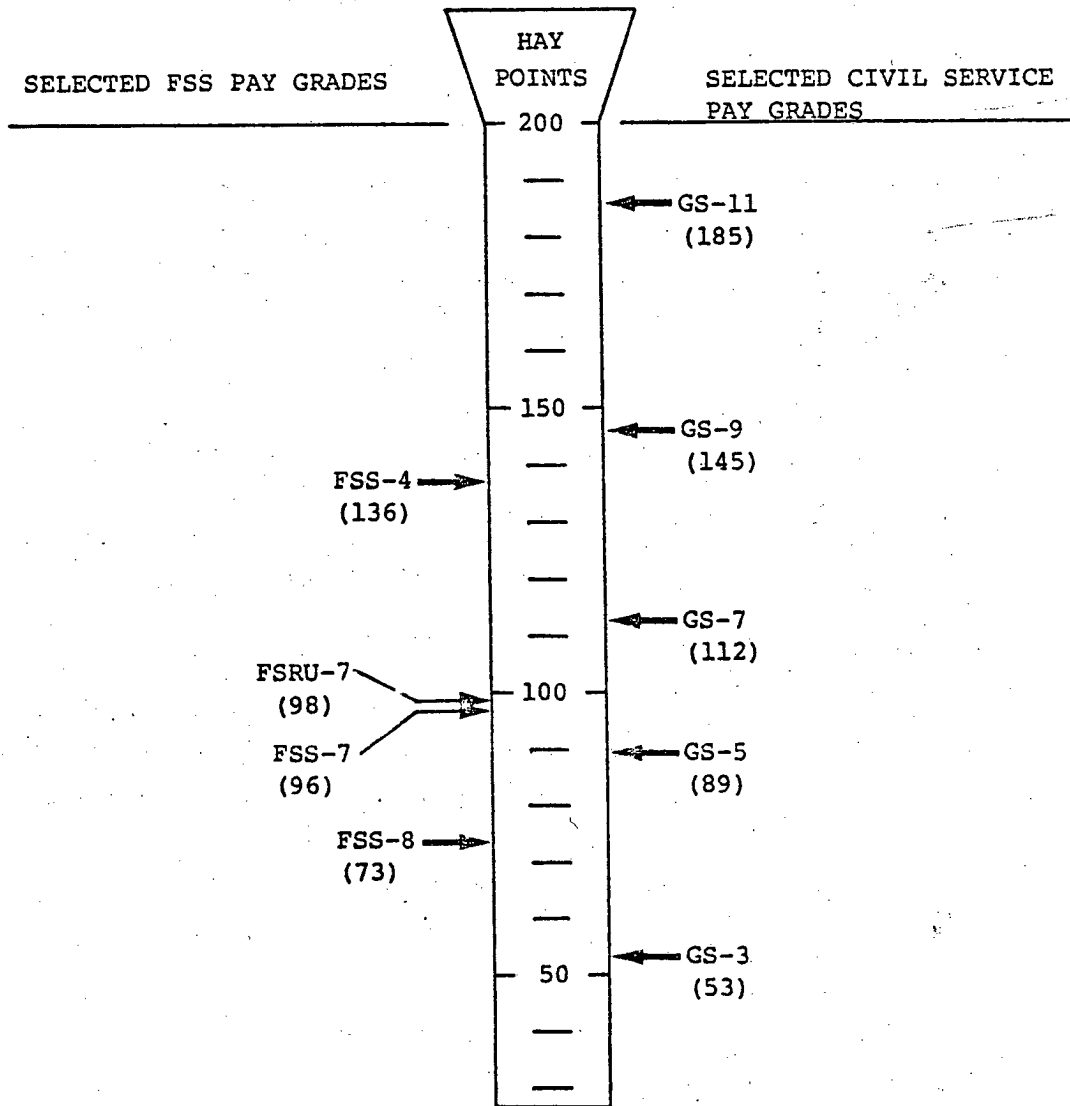


FIGURE 2

H. SUMMARY FINDINGS

The following linkages are suggested by the results of the statistical tests and inspection of the medians:

- FSO-1 and FSO-2 jobs are about as difficult as GS-18 jobs, with FSO-1 and GS-18 a more defensible link.
- FSO-3 jobs are about as difficult as GS-15 jobs.
- FSO-4 jobs are about as difficult as GS-14 jobs, but this interpretation applies only to the median FSO-4 position because of the wide range of difficulty found at the O-4 level.
- FSO-6 jobs are as difficult as GS-11 jobs, and more difficult than GS-9 jobs.
- FSS-4 jobs could link to GS-9 or GS-11 with GS-9 more defensible.
- FSRU-7 jobs could link to GS-7 jobs.
- FSS-7 jobs could link to GS-5, or be positioned at GS-6.
- FSS-8 jobs do not link to GS-5 but are more difficult than GS-3, with relative positioning at GS-4 suggested.

As anticipated, it was not possible to establish a precise correspondence between the several Foreign Service classification systems and that of the General Schedule. Similarly, possible historic misclassifications were perceived, especially at the Support Level positions. However, the foregoing results provide the initial basis for establishing a relationship and/or integration of the two classification systems, once the ambiguities of job definition have been removed through a selective examination of current classifications.

VI. DOMESTIC CASH COMPENSATION COMPARISONS

A. METHODOLOGY

The data generated by the job evaluations performed in this study provide a wealth of information for several types of analyses.

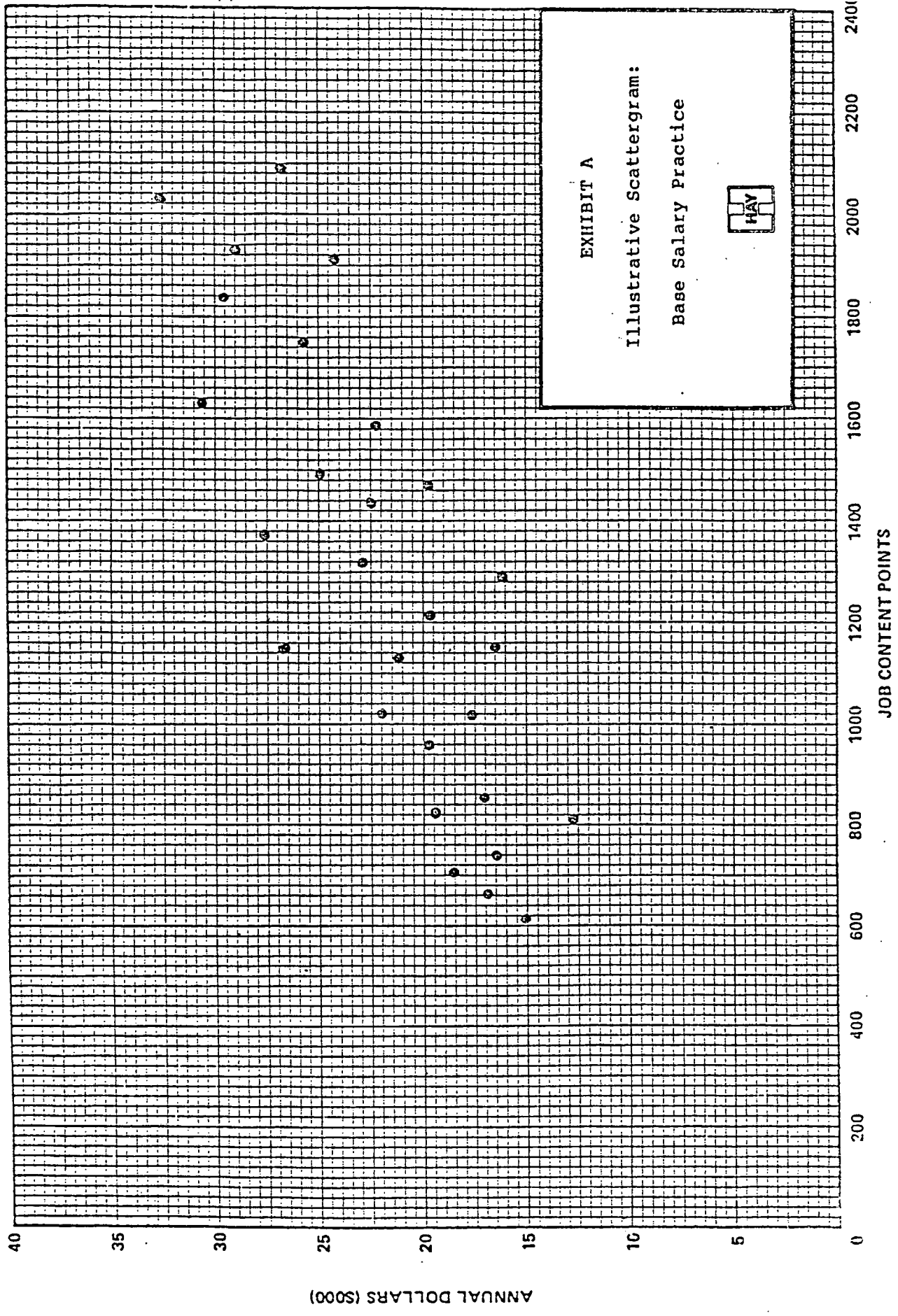
1. Analysis of Salary Practices

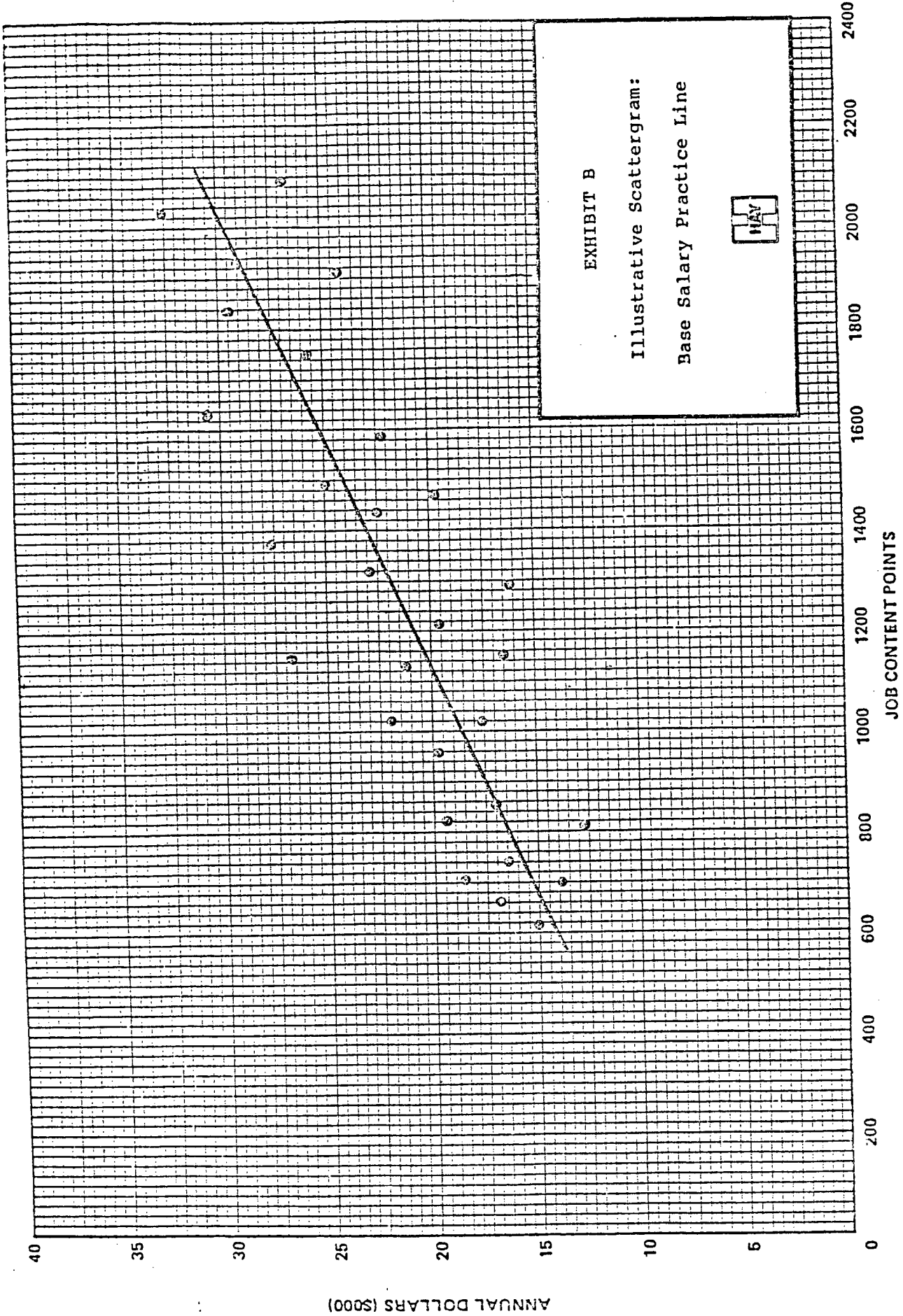
Job content evaluations lead directly to the creation of scattergrams which are developed to depict the base salary (and other compensation) practice. The Illustrative Scattergram, Exhibit A, permits the comparison of base salaries with the measured job content of positions. Each evaluated position can be represented on the scattergram by locating a dot at the intersection of the job content point value (horizontal scale) and the annual salary (vertical scale). Since rank-in-person prevails within the Foreign Service, the rank of the position's incumbent may or may not accord with the classification of the job. Consequently, Foreign Service salaries were determined by using the midpoint of the range of the grade at which the evaluated Foreign Service position was classified.

Experience has shown that salaries generally bear a reasonable relationship to the relative difficulty and importance of positions; and the pattern of dots in Exhibit A shows that, overall, salaries are increasing as job content increases. Naturally, the exactness of this relationship will vary among organizations depending on their past salary programs.

The relationship of salaries to job content points can be further illustrated by the addition of a line of central tendency, as shown in Exhibit B. Such a tendency or regression line (or lines) is developed from scattergram patterns in order to fairly describe or represent the salary practice or policy depicted by the pattern of dots. This is accomplished by fitting a line to the pattern of dots by taking into account the relative "pull" of individual positions or groups of positions. The lines of central tendency representing various Foreign Service compensation policies were calculated by a linear regression analysis.

Hay experience in the private sector is that with a salary structure encompassing only exempt or management level positions, we would expect the line of central tendency on a scattergram to consist of one straight line. There would be no bends (doglegs) or breaks. Such a situation





would reflect good internal consistency across the job content spectrum in terms of relating dollars of compensation to increasing job weight.

In the public sector such a finding is not the norm for typical public sector organizations. Bends (doglegs) or breaks in lines of central tendency are usually evident indicating that some force other than job content and normal performance considerations is exerting an influence on the salary pattern. The particular cause or causes of segmented or doglegged trend lines is sometimes difficult to identify, but commonly found influences include:

- An inconsistent approach, at various levels of the job content spectrum, toward the relationship which should exist to external pricing criteria.
- A tendency to relax or become inattentive to the "care and feeding" of certain personnel levels from a compensation viewpoint, perhaps prompted by the belief that the jobs involved are not crucial or are relatively unmarketable; and
- Abnormal lack of seasoning, tenure or good performance (or their opposites) with respect to certain segments of employees when compared to the "average" elsewhere in the job content spectrum.

Under certain conditions a multiple salary practice may also represent external forces other than the normal market relationships. Thus, with respect to Federal General Schedule employees, pay reaches a maximum ceiling of \$47,500 because of legislative constraints. In this instance, the pay line is flat at some point, and all jobs beyond that point are paid the same.

The degree to which salaries are increasing is represented by the "slope" of the line of central tendency. "Slope" is the rate of increase in salary dollars for each job content point increase. The angle of the slope indicates how conservatively or liberally differences in job content are rewarded. If the line is very steep, job content differences are rewarded at a relatively high rate; if the line is flat, the organization would not be rewarding job content differences at all and would be paying the same

salary for all positions.

One final type of analysis employed in studying scattergrams, especially for exempt or professional positions, concerns the pattern of dispersion around the line of central tendency. "Dispersion" refers to the "spread" between the low and high salaries at particular job content levels.

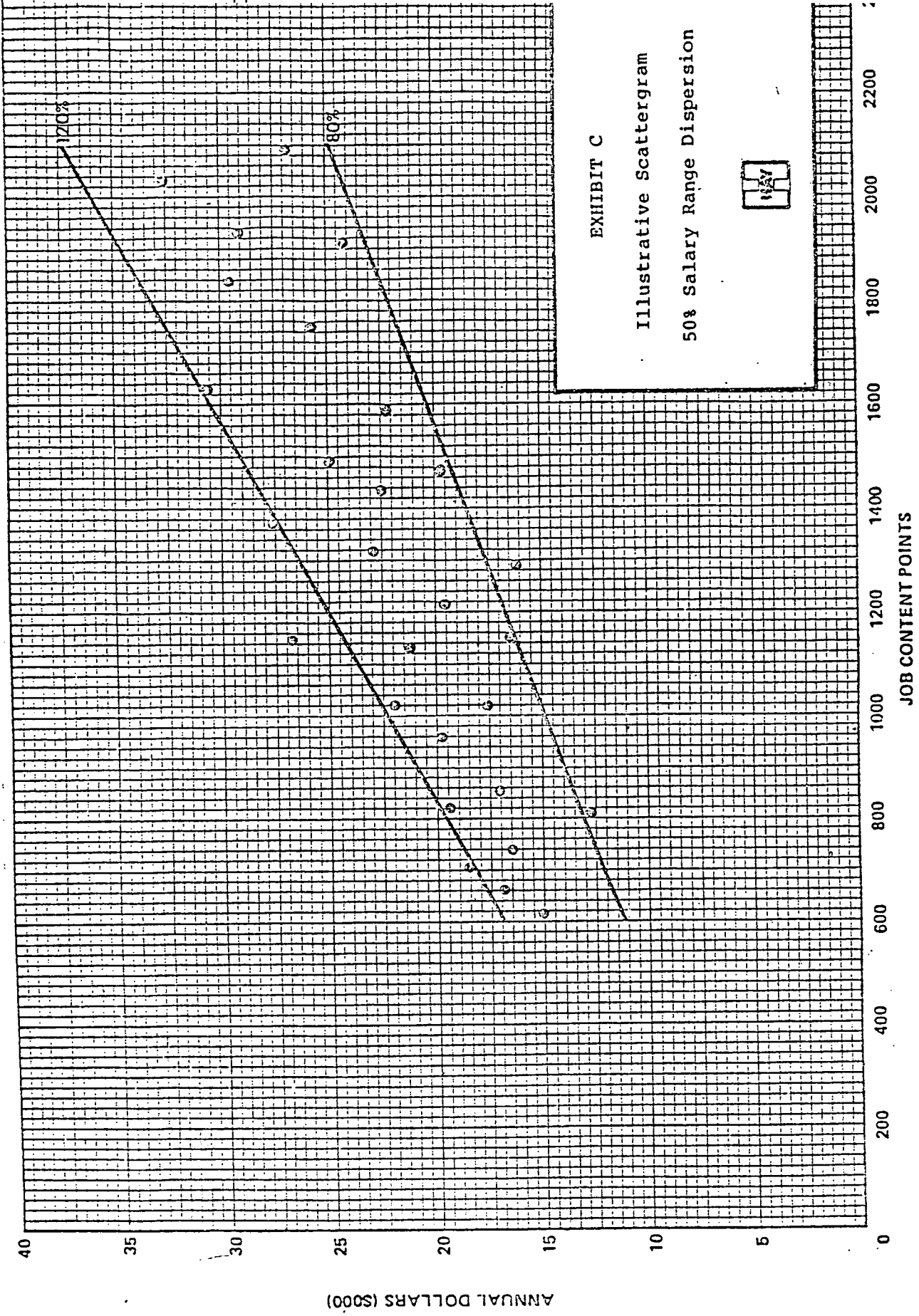
In scattergrams for professional positions, it is not uncommon to find a pattern of dispersion around the line of central tendency, i.e., the practice is usually found to be within a range of 20% below and 20% above the line of central tendency. Thus, we consider the line of central tendency to represent 100%, and we would expect the majority of positions to be within this 80% (for minimum) to 120% (for maximum) range. This is referred to as a 50% range spread, that is, the top of the range, or maximum, is approximately 50% greater than the minimum, or bottom of the range.

The 50% range spread takes into account the differences in salary which might be attributed to a number of factors such as length of service in jobs of the same content value. For instance, the consultants would expect to find a person who had been with an organization for five years earning more than another in a similar position, who had only been with the organization for a few months.

In Exhibit C, this 50% range has been placed around the line of central tendency from the previous exhibit. As can be seen, most of the positions are within the acceptable or "typical" range with the exception of a few jobs falling outside these range limits. Overall, though, the dispersion indicates equitable treatment of similar positions within the organization.

To obtain the range limits presented in Exhibit C, the following calculations were made:

- First, at two extreme points along the line of central tendency in Exhibit B (600 points and 2100 points), dollar values were identified. At 600 points, the dollar value is approximately \$14,100. At 2100 points, the dollar value is approximately \$31,000.
- Then, to determine the salary range "limits:"
 - Multiply \$14,000 and \$31,000 by .8 =
\$11,280 and \$24,800, respectively =
Minimum Values at 600 and 2100 points.
 - Multiply \$14,100 and \$31,000 by 1.2 =



\$16,920 and \$37,200 respectively =
Maximum Values at 600 and 2100 points.

Examination of the degree of dispersion around the line of central tendency in an existing salary practice scattergram gives a rather strong clue concerning two points:

- The degree to which previous methods of job content assessment or classification for pay purposes generally accord with job content judgments that have been made using a systematized method of job evaluation; and
- A "feel" of the variation in average pay caused by factors such as length of service or performance variations.

The translation of a scattergram of dots into a line representing a "salary practice" is useful for a number of reasons in examining the current pay policy of the Foreign Service. Primarily, it permits analyses of the degree of internal equity and evidences areas of possible misclassification. Further, an examination of the breaks or bends in the line of central tendency permit an explanation of some of the salary practice forces which have tended to influence compensation patterns of certain levels of personnel. Finally, an examination of the slope of central tendency indicates how conservatively or liberally differences in job content are being rewarded.

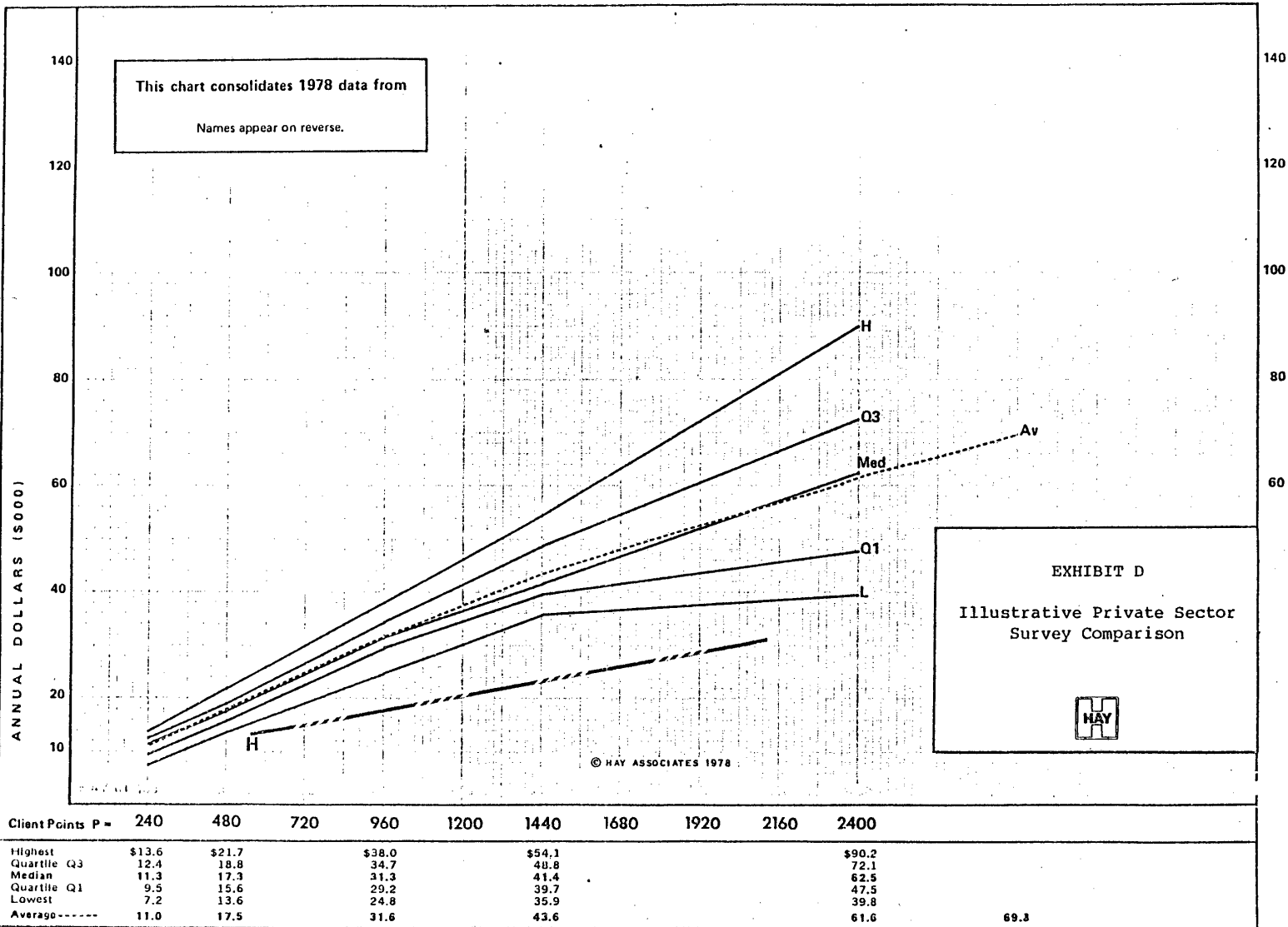
2. Analysis of Compensation Comparability

The line of central tendency resulting from the scattergram analysis also permits direct comparisons to be made of the salary practice line(s) in the Foreign Service with the salary practice lines, as well as other compensation practice lines (e.g., benefits), of external sectors or market-places.

The analysis of external competitiveness is another key step in maintaining a cash and noncash compensation program in which all elements of a compensation structure are kept up to date. Since this fact is clearly recognized by the Pay Comparability Act, Foreign Service data was compared to the General Schedule, and the U.S. private sector, domestic and overseas, using the methodologies discussed above. For example, from General

Schedule positions, previously evaluated and assigned job content "weights" by Hay, a scattergram was developed to depict Professional and Support Level average pay practices and a line of central tendency developed from the scattergram.

Exhibit D compares the hypothetical base salary practice, denominated H, presented in Exhibit B, to a Hay private sector survey group. The multiple (solid) lines represent the distribution of the survey participants, i.e., 25% of the participants are between Low (L) and First Quartile (Q1), between Q1 and Average (Av), between Av and Third Quartile (Q3), and between Q3 and High (H). Private sector comparisons in this study are presented in this fashion in order to permit a more precise appreciation of market posture relative to the survey group. Here, in Exhibit D, the hypothetical base salary line, begins and ends below the low line of the marketplace -- an obviously non-competitive position.



B. CURRENT FOREIGN SERVICE SALARY POLICIES1. Overview

As described earlier, the job content evaluation process results in the assignment of job content points to each position. It is then possible to represent each position on a scattergram by locating a dot at the intersection of the job content point value (horizontal scale) and the annual salary (vertical scale) currently being paid to each person holding a particular position.

Chart 1, presents a scattergram of all 119 Foreign Service positions evaluated in the FSO, FSR, FSRU, and FSS classes. The annual salary (vertical scale) plotted for each position reflects the midpoint of the salary range for which the position is classified.^{1/} The data presented throughout the report are expressed in both client (P) and Hay (H) points.

One initial observation which can be made from this scattergram is the wide dispersion of jobs along the horizontal (job content) axis. "Dispersion" here refers to the "spread" between low and high job content points (P) of positions at similar salary levels. For example, at the FSO-, FSR-, and FSRU-5 level, job content varies from 383 to 860 points, yet all of the positions have the same midpoint salary.

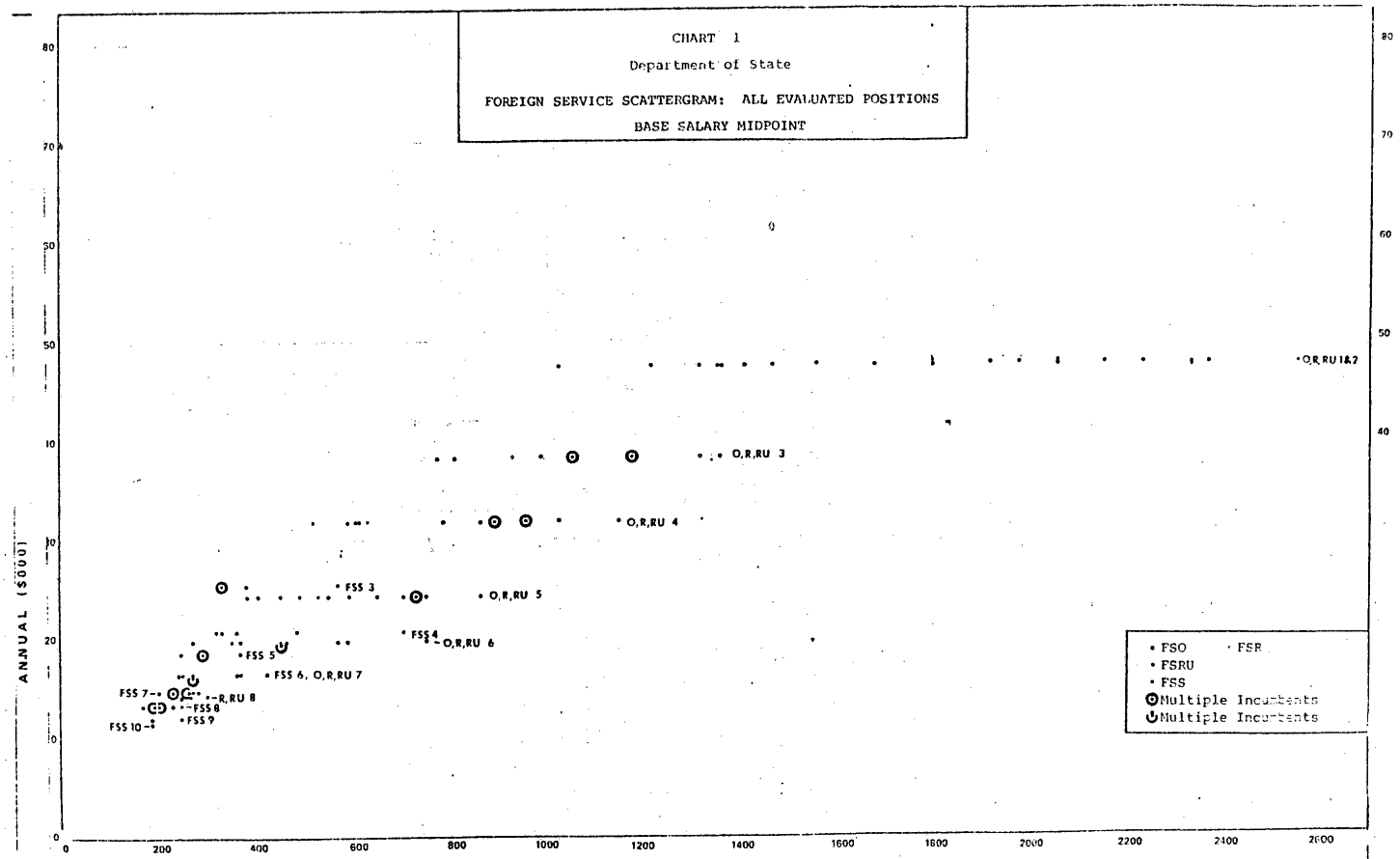
Similarly, an analysis of the vertical dispersion of salaries at the same job content level indicates that positions at similar job weights are classified at several different grades either within the same FS System or spanning across different systems. For example, at 275 points, one position is classified as FSS-6, one as FSS-7, one as FSRU-6, and four at FSRU-7.

In a classical setting, salaries should increase in relation to increases in job content. However, a number of traditional personnel practices at the Department of State can be considered as explanations for this content dispersion at similar pay grades:

- Rank-in-person

This practice, traditional to the Foreign Service and other organizations (military and academic), which places a premium on individual expertise, versatility, and intra-organizational mobility,

^{1/} For example, the FSS-10 position at 194 client (Department of State) job content points is currently receiving a midpoint salary policy of \$10,799, while an FSS-9 at 194 job content points is receiving a midpoint salary of \$12,043. All midpoint salaries utilized by the consultants are presented in Volume II, Appendix F.



understandably assigns personnel to a variety of positions with varying job content irrespective of grade. The Foreign Service, in particular, with its stringent entrance requirements and need for personnel mobility, utilizes rank-in-person to "stretch" the capabilities of its personnel in order to broaden their knowledge and experience and thereby develop a capability to "land running" anywhere in the world. This is by no means an inappropriate system or practice so long as considerations of internal equity are an element of the promotion and career development process.

- Misclassification

Some of the dispersion depicted may also result from the misclassification of positions. During the sampling and linkage phases, the consultants noted irregularities in the classification of some positions; and the Department is cognizant of this situation and is currently working toward more precise job definitions, as warranted.

- Statutory Salary Compression

The effect of the Federal pay cap at the senior levels also contributes to the dispersion discontinuities, as will be graphically shown. One effect of this condition is to "force" jobs with different content or degrees of difficulty into the same salary levels. This is highlighted within the Foreign Service, a small cadre relative to other Federal entities, where senior personnel, many of whose salaries are capped at \$47,500, are frequently moved between assignments which would otherwise be differentiated but for the compression. Obviously, similar situations exist at the senior levels throughout the Federal establishment.

It must be noted, however, that proper job classification in a rank-in-person system should serve to define not only the job but the appropriate range of personnel ranks appropriate for incumbency. In other words, the classification process should recognize that position X may properly be encumbered by officers of rank B, C, or D. This "banding" enhances the assignment process by relating job content to a suitable range of capabilities defined by rank. It is quite possible that current misclassifications within the Foreign Service result from an attempt to accommodate the legitimate needs of rank-in-person without the benefit of sufficiently precise understandings of relative job difficulty.

- External Market Influences

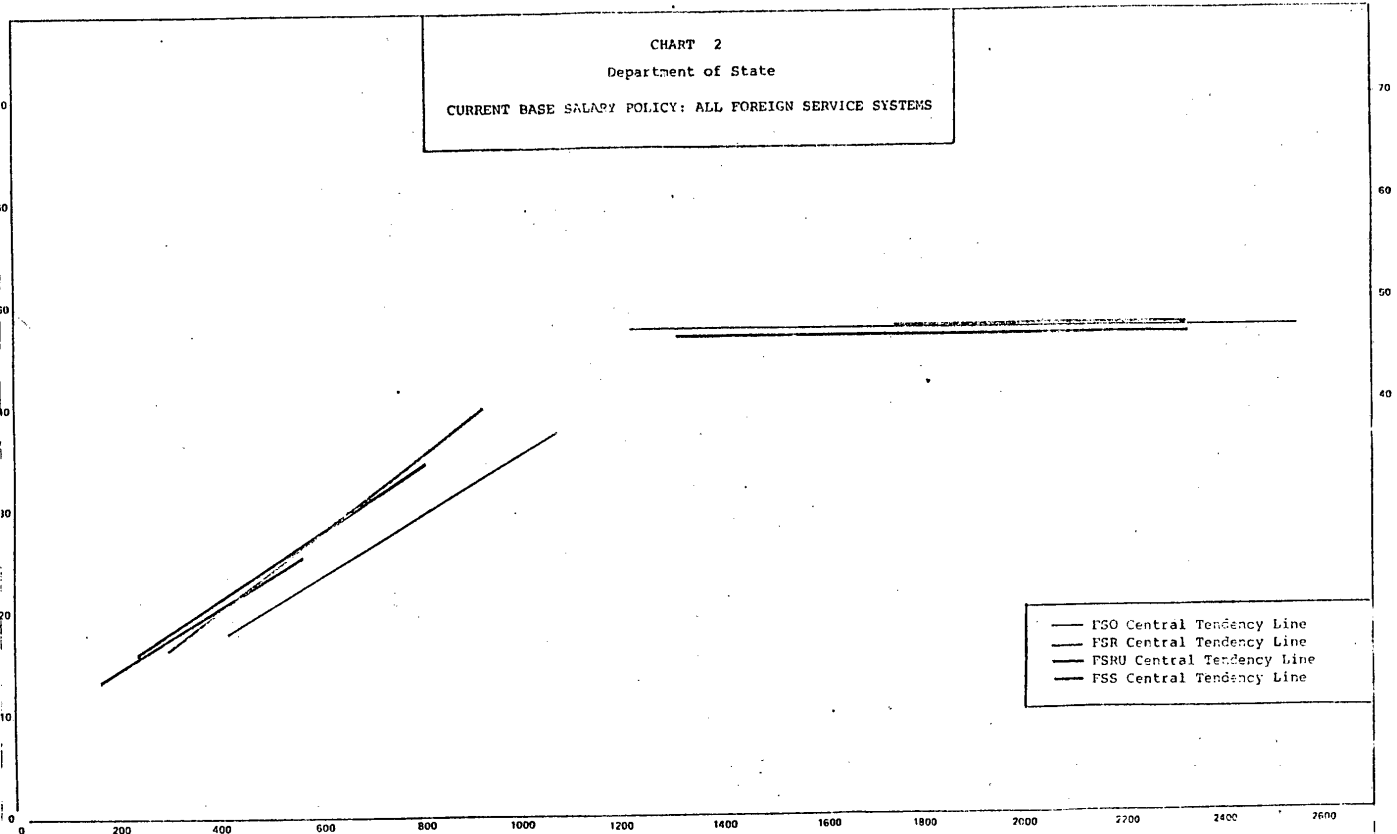
Another possible explanation for the vertical salary dispersion at the lower end of the job content continuum is the pressure exerted by the marketplace on secretarial, clerical, and technical positions. Salaries for these types of jobs have been traditionally influenced by the relatively high salaries being paid by a variety of private sector organizations. Furthermore, the special need of the Foreign Service for highly-educated secretaries capable of immediate overseas adaptation, and communications specialists not commonly found in the marketplace, may also have necessitated salary practices which respond to these requirements.

After examining the base salary policy scattergram of all Foreign Service jobs, lines of central tendency were calculated by linear regression analysis for each of the four Foreign Service classes -- FSO, FSR, FSRU and FSS. While Chart 1 permitted a visual comparison of current mid-point salaries with the measured job content of positions, the current salary policies of the Foreign Service can best be examined by developing lines of central tendency, as presented in Chart 2.

Four lines of central tendency, one for each Foreign Service class, were developed in order to determine the degree to which salaries increase as job content "size" increases within each system. Each line is drawn to encompass the approximate range of position content within each Foreign Service system, e.g., the FSS line extends from 169 to 571 job content (P) points. Through examination of these tendency lines, it is possible to compare the relationship in current salary policy among positions in each of the four systems.

It should be noted that four evaluated positions were determined to be "sports" or "outliers" and were not included in the central tendency calculations because their aberrant nature, e.g., obvious misclassification, would have distorted the tendency lines and adversely affected the representation of salary practices for each class.

One of the initial observations which can be made from Chart 2 is that salaries being paid at the upper management and policy-making levels (1200 to 2600 job content points) do not increase proportionately to increases in job content "size". This is a common and obvious finding in the public sector due to the imposition of the statutory salary ceiling -- salary



differences among these positions are virtually nonexistent. Less than \$200 separates the highest paid position (\$47,500) from the lowest (\$47,392). In a range of industrial job content equivalent to that shown for the positions in Chart 2, the range of salary difference would exceed \$40,000.^{1/} The break in the salary policy lines at 1100 to 1200 job content points highlights the effect of compression. If salaries at Foreign Service grades 1 and 2 were permitted to progress in relation to job content and the statutory plateau was removed, the tendency lines might join to form a single line.

In developing scattergrams to variously assess the compensation policies of the Foreign Service, it is important to consider the "markets" from which employees are recruited and against which they are intended to be comparably paid. Thus, in order to make appropriate compensation comparisons, the Foreign Service practices should be presented in ways which most meaningfully relate to the types of "markets" in which the Department of State competes for Foreign Service personnel. The most common means is to differentiate staff support positions from professional positions because market influences upon these positions are often very distinct and the job content of these two groups is understandably different in nature and scope.^{2/}

Support staff positions are most often recruited from "local markets," while the recruitment of professional positions is generally defined and influenced by nationwide salary competition. As would be expected, salary practice patterns differ between these two markets, i.e., local versus national.

For example, at the support staff levels a salary practice line might have a "steeper" slope than a salary practice line for professional-level positions. Often, local market conditions permit a relatively low starting

^{1/} Hay Compensation Comparison, Base Salary, Bonus and Non-bonus Companies, Chart A, 1978 Average Participant Practice.

^{2/} In the private sector, these two employee groupings are identified by reference to the Fair Labor Standards Act, which stipulates provisions for "exempt" and "nonexempt" positions. Nonexempt or staff support jobs are those which, because of their routine nature, fail to meet the test for exemption from the overtime requirements of the Fair Labor Standards Act. Typically such jobs perform secretarial, clerical or technical functions.

salary for such support personnel, but in order to retain and motivate these employees, compensation increases must be more frequent and considerable within a smaller range of job content than for professional positions.

Support staff salaried jobs are not only compensated differently than professional positions, but are more limited in scope and freedom to act than are professional-level jobs. The emphasis, therefore, is on duties and skills, rather than on broad accountability for end results. However, the skills these jobs require should not be underestimated or inadequately rewarded. The demand is high for employees with such skills as is reflected in the competitive compensation which must be offered to attract and retain them.

For these reasons, the consultants determined that the most meaningful salary compensation comparisons would be achieved by differentiating Foreign Service jobs in terms of job content distinctions for Officer Level and Support Level personnel.

Hay experience has generally established that a reasonable "breakpoint" between support and professional positions is 280 client (P) job content points, or 100 Hay (H) Points. For the purposes of this study, therefore, Officer Level and Support Level are distinguished at the 280 point threshold, and are presented throughout in that fashion.

In Chart 2, which depicts tendency lines for the four Foreign Service classes, two classes, FSRU and FSS, made up of secretarial and communications positions, dominate the Support Level threshold below 280 client (P) job content points. Officer Level positions, which range in job content from 282 to 2556 client (P) points, are composed of all four classes and the five sampled occupational groups, including secretarial and communications jobs evaluated above 280 points which function in a largely administrative and professional capacity. Highly specialized positions, security and communications technicians, which would otherwise be regarded as blue collar in nature, were found in both the Support and Officer Level and were excluded from both groups because they would normally comprise a separate category most comparable to a blue collar market. This comparison was not made because too few jobs of this type within the Foreign Service were evaluated to make representative comparisons; however, it must be observed that the blue collar positions are generally compensated more liberally than nonexempt employees at comparable levels of job content.

After separating the evaluated Foreign Service jobs into the Officer and Support Level groups, lines of central tendency were developed for each from scattergrams of the two groups in order to make direct comparisons to a number of public and private sector compensation practices.

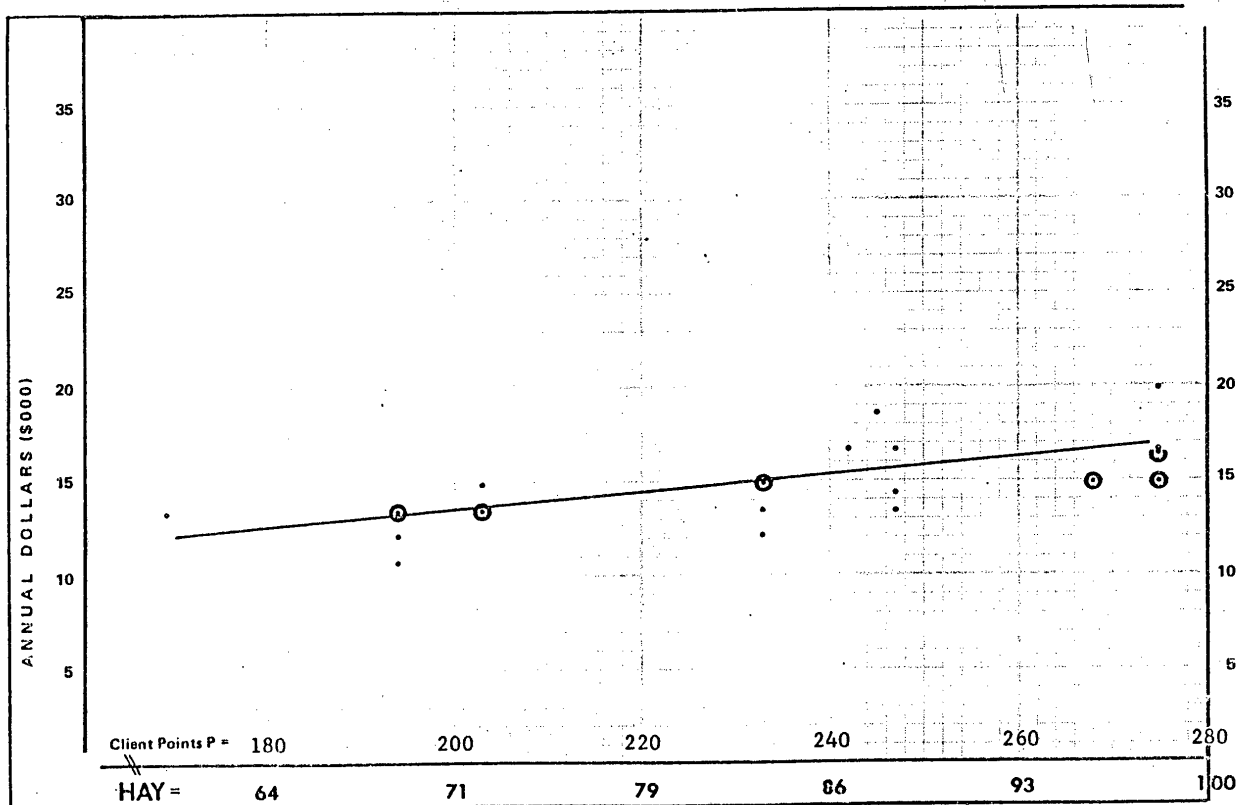
2. Support Level Base Salary Policy

Chart 3 presents a scattergram and line of central tendency for the Foreign Service Support Level positions. This scattergram is comprised of jobs in the FSRU class, grades 6 and 7 at the upper end (275 P points) and jobs in the FSS class, grades 7, 8, 9 and 10 (between 271 and 169 P points). These jobs are from the secretarial and communication areas, and include positions in both domestic and overseas locations. The Chart indicates a relatively "tight" dispersion of salaries of positions with similar job content. For example, four FSS-8, 9, and 10, secretarial jobs at 194 P points receive the same job content evaluations and are compensated at three levels. Similarly, at 247 P points, an FSS-8 job, an FSRU-8 job, and an FSS-6 job are evaluated identically and are paid at different rates. Each of these is a Support Communications Officer position.

CHART 3

Department of State

CURRENT BASE SALARY POLICY: SUPPORT LEVEL POSITIONS



May 1979
Washington, D.C.

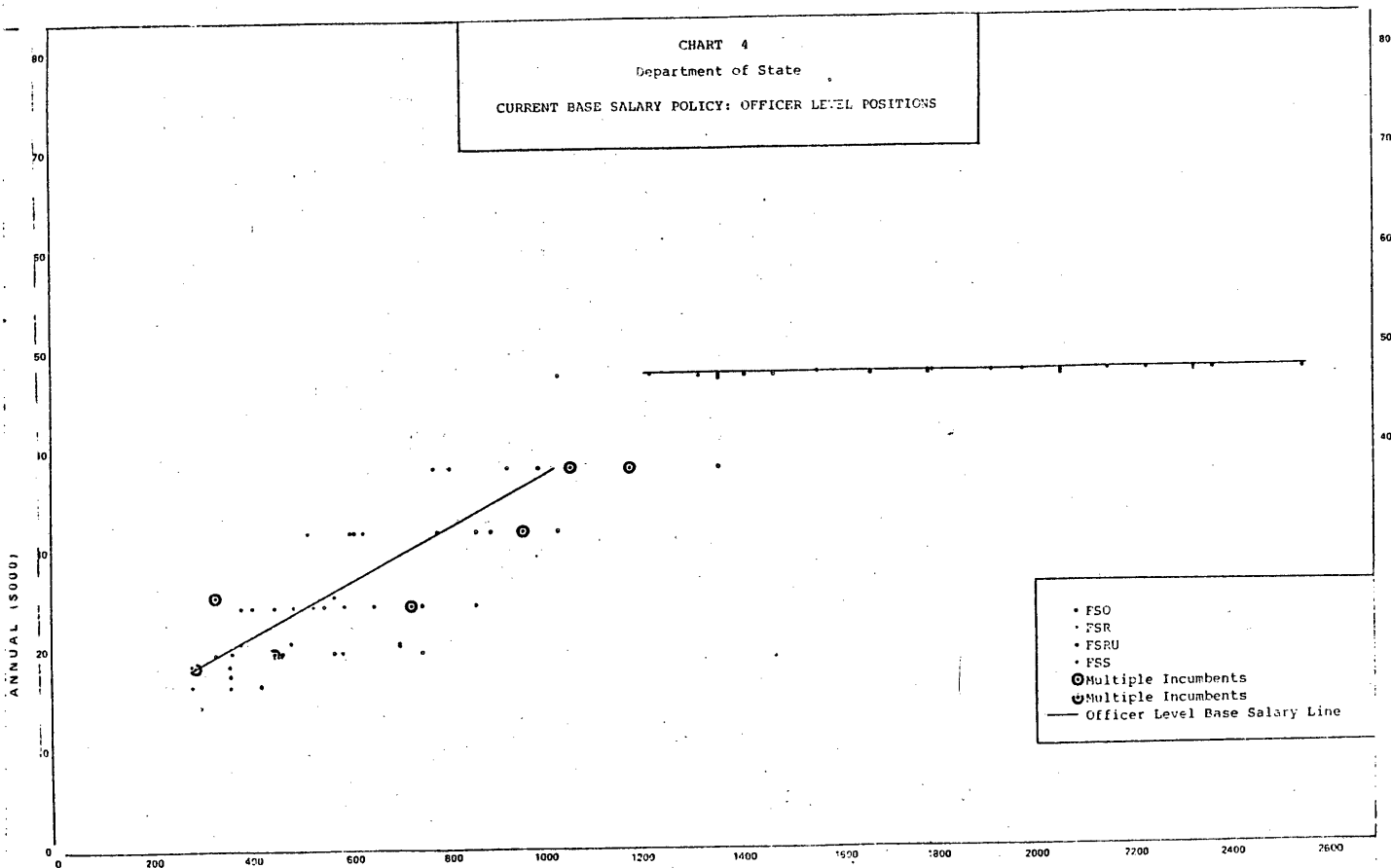
- FSRU
- FSS
- ⊙ Multiple Incumbents
- ⊕ Multiple Incumbents
- Support Level Base Salary Line

As discussed earlier, these conditions may reflect either the legitimate effect or rank-in-person or the less desirable circumstances of misclassification.

3. Officer Level Base Salary Policy

Chart 4 presents a scattergram in P points and line of central tendency for jobs at the Officer Level. Here the dispersion in job content for similar pay and the dispersion in salaries for positions of equal job content are highlighted. The effect of the Federal ceiling on compensation for jobs in the FSO, FSR, and FSRU classes, grade one and two, can also be observed. This also accounts for the break in the line at 1056 points.

However, the effect of rank-in-person is dramatically portrayed on the horizontal axis, e.g. at \$38,107, FSO/R/RU-3's range in job content from about 775 to 1350 points; at \$30,198, FSO/R/RU-4's range in job content from about 510 to 1020 points. Although rank-in-person is a fully accepted and administratively responsive personnel management approach, the consultants would suggest that the range of job content at a given rank should be carefully and consistently administered.



C. SUPPORT LEVEL BASE SALARY COMPARISONS

The creation of lines of central tendency for both Support and Officer Level positions within the Foreign Service now permits a variety of compensation comparisons. As discussed earlier, the Hay data base from which all comparison data is derived is constructed upon the same job content evaluation methodology as were all Foreign Service positions considered in this study. This, of course, acutely sharpens the precision and meaning of comparisons between the Foreign Service and other public and private entities.

As will be seen, the graphic presentations which follow are built upon Hay Points (evaluated points which have been correlated to achieve a consistent standard of comparison), although client (P) points (Foreign Service evaluation points) are correspondingly shown.

With respect to the Foreign Service Support Level positions, the consultants identified three separate comparison groups which are appropriate for a meaningful understanding of the nature, needs and relative market position of the current Foreign Service Support Level policy as represented by its central tendency line:

- General Schedule Support Positions
- Washington Metropolitan Area Nonexempt Salary Survey
- Selected International Organizations

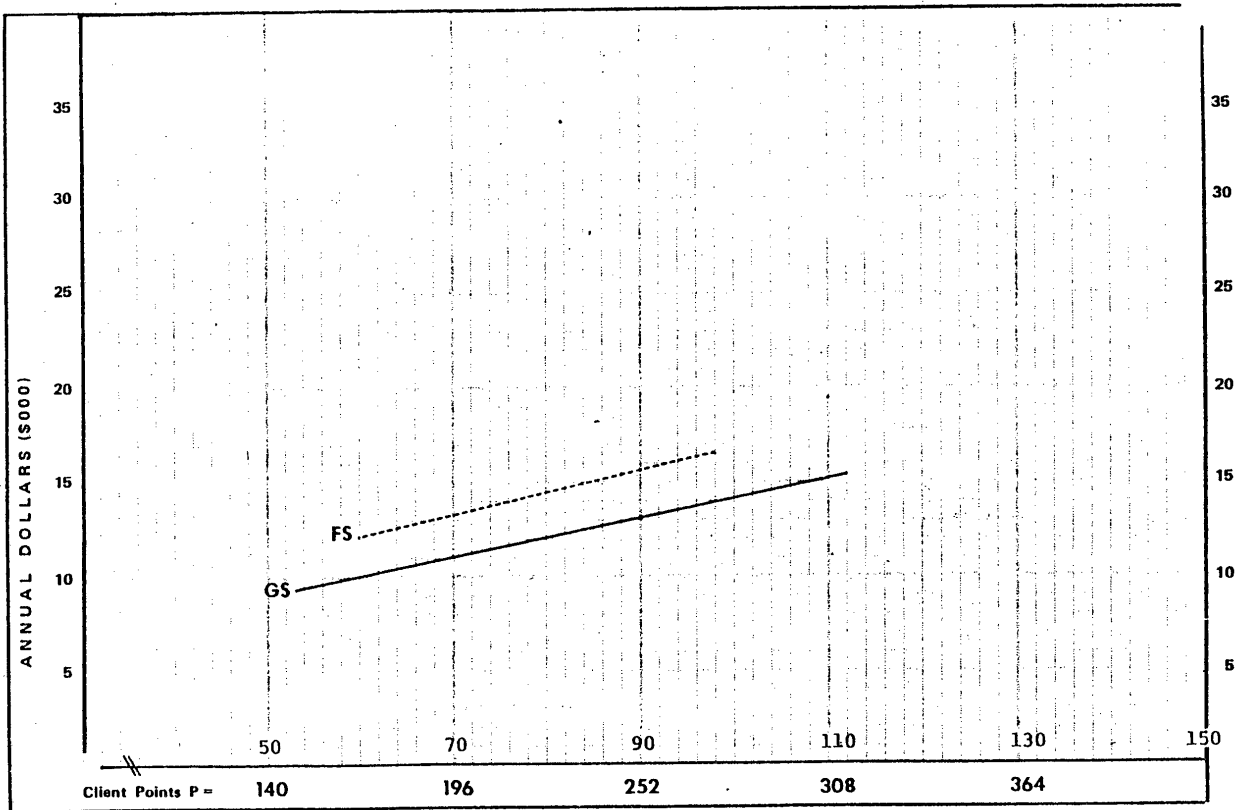
These three Support Level comparisons are considered by the consultants to be germane because of the implications of GS pay comparability, the baseline similarity between private sector nonexempt positions and those of the Foreign Service, and a commonality of purpose and environment of International Organizations and the Department of State.

1. General Schedule Support Level

Chart 5, presents the Foreign Service Support Level base salary policy against comparably evaluated positions within the General Schedule. The GS policy line was derived from Hay's data base of evaluated GS positions, and the salary levels employed are the midpoint of range in GS grade as of October 1978, the current Federal salary schedule. As Chart 5 depicts, the entire Foreign Service Support Level policy runs consistently ahead of the General Schedule, i.e., for identical levels of job content, Foreign

Department of State

GENERAL SCHEDULE SUPPORT LEVEL BASE SALARY COMPARISONS



May 1979
Washington, D.C.

— GS Support Level Base Salary Line
- - - FS Support Level Base Salary Line

Service base salaries exceed those of the General Schedule. The consultants suggest, however, that it is appropriate at this juncture to appreciate certain systemic conditions which are unique to the Department of State and occur, in the main, at the Foreign Service Support Level.

- The evaluated Foreign Service positions represent a mix of domestic and overseas positions which, of course, is not commonly found at the support levels throughout the Federal Government.
- The demands of an assignment abroad, as defined by the client, warrant at the very least recruitment standards, e.g., educational background, and levels of compensation adequate to meet this need.
- The unique utilization of cumulative experience in dealing with situations peculiar to the Department differentiates even Support Level positions from the majority of other Federal agencies and suggests a need for policies and practices which ensure appropriate personnel retention rates at this level.

The comparison between Foreign Service and General Schedule Support Level positions is appropriate and necessary since both are components of the Federal statutory pay system. However, for a comparison to be meaningful, the characteristics of the comparison group must be recognized in order to fairly distinguish an otherwise comparable job content comparison. With respect to the Foreign Service, the Department of State long ago determined that competent performance and acceptable levels of overseas adaptability were best attained through the recruitment of Support Level personnel, especially in the secretarial category, with substantially higher levels of educational achievement than would normally be required or generally found in the Federal establishment. In fact, about 50% of the Foreign Service secretarial cadre hold Bachelor's degrees and another 10% or so possess degrees beyond that level. Similarly, the cumulative experience of Departmental operations gained through continuous rotation of Support personnel between Washington and embassies abroad suggests an impetus for the Department to legitimately seek ways to retain this institutional experience which, of necessity, is developed only through multiple career experiences. This, of course, is also a valid consideration for other Federal agencies, but it would appear to be less significant given the constancy of location in Washington.

2. Washington Metropolitan Area Nonexempt Salary Survey

Chart 6, compares the Foreign Service Support Level positions to the nonexempt salary practices in the Greater Washington Area. This comparison group is derived from Hay's Annual Nonexempt Salary Survey which is conducted in sponsorship with the Washington Personnel Association. The participating companies represent the business, financial and non-profit institutions which from the Washington commercial community; and a list of these participants is found in Volume II, Appendix H.

The utility of this comparison is two-fold:

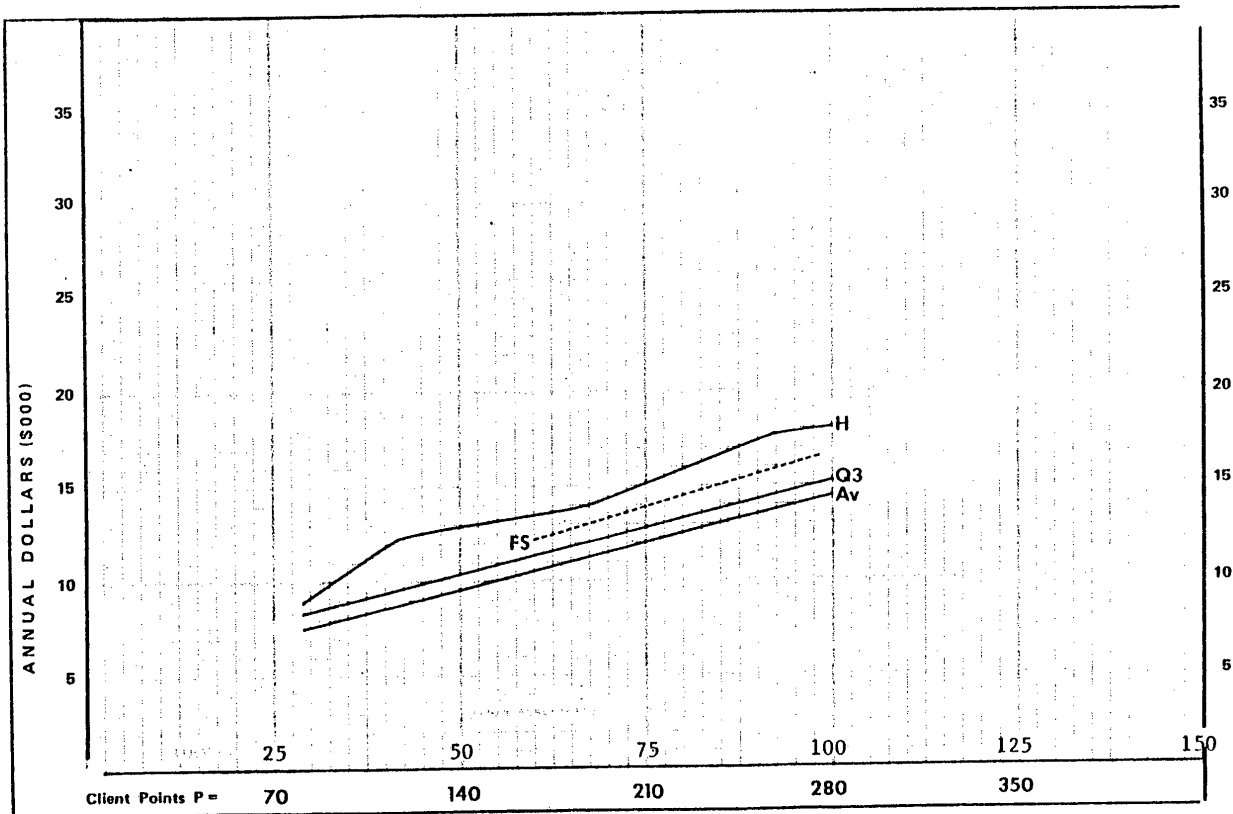
- It recognizes the fact that in our economy, the Support Level or nonexempt salary practices are, unlike professional or exempt levels, influenced by local rather than national market practices. This is due in great part to the recognition that positions at this level are generally recruited locally and incumbents inherently tend to move between similar job opportunities in the same locale. Consequently, the market practices of a particular jurisdiction are traditionally and properly looked at as the controlling influences upon hiring and promotion levels.
- It serves to highlight the differences between two comparison groups which would otherwise quite properly be seen as similar.

As can be seen on Chart 6, the Foreign Service base salary policy line is found between the Q3 and the High of the Washington nonexempt practice -- a very competitive position in private sector terms. It is appropriate to again observe, however, certain inherent differences between the Foreign Service Support Level and those nonexempt positions represented by the Survey group. Given the Departmental practice of seeking Support personnel, notably secretaries, with a substantial educational background, there is a clear distinction between the needs of the local market and this particular governmental entity. Although the Pay Comparability Act considers private sector comparisons to be useful and valid in determining Federal pay, a local market comparison with private sector personnel at the same level may not be entirely appropriate for the Foreign Service. Indeed, the Foreign Service recruits its secretaries from throughout the United States; and its Communications and Security personnel are of such a nature that they are not normally found

CHART 6

Department of State

WASHINGTON METROPOLITAN AREA NONEXEMPT SALARY SURVEY



May 1979

Washington, D.C.

Washington Area Average (Av) and Third Quartile (Q3)

— Nonexempt Salary Practice Lines

- - - FS Support Level Base Salary Line

in the private sector nonexempt market place. If the Department were a private sector entity, its special needs and characteristics might lead the consultants to recommend a nonexempt practice at the Third Quartile. Our experience has established that this is a competitive position which appropriately permits management to hire, motivate and retain its employees. Since the Department is a public institution, the consultants would urge that position classifications, institutional needs, and recruitment capabilities be closely examined in order to properly assess the efficacy of its market position.

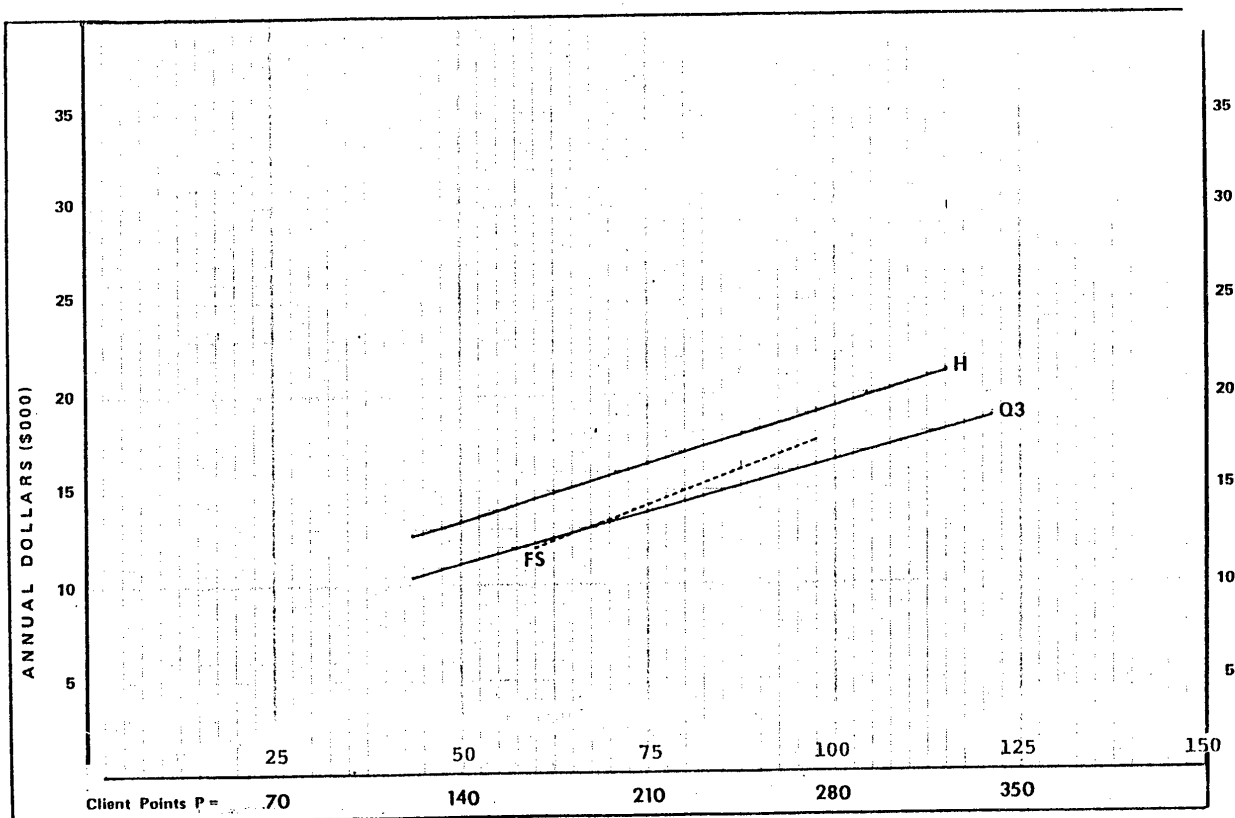
3. Selected International Organizations

A third comparison is against the composite base salary practice of General Service (Support Level) personnel of selected International Organizations found in Washington, D.C.: the Inter-American Development Bank, the World Bank (IBRD), the Organization of American States, and the United Nations as represented by the Pan-American Health Organization (PAHO). These organizations have, to some degree, a similarity of purpose to that of the Foreign Service and indeed, for many of the employees encumbering General Service positions, a job in Washington constitutes an overseas assignment. It is also clear, however, that these International Organizations possess the private sector's ability, unlike the Federal system, to compensate employees in a fashion unencumbered by the restrictions of the General Schedule. As Chart 7 illustrates, compared with this international group, the Foreign Service Support personnel are slightly below the Q3 at 187 p points and move slightly above the Q3 for the remainder of the policy. If the Foreign Service was a private sector entity, the consultants would suggest again that positioning around the Third Quartile might be an appropriately competitive level and that in this particular circumstance, a Foreign Service policy located at or slightly above the Q3 is a suitable response to market practices given the Department's special needs as it defines them.

CHART 7

Department of State

SELECTED INTERNATIONAL ORGANIZATIONS' BASE SALARY COMPARISON



May 1979

Washington, D.C.

— International Organizations' Salary Practice Line
----- FS Support Level Base Salary Line

D. OFFICER LEVEL BASE SALARY COMPARISONS

Looking next to the Officer Level, two comparisons are most suitable. The General Schedule again is clearly an appropriate point of comparison since the Foreign Service is part of and structured by the Federal pay schedule and, upon occasion, Officer Level personnel undertake tours of duty in other Federal departments and agencies. With respect to private sector comparisons, however, a national rather than local market is the only appropriate level of examination.

1. General Schedule Professional Level

Chart 8, presents the Foreign Service Officer Level against the General Schedule base salary policy for professional positions. As in previous comparisons, both populations were evaluated on the basis of job content using standardized methodologies, and the salary levels for each were established by using the midpoint of range in grade. As can be seen, the Officer Level base salary policy begins slightly above the General Schedule policy, but moves consistently closer to the General Schedule base salary policy until about 210 H points, where the two policies intersect. The Foreign Service entry posture is dominated by Communications and Record Officers and Secretaries/Assistants to U.S. Ambassadors. After 210 H points the Foreign Service policy falls below that of the General Schedule and grows consistently less competitive until the statutory pay ceiling takes effect. The critical interpretation resides with the understanding that the Officer Level is currently composed of four different categories, the job content of which varies substantially. Beyond 210 points, the Foreign Service line is markedly influenced by the introduction of FSO-6,5,4 and 3 positions which control the practice up to 420 H points. Beyond that, the statutory ceiling is simply interpreted to mean that at comparable job content levels the Foreign Service is compensated commensurately with their job content counterparts in the General Schedule. Between 420 and 630 H points, the Chart does not distinguish salary differences because of the pay cap.

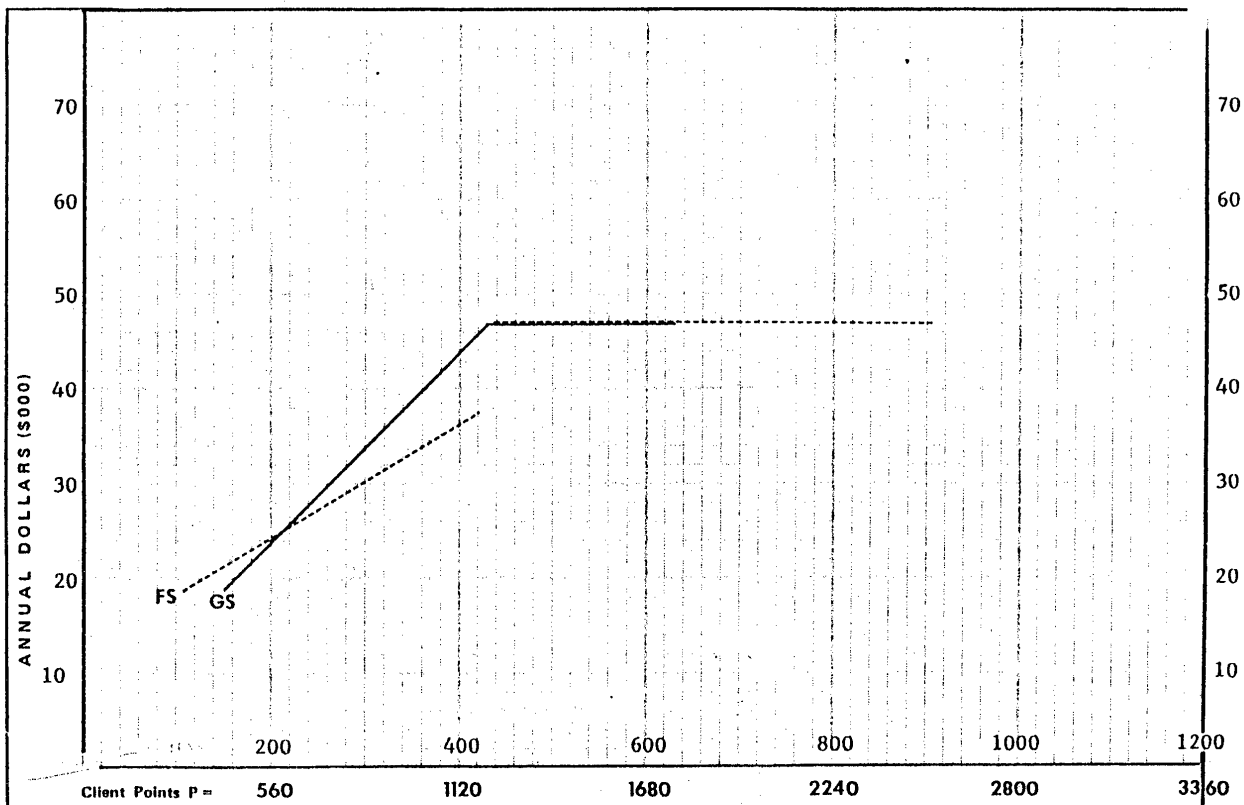
2. American Business Exempt Level

Looking next to the U.S. private sector, Chart 9 presents the practices of the American Business community as represented by the 306 multisectoral companies that participated in Hay's 1978 Cash and Noncash Compensation Surveys. The participants range from AT&T to Zenith; and a complete listing is found in Volume II, Appendix I.

CHART

Department of State

GENERAL SCHEDULE PROFESSIONAL LEVEL BASE SALARY COMPARISON



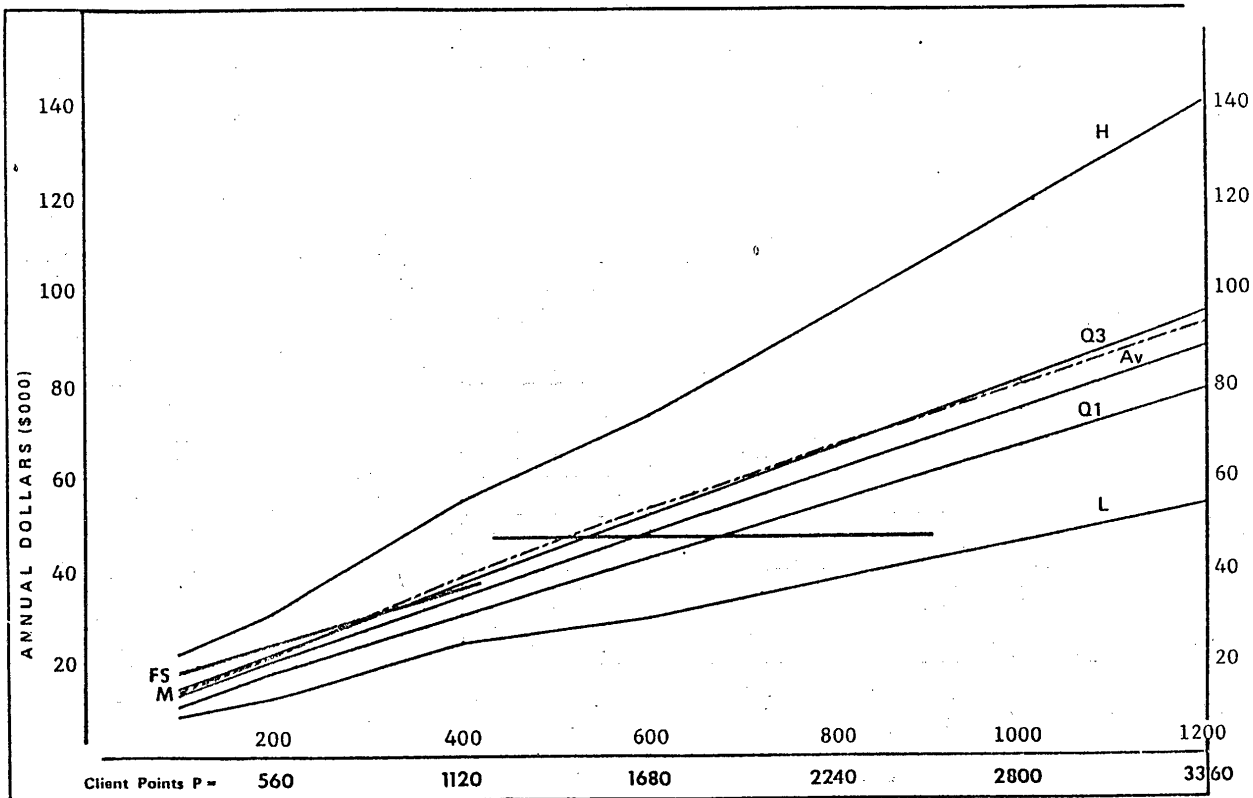
May 1979
Washington, D.C.

— GS Professional Level Base Salary Line
- - - FS Officer Level Base Salary Line

CHART 9

Department of State

AMERICAN BUSINESS EXEMPT LEVEL BASE SALARY COMPARISON



Client Points P = 560 1120 1680 2240 2800 3360



May 1979
Washington, D.C.

Private Sector High (H), Third Quartile (Q3), Average (Av),
First Quartile (Q1), and Low (L) Lines
Selected U.S. Multinational (M) Average Line
FS Officer Level Base Salary Line

As with every Hay compensation comparison, all jobs comprising the data base have been evaluated and standardized using like methodologies. The dashed line, denominated M, represents the base salary practice for the 13 selected multinational companies which comprise the survey group for the overseas compensation comparisons to be presented later. The consultants have highlighted these multinationals to establish the fact that these 13 companies participate in all cash and noncash private sector comparisons employed in this study. Consequently, their compensation practices, like those of the Foreign Service, can be independently noted at each additional level of compensation analysis. They are also identified to establish their base compensation practice vis-a-vis the American Business survey group in its entirety, i.e., they are large, representative multinational companies which understandably compensate at competitive levels throughout their structures.

Chart 9 shows that against the American Business survey group, the Officer Level base salary policy line begins above the Q3 and holds that competitive position until about 300 H points at which time it falls below the Q3. That intersection represents the point at which the FSO (rather than FSR, RU, and S) positions dominate the line. After 300 points the Officer Level line falls below the Q3 (and the average of the selected multinational companies) and approaches the American Business Average. After about 430 H points, the artificial statutory ceiling takes effect, and the Officer Level policy line -- composed primarily of rank 1 and 2 -- begins about 14% above the survey average; however, job content increases quickly carry the line below the multinational companies' average, the Q3, Average, and Q1 of American Business. The uncompetitive nature of the Officer Level policy at O/R/RU-2 and 1 is a constant fact of Federal life at that level; and this effect will be consistently depicted throughout the Officer Level comparisons.

E. TOTAL CASH COMPENSATION COMPARISON

Total Cash Compensation is comprised of base salary plus incentive/bonuses paid in cash. It is a compensation practice which, until the enactment of the Civil Service Reform Act with its pay-for-performance provision, was found only in the private sector. Today, a large number of U.S. industrial companies include a bonus policy as part of their cash compensation program while few of the non-industrial companies do.

Looking to Chart 10, the incentive/bonus generally begins to influence compensation levels at about 400 H points; and a substantial impact of bonuses on the cash compensation of private sector professionals occurs in the average bonus at 1000 H points, which Hay's 1978 survey revealed was 32% of base salary.

Incentive/bonus amounts are generally related to company practice and individual performance, and normally are fashioned by a pre-established formula. For example, a company may establish a formula which provides for a \$2 million bonus fund for having achieved 132% return on investment. This amount would then be distributed to all executives eligible on the basis of their personal performance.

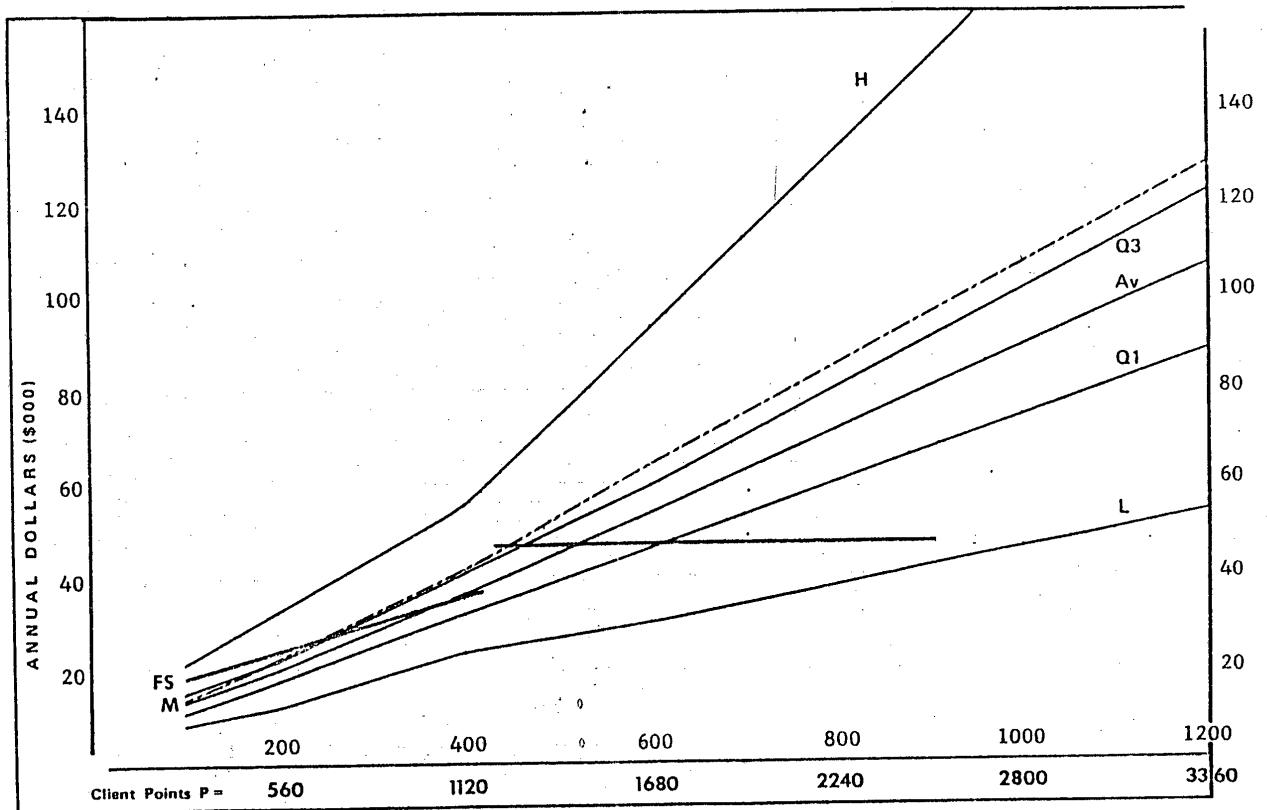
With respect to Chart 10, the overall effect of the addition of a bonus payment to the survey group base compensation is a slight modification of the competitive posture of the Officer Level up to about 420 H points, where it again falls below the American Business Average. At the grade 1 and 2 plateau, the impact is more obvious -- the Foreign Service line is, in private sector terms, only competitive between 430 and 520 H points, after which it moves below the American Business Average and Q3, and concludes approaching the Low line.

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CHART 10

Department of State

AMERICAN BUSINESS TOTAL CASH COMPENSATION COMPARISON



Client Points P =

Private Sector High (H), Third Quartile (Q3), Average (Av),

First Quartile (Q1), and Low (L) Lines

--- Selected U.S. Multinationals' (M) Average Line

no Office Level Base Salary Line



May 1979

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VII. DOMESTIC TOTAL REMUNERATION COMPARISONS

A compensation program includes more than base salary and, in some cases, incentive/bonuses. A significant portion of the total compensation program (and therefore the total compensation dollars spent) is provided in the form of employee benefits; and a recent survey of 748 businesses by the U.S. Chamber of Commerce indicates that, on average, benefits now total 36.7% of payroll. Therefore, to properly assess a compensation program, Hay believes it is proper and meaningful to compare all elements, a major aspect of which is employee benefits.

Such employee benefits generally include life, medical and disability insurance programs, retirement plans, sick leave, holidays and vacations. For private sector executives, they may also include special items sometimes referred to as "perquisites" such as company-provided automobiles, club memberships, and so forth. By adding the compensation provided through employee benefits to the cash compensation paid, the consultants are able to reach a comparison of the Total Remuneration provided domestically. In the opinion of the consultants, this is the most appropriate measure to use in comparing compensation programs since it includes all elements of compensation for which the employer incurs costs.

A. Methodology

In order to achieve a meaningful comparison, an appropriate compensation "value" must be placed on the various employee benefits offered. The first measure which Hay Associates considered when it pioneered the development of Total Remuneration comparisons some years ago, was the "actual" costs incurred by the employers for each benefit provided. However, closer examination of those costs indicated that they are not always representative of the level of benefits provided to the employees, e.g., two companies with identical life insurance programs were incurring substantially different costs. This was due to a number of factors, among which were the average age of the employees insured and the insurance purchasing "ability" of the two employers. By "standardizing" the factors which impact on the cost without impacting on the value of the benefit to the employees, Hay was able to establish compensation values for each benefit which permit meaningful comparisons while being representative of the employer cost for such benefits in a typical U.S. company.

It should be noted that the Office of Personnel Management (OPM) is now designing a total compensation comparability system which is quite similar to the one Hay has employed for a number of years. The principal difference between the two systems is that OPM bases its "standardized costs" on the costs to the Federal Civil Service if they were to adopt the benefits program of each employer in the comparison group, whereas the Hay Benefit Valuation System is based on the costs to an average U.S. employer. However, based on Hay's experience in the utilization of different "standards," we would expect the compensation "value" of the Foreign Service benefits program to maintain the same position relative to the benefits programs in our comparison groups when using the OPM or Hay system.

A discussion of the Hay Benefit Valuation System and the representative values for the various benefits in the system are given in Volume II, Appendix J .

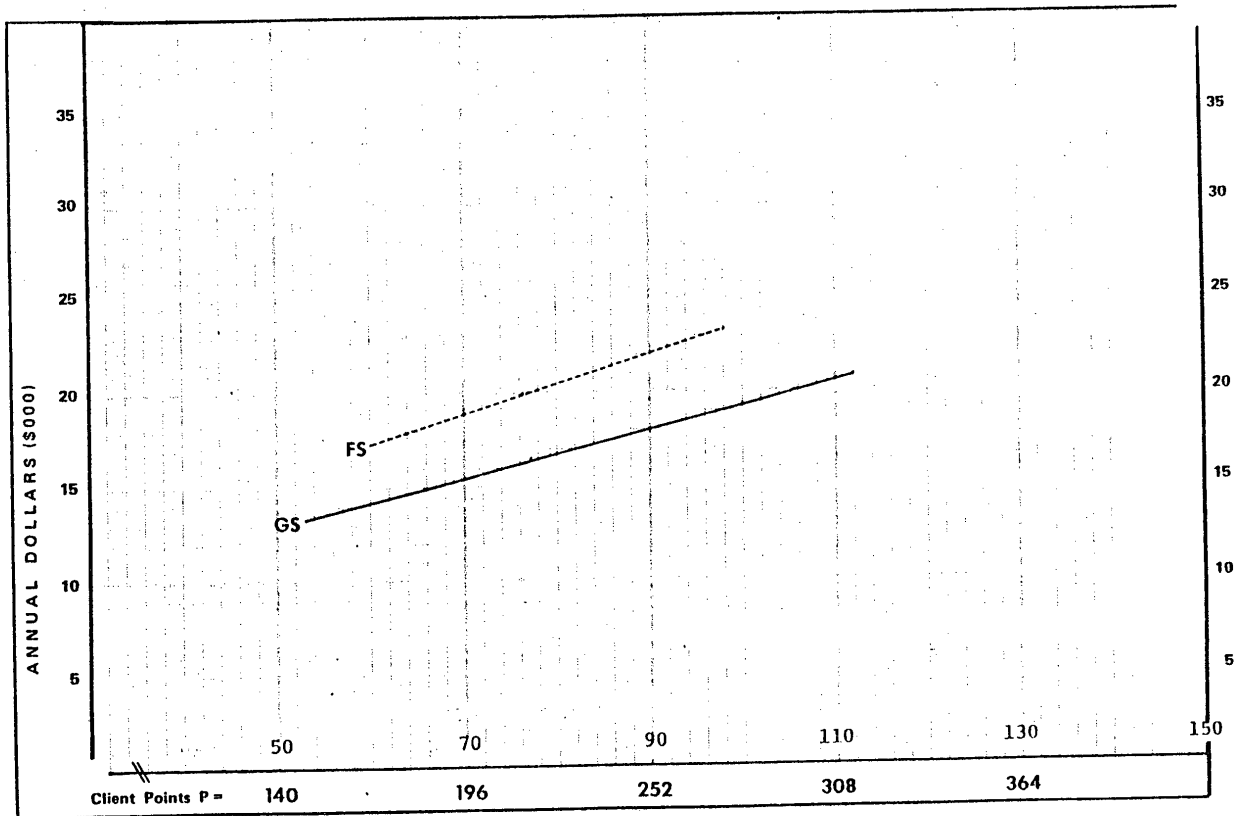
Like its data on cash compensation practices, Hay has also obtained from the 306 American Business Companies detailed information on their employee benefits from which compensation values were established utilizing the methodology just described. The consultants followed this same procedure in valuing the Civil Service and Foreign Service benefits programs. A summary of the benefits provided by the American Business Survey participants, the 13 selected multinational companies, the Federal Civil Service and the Foreign Service is shown in Volume II, Appendix K. Since a number of benefits, such as sick leave and pensions, are related to salary or total cash compensation, the values were established at the appropriate compensation levels applicable for each organization at specified levels of Hay evaluated job content.

The compensation value for the total benefit program at each specific level of job content was then added to the compensation practice at that job level (base salary or total cash compensation, as applicable), to obtain a Total Remuneration practice for each organization in the comparison group as well as the Foreign Service.

B. General Schedule Support Level

Chart 11, provides a comparison of the Total Remuneration for Support Level positions in the Foreign Service and Civil Service. Included in Total Remuneration are the base salary policies shown on Chart 5, plus the compensation value of employee benefits.

CHART 11
Department of State
GENERAL SCHEDULE SUPPORT LEVEL TOTAL REMUNERATION COMPARISON



May 1979
Washington, D.C.

— GS Support Level Total Remuneration Line
- - - FS Support Level Total Remuneration Line

As the chart indicates, the Foreign Service's Total Remuneration is slightly higher (or improved) relative to the GS base salary policy comparison (Chart 5). This is due to the fact that although the Foreign Service benefits are generally identical to the Civil Service benefits, the Foreign Service pension plan is more generous than that of the Civil Service. This difference is reflected by the fact that the Foreign Service's Support Level Total Remuneration policy is approximately 22% higher than the GS practice at all levels of job content addressed in this study.

The differences in the pension plans are found in (a) the benefit formula with the Foreign Service plan providing 2% per year for all years of service while the Civil Service plan provides less than 2% per year for the first 10 years of service and (b) the normal retirement age, ^{1/} 60 for most Foreign Service employees versus 62 for Civil Service.

C. General Schedule Professional Level

Chart 12, provides a comparison of the Total Remuneration for Officer Level or professional positions within the Foreign Service and General Schedule. Again, Total Remuneration includes the base salary policies shown on Chart 8 plus the compensation value of employee benefits as computed by the Hay Benefit Valuation System.

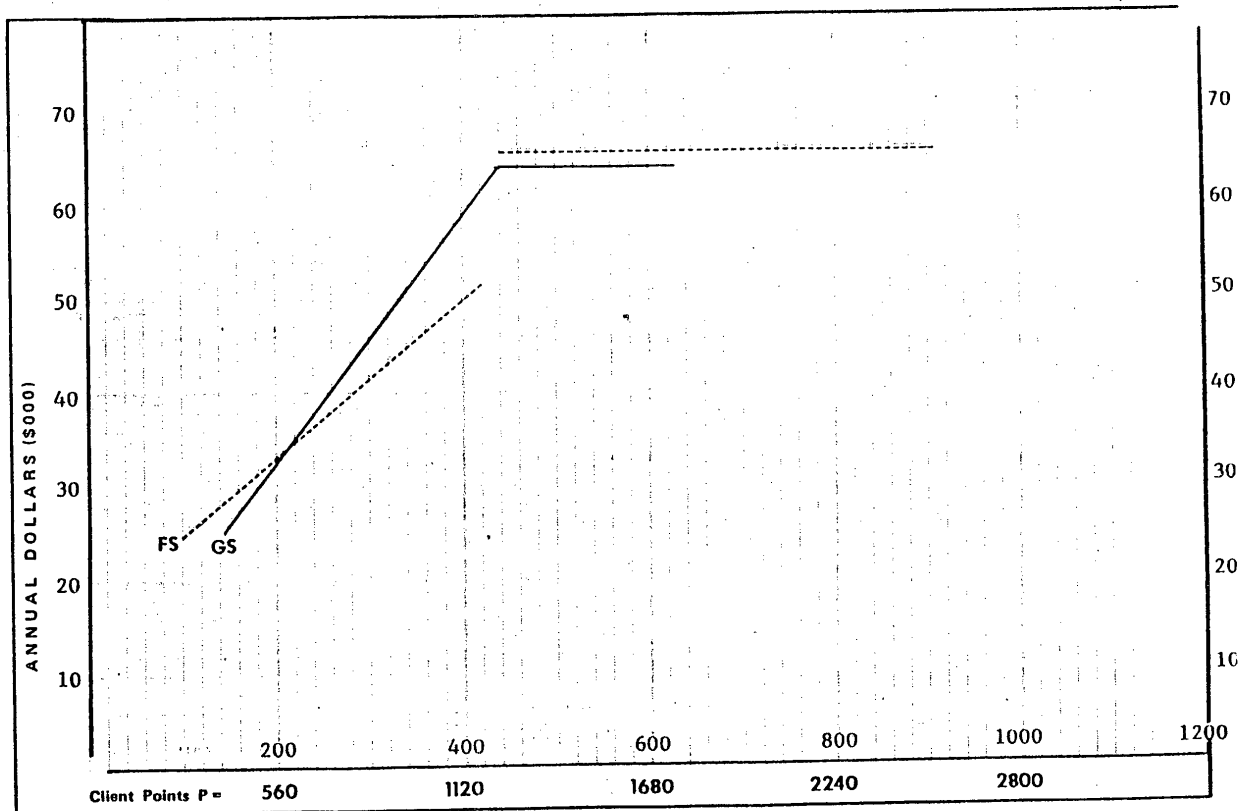
The chart indicates that the Foreign Service's Total Remuneration for its Officer Level is slightly higher relative to the GS base salary policy comparison. As noted earlier, this is due to the fact that the Foreign Service pension plan is more generous than the Civil Service pension plan, and the effect is most clearly seen at the statutory plateau. Consistent with earlier findings, however, the Foreign Service remains very competitive until about 220 H points and progressively less competitive through 420 H points.

^{1/} "Normal retirement age" is actuarial terminology for the age at which an employer normally expects employees to retire. It also represents the age at which an employee may retire on a full accrued pension, although many pension plans now offer full pensions prior to normal retirement age, subject to certain conditions.

CHART 12

Department of State

GENERAL SCHEDULE PROFESSIONAL LEVEL TOTAL REMUNERATION COMPARISON



May 1979
Washington, D.C.

— GS Professional Level Total Remuneration Line
- - - FS Officer Level Total Remuneration Line

D. American Business Exempt Level

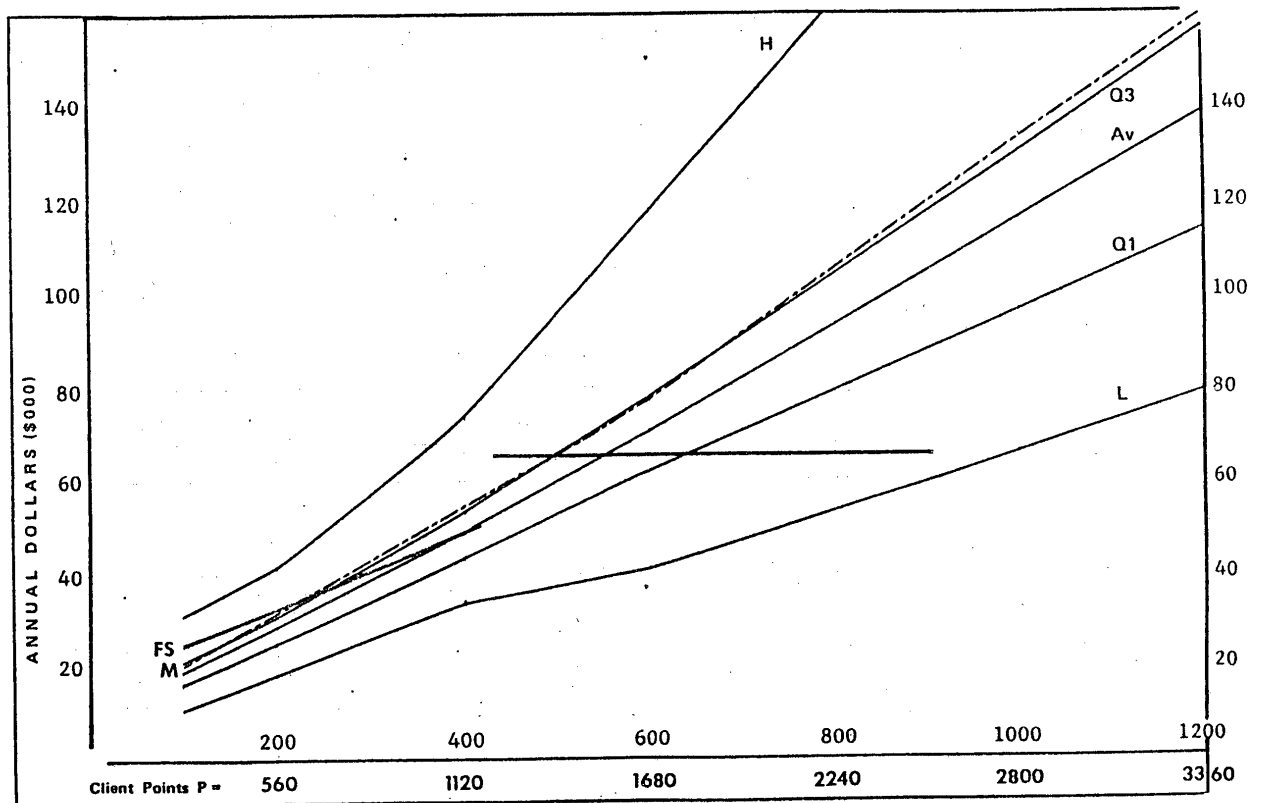
Chart 13 provides a comparison of the Total Remuneration policy for Officer Level employees of the Foreign Service versus the range of practices of American Business as well as the average practice of the selected 13 multinational companies. The Total Remuneration depicted includes the Total Cash Compensation policies/practices shown on Chart 10, plus the compensation value of employee benefits.

Up to 400 Hay points, the Chart indicates that the Foreign Service's Total Remuneration policy is approximately the same relative to the American Business practice as the Foreign Service's base salary policy is relative to the American Business Total Cash Compensation. This reflects the fact that the Foreign Service benefit program is of equivalent employer-paid value to the average American Business programs for those position levels.

Up to 240 Hay points, the Foreign Service policy is extremely competitive, but between 240 and about 400 H points, it proceeds to fall below the average of the survey group and the selected multinational companies. Above 400 Hay Points, the Foreign Service's Total Remuneration policy is noticeably better relative to the American Business practice as is its base salary practice is relative to the American Business Total Cash Compensation. However, its position after about 560 H points is again progressively less competitive. The relative improvement is due to the fact that Foreign Service benefits are substantially more generous than those provided by American Business. This is clearly reflected in the compensation value placed on the Foreign Service benefits versus the value placed on the average American Business benefits. For example, for an individual earning \$45,000 per year, the compensation value of the Foreign Service and average American Business benefits represent 37.5% and 33.0% of earnings, respectively. This result is particularly interesting in light of the fact that perquisites (such as cars, clubs, etc.), which are often provided to American Business executives at that earning level, are not generally available to Foreign Service personnel.

The reason that the Foreign Service's benefit program is equivalent to the average program of American Business at the lower job levels yet better at the higher job levels is due to the mix of benefits. At the

CHART 13
Department of State
AMERICAN BUSINESS TOTAL REMUNERATION COMPARISON



May 1979
Washington

Private Sector High(H), Third Quartile(Q3), Average(Av),
First Quartile(Q1), and Low(L) Lines
Selected U.S. Multinationals'(M) Average Line
FS Officer Level Base Salary Line

lower levels, the higher pension plan value of the Foreign Service is balanced by the larger employer-paid medical plan value of the private sector. While the medical plan values are the same at all levels, and therefore the difference in such value between the Foreign Service and American Business is constant at all salary levels, the pension plans are salary related and a pension value difference of 5% of pay has therefore much greater value at higher base salary levels.

The position of the Officer Level Total Remuneration relative to the 13 selected multinational companies should be particularly noted since the two practices will be extended in the next section to include overseas allowances and benefits. Chart 13 shows that the Foreign Service's Total Remuneration policy is 25% higher than the selected multinationals' practice at 100 Hay Points (approximate level for FSO-5 and 7 positions). The two grow closer up to 300 Hay Points (approximate level for FSO-4 and 5) where the practices are equal; and at about 420 points (approximate level for FSO-3 positions). the Foreign Service's Total Remuneration policy is about 11% lower than the multinationals' average practice. At the statutory ceiling, the Foreign Service position begins above the average of the selected multinationals but gradually loses ground up to 500 Hay Points where the two practices are equal, thereafter becomes less and less competitive so that at about 900 points, the Foreign Service's Total Remuneration practice is 87% below the selected multinationals' average practice due to the statutory cap on base salaries.

VIII. OVERSEAS COMPENSATION COMPARISONS

A. BACKGROUND

The compensation arrangements designed to meet the needs of personnel overseas is complex. While the several elements of an overseas plan are designed differently from employer to employer, the objectives are generally the same: to assure that employees assigned overseas continue a standard of living similar to "home", i.e., kept "whole," and in the private sector, to provide an inducement to accept an overseas posting.

The overseas compensation package generally includes the following elements:

- Cash Compensation

This includes base salary, in addition to an incentive bonus for some private sector companies. In the majority of cases this base compensation is the same as that paid in the United States for an equivalent position and performance.

- Employee Benefits

These include group insurance and retirement plans in addition to time off with pay on the same basis as for domestically-based employees. Most organizations continue the same benefit plans for employees sent overseas.

- Overseas Allowances

These include all payments or reimbursements provided to expatriate employees overseas.

- Overseas Benefits

These include any special employee benefit different than that provided in the U.S.

The Overseas Allowances generally represent a very important portion of the total overseas compensation plan, sometimes exceeding the base compensation itself. This situation has been caused by the substantially high inflation found in most countries relative to the U.S. and the substantial depreciation of the U.S. dollar relative to some of the major currencies. The result is that it generally now costs substantially more overseas to maintain a standard of living comparable to that in the U.S.

With over 4,500 Foreign Service officers posted abroad at any given time, the Department of State may be one of the largest expatriate employers in the world. Consequently, the Overseas Compensation Comparisons are pertinent to the Foreign Service since they will provide an assessment of the State Department's overseas allowances practices vis-a-vis those of U.S. multinational companies as represented by composite data of a selected group of these companies. Furthermore, by adding the value of the overseas allowances to the domestic compensation as presented earlier, the consultants were also able to indicate the position of the Foreign Service's Total Overseas Compensation relative to those particular U.S. multinationals.

B. COMPARISON GROUP

The 13 U.S. multinational companies chosen to represent American Business's overseas expatriate compensation practices are those for which Hay Associates had readily available data:

- Chase Manhattan Bank
- Cheesborough - Ponds
- Dow Chemical
- Dow Corning
- ESB, Inc.
- General Electric
- General Foods
- Honeywell
- Inmont
- Kimberly-Clark
- Pepsico
- Union Carbide
- Uniroyal

It should be emphasized that these companies' compensation practices are typical of those of large U.S. multinational companies; however, surveying a greater number of such employers would more firmly establish "representativeness", although the composite practices might be substantially similar to those presented herein. A comparison of the compensation practices of these 13 companies against those of 109 U.S. companies with 1978 sales in excess of \$1 billion indicated that the average of the companies' practices was quite close to the average of the designated Billion Dollar Companies. This comparison also highlights a point of meaningful commonality since the Department of State's annual appropriation is more than \$3 billion.

C. METHODOLOGY

1. Overseas Allowances and Benefits

Overseas allowances can generally be classified as follows:

● Overseas (Inducement) Premiums

These are generally expressed as a percent of salary which is paid uniformly to all expatriates. No premium is paid by the U.S. Government. Private sector companies which provide such premiums usually set them in the area of 10% - 20% of base salary.

● Cost-of-Living (Post) Allowances

These are designed to cover the difference in the cost-of-living between Washington, D.C. (or the employee's home base) and the foreign location; and these are usually updated regularly.

● Hardship Allowances (Post Differential)

These are designed to provide a payment for serving in locations having extraordinarily difficult or unhealthy living conditions. Most private sector companies follow the State Department practice in this area.

● Housing (Quarters) Allowances

These consist either of employer-provided housing, an allowance to cover the full cost of housing, or the portion of the cost in excess of the cost in the U.S. The U.S. Government's allowances are designed to cover the full costs (although there is a dollar ceiling) while the majority of allowances in the private sector cover only the excess above normal or average U.S. cost.

● Education Allowances

These are designed to cover an extra cost associated with obtaining acceptable American-oriented educational programs for children at the primary and secondary school levels. The allowance generally covers tuition, books, fees, and transportation. In addition, the Department of State and many private employers pay the cost of travel to permit dependent children attending college in the U.S. to visit their parents at the post once a year.

- Home Leave

This is designed to permit the expatriate employee to visit the U.S. on a regular basis (usually annually or biennially).

The allowance usually covers the tourist class air fare for each member of the family, with all expenses in the U.S. borne by the employee.

- Rest and Recuperation (R&R) Leave

This is generally provided at certain hardship locations — those having difficult environmental conditions. The allowance generally covers the cost of round-trip air fare only. This type of leave is provided by the Department of State; but it is not generally provided by the private sector, especially those companies which provide an annual Home Leave. However, of those private sector companies that do provide R & R, some may also pay per diem, which the Department does not.

- Relocation Expenses

This allowance generally covers the total cost of relocating employees overseas, including temporary lodging. Some reimbursements are subject to a maximum amount. Employees in the private sector who sell or lease their home when transferred overseas will generally be reimbursed for all expenses incurred, including the real estate commission, while employees of the Foreign Service have none of these expenses reimbursed.

- Representation Allowance or Business Expenses Reimbursement

Expenses incurred in representing the U.S. Government or a company are generally reimbursed in full to the employees. However, a major difference between the Foreign Service and the private sector is that the State Department pre-establishes an annual amount which is available at each post for representation while the private sector companies do not generally have a rigid pre-established limit. This difference may result in some out-of-pocket costs for Foreign Service employees who must undertake official entertainment despite the fact that no representational funds are available. Expenses for domestic help are usually reimbursed for only a few senior-level employees, both in the Foreign Service and the private sector.

- Special Services

Depending on the location, U.S. Government employees may be able to take advantage of certain services such as duty-free purchases, military PX and Commissary. These services are not generally available to private sector employees.

- Income Tax Allowance

Non-U.S. Government employees working abroad must pay local income tax on their income; and the income tax in most countries is higher than in the United States. Most multinational companies provide their employees an income tax allowance, the objective of which is to ensure that employees would have the same net income that they would have earned in the U.S. The allowance, therefore, covers the difference in taxes or the domestic compensation plus the full tax on overseas allowances. U.S. Government employees do not pay local income taxes; and all overseas allowances, other than any Hardship Post Premium (Post Differential), is non-taxable.

The overseas benefits include any benefit which is different than that provided for U.S. employees. This may include special insurance or pension benefits or different or additional paid time-off policies. The Foreign Service and the majority of private sector companies continue the same benefits plan overseas. In the area of paid time-off, some organizations, such as the Department of State, provide extra time-off in addition to the regular annual leave for Home Leave purposes, while others, including the majority of private sector companies, utilize the same annual leave policy, often subject to a minimum, such as 4 weeks, for Home Leave purposes.

The overseas allowances and benefits which are included in the comparisons which follow are those which both Hay and the Foreign Service Allowances Staff consider as forming part of an employee's total overseas compensation plan. Excluded are relocation expenses reimbursement and the representation of business expenses reimbursement. A summary description

of all overseas allowances provided by the Foreign Service and those generally provided in the private sector, including those provided by the 13 selected multinational companies, is given in Volume II, Appendix L.

The majority of the allowances vary in amount from post to post. In addition, a number of the allowances usually vary with the size of the employee's family or the age and school grade level of the dependent children. Therefore, in order to compare practices, it was necessary to identify a certain number of representative posts, and determine what family size would be assumed, and what age(s) and school grade level would be assumed for the dependent child(ren).

2. Assumptions

As a first step, it was necessary to select the posts. Since the differences between the Foreign Service allowances and the private sector allowances are not uniform at all locations, it was agreed that the selected comparisons be based on the average of the allowance applicable at ten (10) overseas locations. To assure that the locations chosen would be representative of the distribution of the Foreign Service overseas personnel, Hay sought from the State Department the ratios of Foreign Service employees located in each major geographic area -- Latin America (ARA), Europe (EUR), East Asia (EA), Near East and South Asia (NE/SA), and Africa (AFR). From the results, and in consultation with the Department's Allowances Staff, 10 locations were selected as representative of the Foreign Service personnel distribution overseas:

- Athens (Greece)
- Bahrain (Bahrain)
- Bangkok (Thailand)
- Buenos Aires (Argentina)
- Helsinki (Finland)
- Kuwait (Kuwait)
- Ouagadougou (Upper Volta)

- Paris (France)
- Rome (Italy)
- Tegucigalpa (Honduras)

As a second step, Hay requested from the State Department data with which to compute the estimated size of the average Foreign Service family unit. The result was 2.8722 members per family, which was rounded to 3 members for purposes of calculating allowances (i.e., husband, wife, and one child). The one child was assumed to be age 13 and in grade 7. A discussion of the family size calculation procedure is found in Volume II, Appendix M.

3. Basis of Comparison

It is important to note that all compensation comparisons in this study are based on the gross compensation before income tax. The majority of the 13 selected multinationals provide an Income Tax Allowance which equalizes the total income which the employee would pay in the U.S. on his U.S. cash compensation. Therefore, the employee pays U.S. income tax only on his U.S. cash compensation (the same as a U.S. Government employee abroad) and receives all overseas allowances on a tax-free basis.

Since all allowances for Foreign Service employees posted abroad are non-taxable except for the Hardship Post Differential, the only difference in the net compensation between employees of the selected multinationals and the Foreign Service is the extra tax paid by Foreign Service employees on the Hardship Post Differential. Since the Post Differential for the 10 posts averaged only 8% of base salary, the consultants felt that a net compensation comparison would have no significant impact on the findings, although the competitiveness of the Departmental position would have been slightly reduced.

4. Basis for Calculation

Drawing upon available information about the policies governing allowances and benefits of the 13 selected multinational companies, Hay developed

a practice which is representative of the median practice among the 13 companies. The utility of this approach is addressed by two surveys of expatriate compensation, one conducted by the Conference Board,^{1/} and the other by Dr. Cecil G. Howard in the Personnel Administrator.^{2/} In addition, it conforms with the State Department's Allowances Staff understanding of the typical private sector practice based on their experience in this area.

The representative multinationals' policy of overseas allowances and benefits is described below:

- Overseas (Inducement) Premium 15% of Base Salary
- Cost-of-Living Allowance Based on ORC^{3/} Data
- Hardship Allowance Based on State Department Data
- Housing Allowance Based on ORC^{3/} Data
- Education Allowance Based on State Department Data
- Home Leave Provided Annually
- Home Leave Paid Time-Off 4 Weeks Inclusive of Annual Leave

^{1/} "Compensating Key Personnel Overseas", Conference Board Report No. 574, The Conference Board, Inc.

^{2/} "Overseas Compensation Policies of U.S. Multinationals", The Personnel Administrator, November 1975.

^{3/} Organization Resources Counselors, Inc.

D. OVERSEAS ALLOWANCES POLICY COMPARISON

As a first step in comparing the total overseas compensation plan, Hay Associates developed a comparison of the overseas allowances "policy." The policy represents what an organization plans to pay in different locations. It is generally expressed in a document indicating specifically the methods of determining the amounts to be paid for various allowances (for the Department of State overseas employees, the allowances are embodied in Section 920 of the Standardized Regulations). Some of the allowances will be uniform for all employees, while some will vary by position level, salary level, family size, age of children, school grade of children, and so forth.

Since a number of overseas allowances are related directly or indirectly to salary, i.e., the greater the salary the greater the allowance, it is useful to compare overseas allowances at different salary levels in order to obtain a comparison of the overseas allowance policies.

An alternative would be to compare the allowances at different levels of job content (such as Hay Points). Since the average salaries of the 13 selected multinational companies are different than those of the Foreign Service (lower at some job levels and higher at others), the resulting comparison would be skewed by the differences in salaries and would not be representative of the allowances "policy." For example, a 10% allowance on a \$20,000 salary would be shown to be greater than a 15% allowance on a \$10,000 salary even though the policy of paying a 10% allowance is obviously less than a "policy" of paying a 15% allowance.

The "Overseas Allowances Policy as a Percent of Salary" table therefore provides a comparison of the overseas allowances for employees of the Foreign Service versus the representative policy of the 13 selected multinational companies, derived by the foregoing methodology. The allowances are presented as a percentage of salary rather than in dollar amount in order to make the results more easily understood. The percentages apply to the salary levels indicated, e.g., at the \$22,000 salary level, the average overseas allowances paid to Foreign Service employees at the 10 selected posts is \$21,780 or 99% of \$22,000.

SELECTED MULTINATIONAL COMPARISONS:
OVERSEAS ALLOWANCES POLICY AS A PERCENT OF SALARY

(1) <u>Salary Level</u>	(2) <u>Foreign Service</u>	(3) <u>Selected Multinationals</u>	(4) <u>Difference</u> ^{1/}
\$12,000	154%	160%	4%
22,000	99%	105%	6%
38,000	71%	78%	10%
47,000	59%	71%	20%

^{1/} Obtained by dividing the result of column (3) less column (2) by column (2). This represents a percentage differential.

As can be seen, the overseas allowances policy of the Department of State and the representative policy of the 13 selected multinational companies are of relatively comparable value -- within 10% of each other -- except at the higher salary levels where the Departmental policy considerably is less competitive. It would appear, however, that the inducement premium of 15% of base salary included in the selected multinational companies is balanced by the higher housing allowances provided by the Foreign Service except at the higher salary levels.

It should be noted, however, that a minority of the Foreign Service employees earning in the area of \$47,500 (i.e., rank 1, 2 or 3) either are provided housing commensurate with their diplomatic responsibilities or receive quarters allowances higher than provided to the other officers at these levels. The majority of those employees who are eligible for higher allowances, however, receive no more than 1½ times the regular allowance for their level. For those officers, the average overseas allowances at the 10 selected posts would total 71% of pay instead of 59%.

E. OVERSEAS BASE COMPENSATION COMPARISON

Having established the average value of the overseas allowances for the 10 selected posts, the consultants were able to extend the previous comparison of base salary (Chart 9) to include the value of overseas allowances. This results in a comparison of the Overseas Base Compensation which compares the amounts of compensation which are payable in cash and which are guaranteed (excluding incentive/bonuses subject to company and/or individual results). The results are shown on Chart 14; and as with all previous charts, the comparison is made at different levels of job content expressed in Hay Points.

As the chart indicates, the Foreign Service's Overseas Base Compensation policy up to 420 Hay Points is approximately the same relative to the selected multinationals as the Foreign Service's base salary policy is to the average practice of the 13 multinationals shown on Chart 9. Above 420 Hay Points, on Chart 14, the Foreign Service's position is less favorable than on the base salary comparison in view of the less generous overseas allowance.

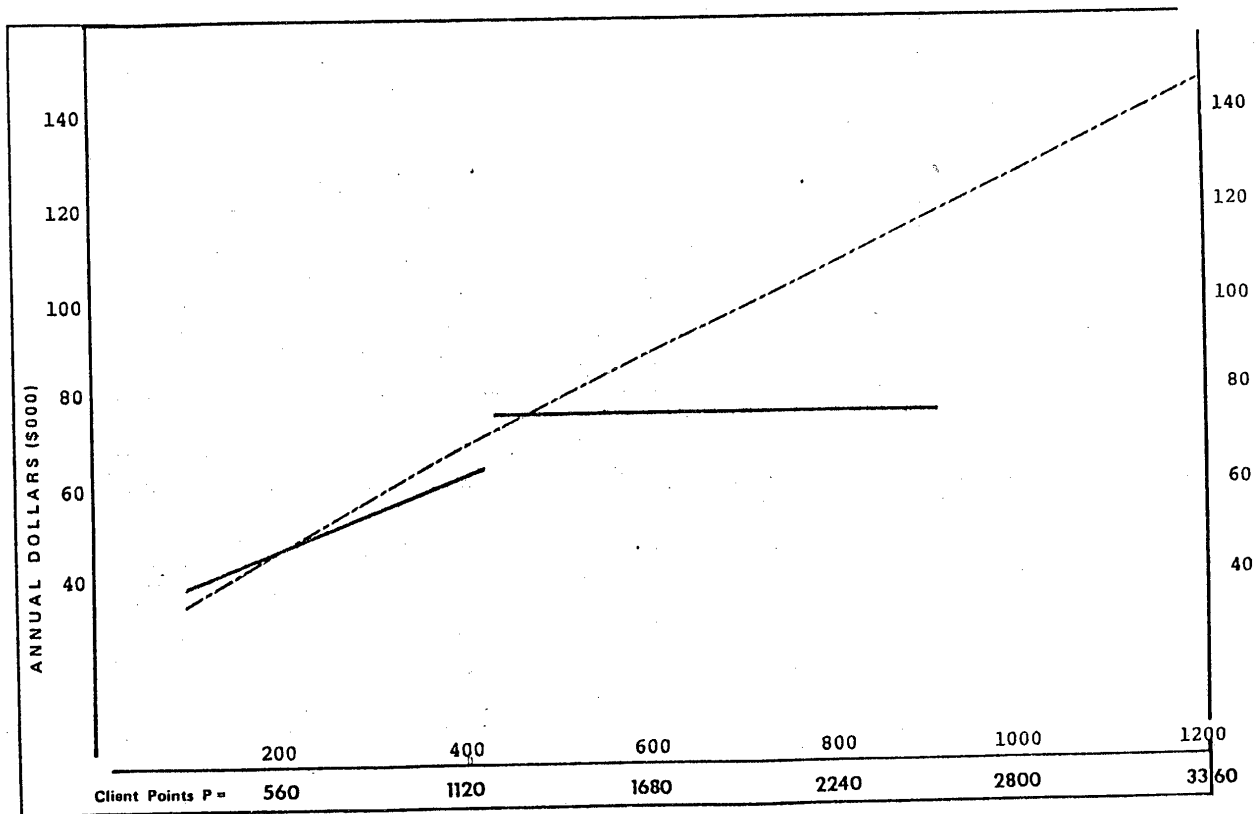
As the chart indicates, the Foreign Service policy is slightly above the average practice of the selected multinationals up to 240 Hay Points (approximate level for FSO-6). The Foreign Service's competitive position gradually diminishes up to 420 Hay Points of job content (approximate level for FSO-3). At 430 Hay Points, the Foreign Service's policy is slightly above the average and this is due in some part to the effects of the salary compression. As its policy flattens because of the ceiling, the Foreign Service position beyond 460 H points becomes increasingly less competitive.

The results below 200 Hay Points of job content are hypothesized since few private sector companies actually send nonexempt employees overseas. However, the lines from 100 to 200 Hay Points were established to indicate how the two would compare if the selected multinationals did send lower management or Support Level personnel overseas in any number. It should be observed here that Foreign Service Support Level personnel overseas apparently do not receive overtime; and the consistency and efficacy of this practice should be reexamined by the Department.

CHART 14

Department of State

SELECTED MULTINATIONALS' COMPARISON: OVERSEAS BASE COMPENSATION



May 1979
Washington, D.C.

--- 13 Multinationals' (M) Line
— FS Officer Level Line

In summary, this comparison indicates that the Foreign Service's Overseas Base Compensation policy is reasonably competitive with large multinational companies except beyond the point where the cap on salaries occurs.

F. TOTAL OVERSEAS CASH COMPENSATION COMPARISON

By adding the average incentive/bonus payments made by the 13 selected multinational companies to their Overseas Base Compensation (base salary plus allowances) presented on Chart 14, the consultants were able to compare the Total Overseas Compensation which is provided in cash by the Foreign Service and the selected multinational companies.

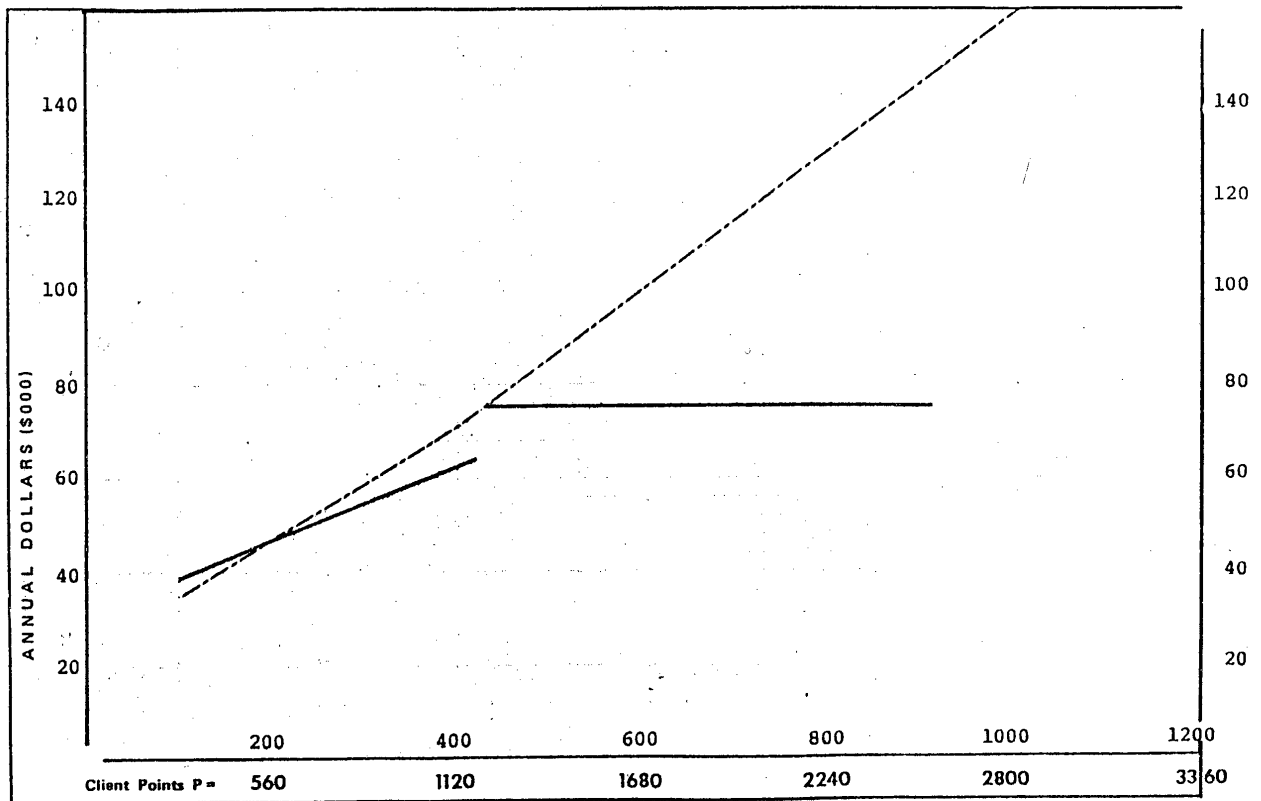
Since U.S. companies generally pay only small bonuses, if any at all, up to the 400 Hay Point level on Chart 15, the Foreign Service's position, relative to Overseas Base Compensation, is slightly improved, although still less competitive. Above 420 Hay Points, however, the Foreign Service's position is even less competitive in terms of Total Overseas Cash Compensation than on the Overseas Base Compensation. This compensation position is reasonably competitive with large multinational companies except beyond the point where the cap on salaries occurs.

As with the previous chart, the results below 200 Hay Points of job content should be viewed academically as few private sector companies send support level employees overseas. Again, however, the lines from 100 to 200 Hay Points were established to indicate how the two might compare if, in fact, the selected multinationals did send lower management or nonexempt personnel overseas.

CHART 15.

Department of State

SELECTED MULTINATIONALS' COMPARISON: TOTAL OVERSEAS CASH COMPENSATION



May 1979
Washington, D.C.

--- 13 Multinationals' (M) Line
— FS Officer Level Line

G. TOTAL OVERSEAS REMUNERATION COMPARISON

As discussed earlier, Hay Associates believes that an organization should consider its total compensation, including employee benefits, when making marketplace comparisons.

To achieve a comparison of the Total Overseas Remuneration, the consultants added to the Chart 15 Overseas Cash Compensation (base salary plus bonus plus allowances) the compensation value of the domestic benefits plus the overseas benefits. The compensation value of each benefit was established in the Hay Benefit Valuation System described earlier.

Chart 16 presents this Total Overseas Remuneration Comparison. Below 400 Hay Points, the Foreign Service's Total Overseas Remuneration policy is slightly more competitive, relative to the average practice of the 13 selected multinationals, than the Foreign Service's Total Overseas Cash Compensation was relative to the same group of companies. This is due to the Foreign Service's more generous overseas benefit policy (made up of an extra 15 days per year credited for home leave purposes, while, on average, the selected multinationals provide an average of 5 days per year additional for home leave purposes).

The results are based on a "policy" to "policy" comparison which may or may not be the same as actual. For example, the consultants understand that the average additional paid time-off actually used for home leave is 10 days per year in the private sector versus a Departmental policy of 15 days. Actual utilization figures applicable to the selected multinationals are not available, but since they vary considerably, policies tend to present a useful picture.

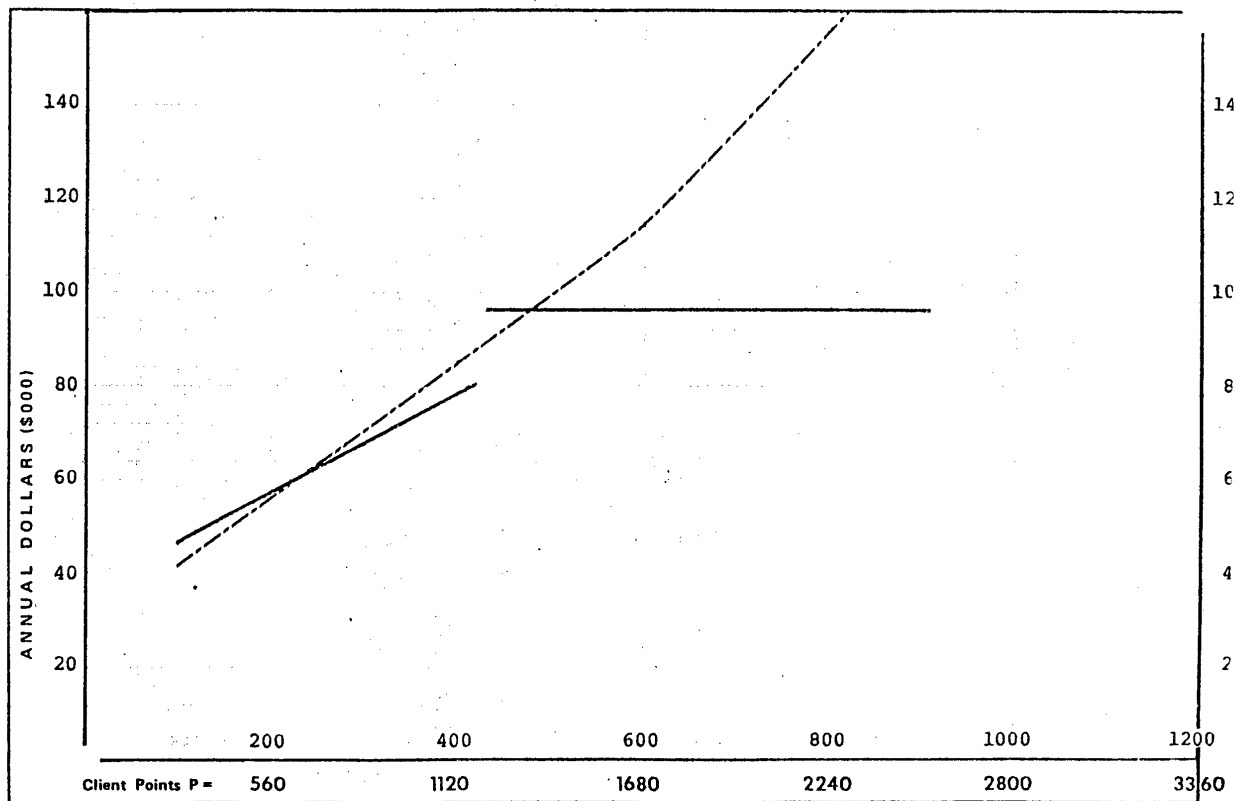
Above 400 Hay Points, the chart indicates the Foreign Service's Total Overseas Remuneration policy is noticeably better relative to the selected multinationals' policy than the Foreign Service's Total Overseas Cash Compensation policy was relative to the average policy of these same companies. This is due to the higher employee benefits (both domestic and overseas) provided by the selected multinationals at these position levels. It is clear, however, that the statutory ceiling substantially affects the Senior Officer Level where the Foreign Service is not competitive.

As with the previous charts, the results below 200 Hay Points of job content are only established to indicate how the two policies would compare

CHART 16

Department of State

SELECTED MULTINATIONALS' COMPARISON: TOTAL OVERSEAS REMUNERATION



May 1979
Washington, D.C.

--- 13 Multinationals' (M) Line
— FS Officer Level Line

if the selected multinationals assigned lower management or support staff personnel overseas.

In summary, this comparison indicates that the Foreign Service's Total Overseas Remuneration Policy is reasonably competitive with large multinational companies except where the cap on salaries takes effect.

IX. PROPOSED GRADE STRUCTURES

A. Background

With the conclusion of the linkage and compensation analyses, the consultants utilized the initial findings, as appropriate, to examine the feasibility of restructuring the multiple Foreign Service classification/grade systems in order to (1) establish a more orderly internal framework; and (2) meaningfully respond to evolving personnel needs. However, the consultants emphasized that:

- All conscious and unconscious personnel practices, understandably marked with inconsistencies and exceptions accumulated over more than 30 years, cannot be immediately remedied; and
- The sampling of Foreign Service positions, designed and undertaken for other purposes, permitted only tentative propositions.

The consultants postulated that a number of considerations were essential elements of any appropriate and workable integration of existing systems:

- Transitional cost consequences should be minimized.
- Personnel inequities or dislocations should be avoided.
- Rank-in-person flexibility should be maintained.
- Structural compatibility with the General Schedule should be sought.
- The special needs and unique circumstances of Foreign Service employment should be recognized.
- The relationship of the Agency for International Development (AID) and the International Communications Agency (ICA) to any new Foreign Service grade structure (and thus to the General Schedule) must be established by similar methodologies independently employed.

Mindful of the linkage and compensation findings, and drawing upon Hay's public and private sector experience, the consultants statistically and empirically tested the suitability of a great many hypothesized approaches and ultimately determined that a single Foreign Service classification system/grade structure most responsibly accommodated the foregoing criteria. However, consultant experience has shown that there is no simple formula for grade structure development; rather, it is a process which can legitimately result in the development of a number of approaches each of which responds to different needs of a given client environment.

Here, the consultants blended the understandably broad and sometimes contradictory criteria with the technical concerns for inter-grade differentials, grade range spreads, General Schedule linkages, and so forth, and constructed two alternative Foreign Service grade structures. These optional approaches -- a nine (9) grade system and a ten (10) grade system -- respond to the criteria in different ways. It must be emphasized that these alternatives are by no means the only answers; however, they do represent two possible means of achieving the integration of the current Foreign Service classification systems in a responsible and responsive fashion.

Both proposed structures are denominated "FS"; and it should be noted that each has been built around the same relatively small sample of positions. Although there are several ways to make a transition from the current Foreign Service schedules to either of the proposed FS structures, the most appropriate means would require that a broader sampling of positions be evaluated with the Hay Method, but not necessarily by consultants. The sample size would need to be comprehensive enough to cover every position title within the Department so that assignment to the proper "new classification" could be made.

For purposes of constructing a tentative grade structure, the consultants utilized the entire Hay data bank of GS position evaluations. For the linkage study, a more refined sampling of the total data base was employed in order to dovetail more precisely the findings with those of prior linkages studies. However, for grade construction purposes, it was the consultants' opinion that the use of the total data base was more appropriate, since these data would more accurately reflect the broad spectrum of positions encompassed within the Federal structure. Because more positions are encompassed in the total data bank, references to GS point spreads and median values in the sections which follow may vary from those reported in the linkage analysis section.

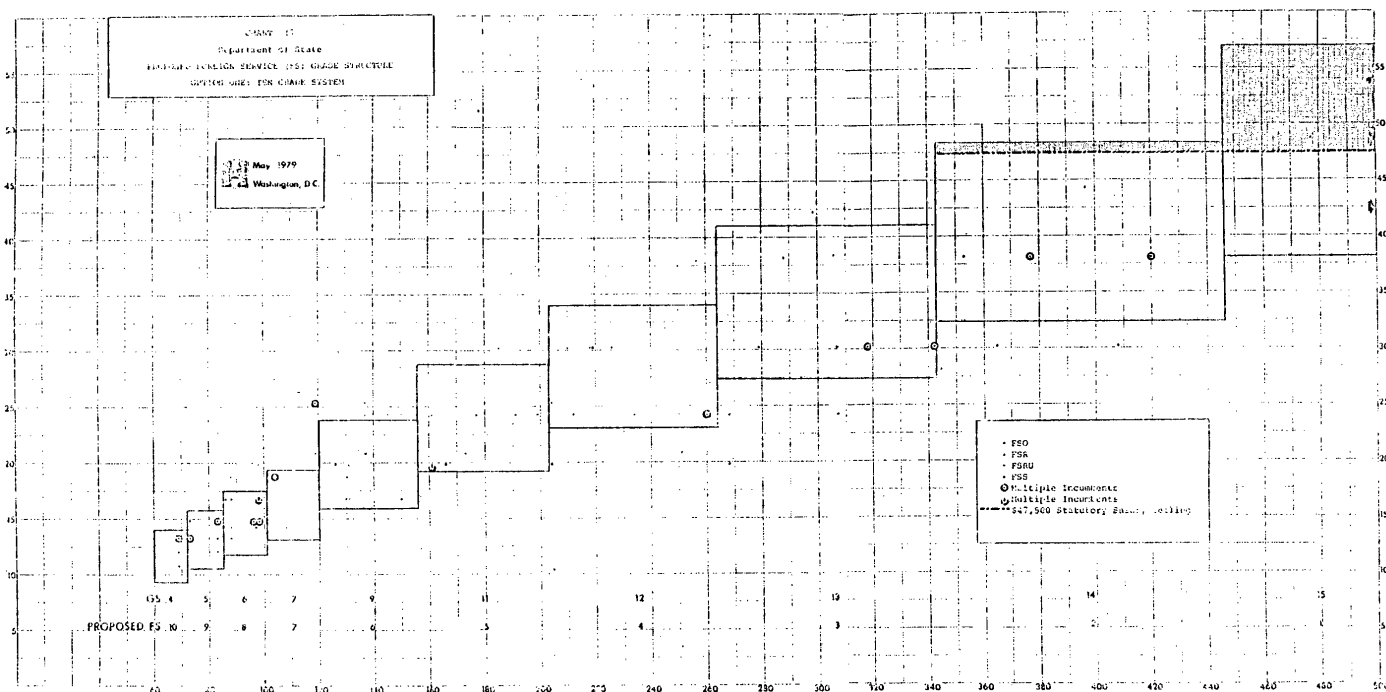
B. Option No. 1: 10-Grade System

Chart 17 presents Option No. 1, and the scattergram upon which the structure is built represents those positions included in the study ranging from FSS-10 through FSO-3. Levels 2 and 1 were excluded because of their potential inclusion in an SES/SFS category. As previously discussed, the horizontal axis represents Hay job content points, and the vertical axis displays annual dollars corresponding to the midpoint of the grade in which each position is currently classified.

The development of the horizontal aspect of grade structures entails "grouping" into grades those jobs which share the same average, relative importance or difficulty. This process affords a check on the detailed point ratings established in the job measurement process discussed earlier, and also facilitates salary administration for large categories of employees. The job content point spread for each proposed "new" FS grade in Option No. 1 is shown in the table below.

<u>OPTION NO. 1</u>	
<u>PROPOSED FS. GRADE</u>	<u>JOB CONTENT POINT SPREAD</u>
1	447 and above
2	344 - 446
3	265 - 343
4	204 - 264
5	157 - 203
6	121 - 156
7	102 - 120
8	86 - 101
9	72 - 85
10	60 - 71

In constructing the horizontal point spreads for each grade, successive job grade minimums are related to each other in constant ratio. For Grades FS-10 through FS-7, the consultants utilized a constant of approximately 19%. For example, the minimum of Grade FS-10 is 60 job content points; the minimum of Grade FS-9 is 72 job content points, which is approximately 19% greater than 60. For Grades GS-6 through FS-1, the consultants employed a constant progression ratio of 30%. The "tighter" progression at the lower end of the job content spectrum accommodates the smaller spread of job content for positions at these levels, while the 30% progression recognizes the greater span



of job content (and rank-in-person considerations) which should be accommodated within the higher-level grades.

The development of the grade structure vertically, e.g., Grade FS-10 ranges from a minimum of \$9,391 to a maximum of \$14,039, entailed two major steps. First, the relationship of the proposed FS grades to the GS grades was determined as a result of a number of analytic considerations:

- The proposed structure follows the progression of positions classified from GS-4 through GS-15 of the General Schedule, omitting GS-8 and GS-10, since these are interim grades accommodating relatively few people in the Federal structure.
- Foreign Service positions comparable to jobs above the GS-15 level are not included as part of the proposed structure since these positions will be accorded Senior Executive Service/Senior Foreign Service status pursuant to the intent of the Civil Service Reform Act.
- At the lower end of the job content spectrum, the historic Civil Service (OPM) link of GS-4 to State Department jobs at the FSS-10 level was maintained. This relationship is supported by the Hay data bank of GS position evaluations which, on a Hay point basis, would place the median value of GS-4 at approximately the middle of the proposed FS grade 10 in the new State Department structure.
- At the high end of the job content continuum, the link between FSO-3 and GS-15 positions has been accommodated through the placement of FSO-3 positions above 447 Hay points in a "GS-15 equivalent" grade. However, the proposed structure is somewhat conservative, in that the median value for GS-15 is 420 Hay points, which falls at the upper end of the GS-14 (proposed FS-2) grade. It should be noted, however, that the Hay data bank for GS-15 positions ranges from 333 to 778 Hay points. Thus, the consultants have been mindful of this broad spectrum of job content in developing their recommendations.^{1/}

^{1/} In addition, the consultant-designed structure is "internally equitable" through the application of constant progression ratios in horizontal grade construction.

- Similarly, at the GS-14 level, the Hay data bank of position evaluations ranges from 264 to 476 Hay points. Again, the proposed structure is somewhat conservative in that the median value for GS-14 is 325 Hay points, which falls within the GS-13 (proposed FS-3) grade.
- At the GS-13 level, position evaluations range from 210 to 335 Hay points, with the median GS value falling at 292 Hay points, which is accommodated within the proposed FS-3 (GS-13) job content spectrum.
- At the GS-12 level, GS position evaluations in the Hay data bank range from 183 to 293 job content points, with a median value of 238 Hay points. Again, this median value has been accommodated within the proposed FS-4 (GS-12) grade.
- The identified link of GS-11 to FSO-6 positions has also been maintained. The GS-11 median of 180 Hay points falls in approximately the middle of the proposed FS-5 (GS-11) grade.
- At the GS-9 level, the median of 135 Hay points is accommodated within the proposed FS-6 grade.
- At the GS-7 level, the 102 point median value is accommodated within the proposed FS-7 grade.
- There are no positions in the Hay data bank at the GS-6 level. However, an extrapolation of job content point spreads has been made at the lower end of the job content spectrum to accommodate the positioning of the GS-6 equivalent grade (FS-8), based on GS/FS job content relationships at the GS-5 and GS-4 levels.

It should be emphasized that the establishment of "GS-equivalent" grades for the Option One FS structure does not mean that all current FSS-10 positions would now be paid at the GS-4 level. Nor, as indicated earlier, does it

necessarily mean that all FSO-3 positions would be paid at the GS-15 level.^{1/} Rather, the optimal approach would place current positions in "new" FS grades based on their job content point assignments. Thus, for example, FSO-3 jobs (shown in black in Chart 17 at \$38,107) could now fall within two grades: FS-1 (GS-15 equivalent) and FS-2 (GS-14 equivalent). As previously indicated, a larger sample of current Foreign Service positions would need to be evaluated by the Hay Method in order to permit the most appropriate transition into the new grade structure. This effort would also contribute directly to a classification transition effort, a key element of which should be the "banding" of positions, i.e., a more precise definition of the range of personnel ranks appropriate for encumbering a given position. The result would develop base-line classifications (job definition), enhance the assignments process, and accommodate considerations of internal equity.

The dollar values for each proposed FS grade correspond to the salary level for each GS-equivalent grade shown in the table on the following page.

The minimum dollar value for each proposed FS grade is the same as the minimum (or Step 1) of its GS-equivalent grade. For example, proposed FS-10 corresponds to GS-4. Thus, for this grade, the minimum dollar value is \$9,391, which is the minimum (or Step 1) of GS-4.

The second major consideration in the vertical (dollar) construction of the Option No. 1 FS grades was the "overseas dimension." As discussed in detail in Section IV of this report, private sector practice, State Department exposition, and personal expatriate experience clearly evidences the existence of at least a "just noticeable difference" (15% in Hay terms) between overseas and domestic service.^{2/} This view, when taken in conjunction with certain universally applicable features of the Foreign Service -- frequent rotation; immediate overseas adaptation; cumulative experience; second income interrup-

^{1/} Although we do not recommend such an approach, i.e., that all current FSO-3's be paid at the GS-15 level, the establishment of defensible linkages between GS jobs and State Department jobs justifies, to a certain extent, paying all FSO-3's at the GS-15 level since the Federal Government's GS structure compensates incumbents in this manner. For example, as previously indicated, the Hay data bank for GS-15 positions (all paid at the GS-15 level, in the Federal structure) ranges from 333 to 778 Hay points, an even wider point spread than was found within the existing Foreign Service structure.

^{2/} Hay, Edward N., "The Application of Weber's Law to Job Evaluation Estimates." Journal of Applied Psychology, The American Psychological Association, Inc. (April, 1950), Vol. 34, No. 2.

tion; and so forth -- suggests the need to reflect this difference systemically rather than individually, as in the private sector. It is common practice in the private sector to compensate individual expatriate employees with a premium of between 10% and 20% of base salary; however, because of the universally applicable characteristics of the Foreign Service, the consultants have incorporated the domestic/overseas difference throughout the proposed grade structure by extending the salary range for each of the proposed FS grades by 15%. The proposed "maximum dollar" values for each grade

OPTION NO. 1

PROPOSED FOREIGN SERVICE (FS) GRADE STRUCTURESalary Ranges

<u>FS</u>	<u>GS</u>	<u>FS/GS MINIMUM</u>	<u>GS MAXIMUM</u>	<u>FS MAXIMUM</u>
1	15	38,168	49,608*	57,049*
2	14	32,442	42,171	48,497*
3	13	27,453	35,688	41,041
4	12	23,087	30,017	34,520
5	11	19,263	25,041	28,797
6	9	15,920	20,699	23,804
7	7	13,014	16,920	19,458
8	6	11,712	15,222	17,505
9	5	10,507	13,657	15,706
10	4	9,391	12,208	14,039

* Limited by statutory ceiling to \$47,500.

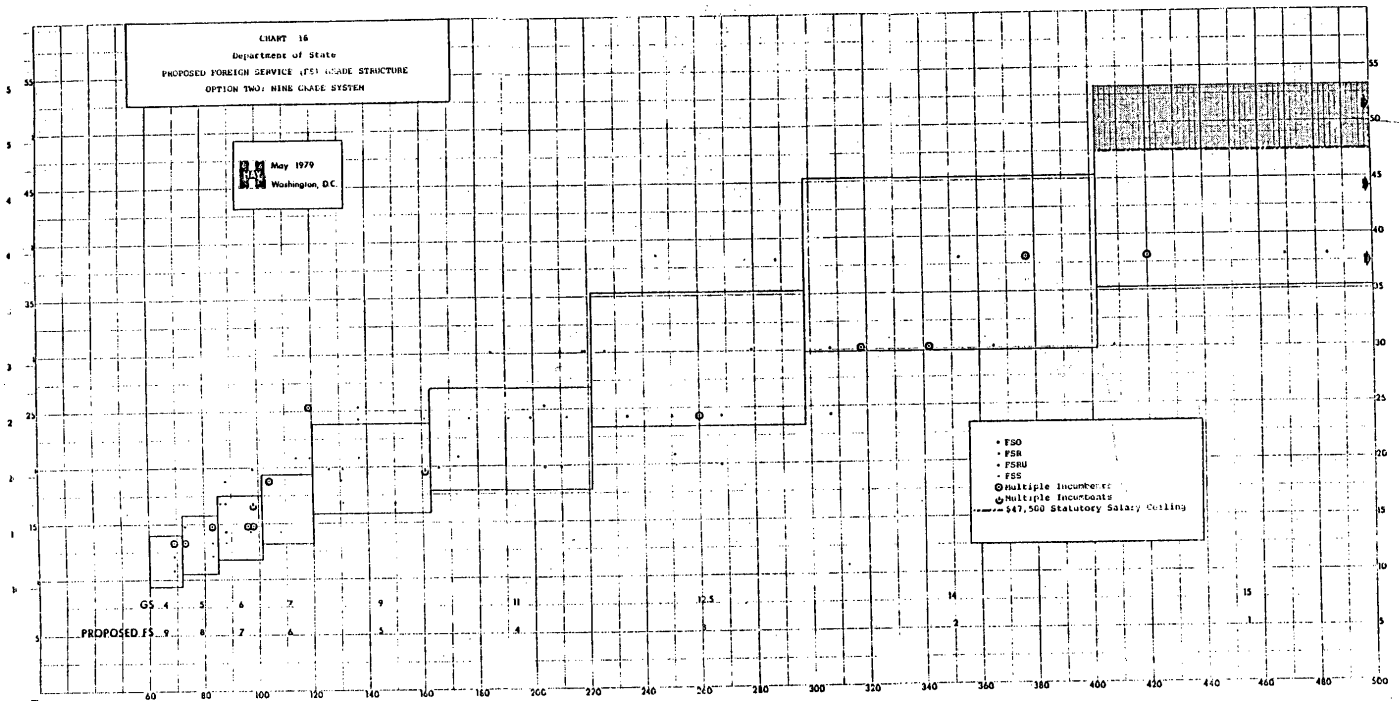
are indicated in the last column of the table and are shown in Chart 17 as the horizontal line at the top of each grade. This approach frankly yet conservatively addresses a fact of Foreign Service life in a manner which responds to the initial criteria.

C. Option No. 2: 9-Grade System

A second option developed by the consultants is presented graphically in Chart 18. The scattergram in Chart 18 is the same as that shown in the previous chart.

In Option 2, the consultants developed a nine-grade structure in an attempt to more precisely link higher-level FS grades to their GS equivalents. The proposed FS grades 9 through 5 in this option are the same as FS grades 10 through 6 in Option 1. However, in the horizontal construction of FS grades 4 through 1 in Option 2, the consultants increased the constant progression ratio of successive job grade minimums from 30% (Option 1) to 35%. This permitted a broader spectrum of positions to be accommodated within these higher-level grades. In addition, the following relationships between the proposed FS grades and their GS equivalents were obtained:

- At the GS-15 level, the median value of 420 Hay points has been accommodated within the proposed FS-1 grade, which ranges from 402 to 543 Hay points.
- At the GS-14 level, the median of GS position evaluations in the Hay data bank is 325 points. This median has been accommodated within the proposed FS-2 grade, which ranges from 298 to 401 Hay points.
- At the proposed FS-3 grade level, two GS medians are accommodated within the point range spread of 221 to 297; the GS-13 median of 292 Hay points, and the GS-12 median of 238 Hay points. Thus, the "GS equivalent" has been denoted GS-12.5.



- At the GS-11 level, the median of 180 Hay points is accommodated within the proposed FS-4 grade, which ranges from 163 to 220 Hay points.

As in Option 1, the dollar values for each proposed FS grade correspond to the salary levels for each GS-equivalent grade as shown in the table below.

<u>OPTION NO. 2</u>						
<u>PROPOSED FOREIGN SERVICE (FS) GRADE STRUCTURE</u>						
<u>FS</u>	<u>GS</u>	<u>FS Point Range</u>	<u>FS Minimum</u>	<u>GS Minimum</u>	<u>GS Maximum</u>	<u>FS Maximum</u>
1	15	402-543	35,305	38,168	49,608*	53,329*
2	14	298-401	29,990	32,442	42,171	45,334
3	12½	221-297	23,375	25,270	32,853	35,317
4	11	163-220	17,818	19,263	25,041	26,919
			<u>FS/GS Minimum</u>	<u>GS Maximum</u>		<u>FS Maximum</u>
5	9	121-162	15,920	20,699		23,804
6	7	102-120	13,014	16,920		19,458
7	6	86-101	11,712	15,222		17,505
8	5	72-85	10,507	13,657		15,706
9	4	60-71	9,391	12,208		14,039

* Limited by statutory ceiling to \$47,500.

As previously noted, proposed FS grades 9 through 5 in Option 2 are the same as FS grades 10 through 6 in Option 1 -- both horizontally (point spreads developed from a 19% constant ratio applied to successive job grade minimums), and vertically (FS salary ranges incorporating their GS-equivalent salaries, with the salary range for each grade extended by 15% to reflect the universal applicability of the "overseas dimension" inherent in the Foreign Service).

For FS grades 4 through 1, the salary range has been extended only 7½% (rather than 15%) to obtain the FS maximum. In addition, the FS minimum of the salary range for grades 4 through 1 has been obtained by decreasing the GS minimum by 7½%. In the consultants' opinion, there is a justifiable basis^{1/} for extending all of the FS salary ranges by 15% at the top to obtain an "FS maximum" which extends the GS maximum by 15%. However, the Department may wish to consider the Option 2 approach for FS grades 4 through 1 on a transitional basis, since it permits a greater number of positions to be accommodated within the structure. Over time, an effort could be made to gradually increase the structure to reflect the 15% extended range for the FS maximum.

In addition to easing transitional problems, the Option 2 approach recognizes the need for salary movement at the lower end of the job content continuum (proposed FS grades 9 through 5) by retaining the 15% extended range recommended in Option 1. At these lower job content levels, incumbents retain their current grade assignments for a longer period of time than incumbents at the higher grade levels. Promotions are less frequent, as are career movements to different types of positions. For this reason, as well as the universal applicability of the overseas dimension and the competitive recruitment market for these positions, it is critical that incumbent motivation to stay in these positions be enhanced through the provision of an extended salary range.

As previously indicated, the two grade structure options just presented are by no means the only alternatives available to the Department in restructuring its classification system. Rather, they should be viewed as two possible means by which the Department may address the objectives specified at the beginning of this section for a workable integration of existing Foreign Service systems. Furthermore, these approaches should be understood to mark the beginning, not the end of systemic changes. The classification problems identified throughout this study must be pursued; and the equitable integration of both AID and ICA must be accomplished through the employment of similarly careful methodologies.

^{1/} See Option 1 discussion and Section IV of this report, "Overseas Dimension."

X. FINDINGS AND PROPOSALS

A. BACKGROUND

Conclusions concerning the state of any organization's internal reward system do not flow automatically from study data. Arriving at an optimum system is one of the arts of management that requires experience and judgment in the consideration of many interacting variables.

Of principal concern to the consultants is the overall mission of the organization appreciated in conjunction with a realistic assessment of the demands vital to its survival. Each year, within our competitive enterprise system, many organizations are born and a number fade. In the case of the Foreign Service, it has no choice! Its mission is unique and its success is crucial to the well-being of this nation. Furthermore, it must carry out its complex responsibilities with excellence. It must also be prepared to change or grow; and the Foreign Service must continually and correctly reassess its approach, whether intellectual or structural, in order to properly respond to ever-changing internal and external conditions.

Though the Foreign Service employs a variety of technical systems as aids in performing its functions, it clearly remains an organization the critical ingredient of which is people. The key to its successes and failures is human not technological resources. While this is also true of other public and private organizations, there can be little question that the vitality of the human resources function within the Foreign Service has been and is the lynchpin of its effectiveness.

The business of the Foreign Service is diplomacy, and although this is a handy and often misused word, it, quite properly, involves analysis, interpretation, human relations, decision making, and problem solving. The effective performance of all these endeavors is a function of but two things -- know-how and judgment -- both of which rest upon personal capability.

Although a sketch of the principal objectives of this study presents a rather technical and impersonal undertaking, few methodologies, findings and consequences so directly comment upon and affect the jobs and thus the people of the Foreign Service.

As this study details, the consultants were, from the outset, sensitive to the unique mission, special needs, and traditional practices of the Foreign Service. All branches of Government, and indeed the American people, have quite rightly come to expect a continuous level of excellence from the Foreign Service. At the same time, however, there exists the notion that although foreign policy issues are complex, the Foreign Service environment is, in some way, exotic, and the work is therefore easier. Although the expectation is valid, the understanding of the environment is not. This is not to suggest that Departmental approaches cannot be improved . . . they can; but Hay's international and domestic experience has taught that responsible organizational modifications must be undertaken in ways which build upon existing mechanisms in a non-disruptive fashion.

Few public or private organizations are without need of improvement, especially in the area of human resource management. This is as much of a function of the dynamic nature of the issues, employees, and external influences, as it is of the catchword "management". The Foreign Service is no different in this respect, but it is equally clear that the level of performance it is expected to maintain should not suffer in the name of systemic betterment. Rather, each legitimate objective should reinforce the other.

To this point there is an axiom within Hay which goes something like this: "The only way to eat an elephant is in small bites". What is meant by this is that although some organizational problems are solved quickly, other organizational practices, in need of adjustment, are most responsibly addressed over time -- "in small bites". It would be naive to assume that conditions which have developed over many years can be instantly altered. To do so, in some instances, would be to seriously

disrupt an otherwise productive organization. Many of the complexities of the Foreign Service environment have been explored throughout this study; and the observations of the consultants are intended to be sensitive to the needs and realities of the Department of State, as a member of the Federal System, and consistent with responsible approaches to human resource management.

B. LINKAGE AND CASH COMPENSATION FINDINGS

This study for the Department of State was built upon the methodological evaluation of 119 Foreign Service positions statistically selected from the four current classification systems, at all grade levels, and between the major functional areas (cones) and specialties. This approach was undertaken to permit two different kinds of analyses addressing the reward mechanisms of the Foreign Service.

1. Linkage Analysis

This statistical technique utilized the Foreign Service job content evaluations to determine if there is a comparability (linkage) of job content between selected General Schedule and Foreign Service grades. The Hay approach responds to the intent of the Pay Comparability Act, and has been employed for this purpose elsewhere within the Federal Government.

With respect to the Officer Level, this analysis concluded that links or grade/content relationships clearly exist between FSO-1 and GS-18; between FSO-3 and GS-15; and FSO-6 and GS-11. A relationship of similar difficulty was also found between FSO-2 and the lower band of GS-18; and the O-1 and O-2 findings suggest the appropriateness of their inclusion in an SES(SFS) ^{1/} system pursuant to the Civil Service Reform Act. FSO-4 positions were found to be about as difficult as GS-14; however, this interpretation applies only to the median O-4 position because of the wide range spread identified at that grade.

At the Support Level, the analysis produced a number of statistical anomalies which suggest possible historic misclassifications at that level. FSS-4 was found to link to GS-11 (preferred) or GS-9 due to the great range of difficulty found at the S-4 level. Although FSS-7 and FSS-8 could be positioned at GS-6 and GS-4, respectively, the ranges of difficulty indicate that some FSS-7 jobs, for example, are of comparable difficulty to some at GS-7, while the median job difficulty for FSS-8 fell between GS-5 and GS-3.

^{1/} Senior Executive Service (Senior Foreign Service).

A precise relationship between the several classification systems and the General Schedule was, as anticipated, difficult to establish, especially at the Support Level. This resulted from the wide range of job content which was found to exist in both the GS and Foreign Service systems. The linkage findings, however, lead to three conclusions:

- A preliminary basis for establishing a relationship (and/or the integration) of the two Foreign Service pay systems has been developed.
- A relationship with the General Schedule has been identified at particular levels, especially FSO.
- A need exists for a selective examination of Foreign Service job definition (classification) especially at the Support Level.

2. Domestic Cash Compensation Analysis

The assessment of Foreign Service job content and pay in relation to a variety of survey data was undertaken to examine the competitiveness or comparability of Foreign Service compensation. With respect to the Foreign Service system as a whole, the degree of vertical and horizontal "dispersion," i.e., the differences in job content at identical levels of pay raises questions about internal equity. However, traditional personnel practices within the Department, coupled with well-established external influences, may account for these initial observations.

- Rank-in-person is, by intent, a flexible personnel management approach which responds to organizational needs for high mobility and rapid professional development, both of which are key considerations in the Foreign Service.
- The statutory salary compression obviously contributes to Government-wide discontinuities in personnel relationships, and this is no less significant within the Foreign Service.
- Market practices also tend to affect salary levels,

especially for secretarial, clerical, and technical positions.

With respect to the external competitiveness or comparability, the Foreign Service was examined at two levels -- Officer and Support -- in order to meaningfully equate it to other appropriate sectors and markets. In terms of base salary policy, the Foreign Service Support Level is:

- slightly but consistently ahead of the General Schedule;
- competitively positioned against the Washington Metropolitan Area Nonexempt Salary practice; and
- similarly postured with respect to selected international organizations.

This finding of consistent competitiveness would, in the private sector, be regarded as most appropriate since a legitimate organizational objective is to hire, motivate and retain employees. These should be no less significant in the Foreign Service given the Department's personnel needs at this level, which, in themselves, substantially distinguish the Foreign Service from these comparative groups:

- Support Level employees, unlike their counterparts in either sector, serve abroad;
- Recruitment standards, e.g., educational requirements of secretaries, are uniquely high to ensure, among other things, overseas adaptation; and,
- Highly specialized positions, e.g., communications, must not only be retained but, in other markets, might warrant a separate compensation (blue collar) plan.

An assessment of the Officer Level positions was made with similarly evaluated positions in both the General Schedule and the U.S. private sector as represented by Hay survey data from the industrial, financial, and service sectors throughout the nation. Against the General Schedule, the Foreign Service base salary policy begins slightly ahead of the GS professionals but quickly moves below the GS average. This latter position reflects greater job difficulty at comparable levels of pay and would, in the private sector, be regarded as slightly less competitive. In comparison

with the American Business survey data, the Officer Level is competitively positioned until about 920 H points where the Foreign Service policy nears the survey average. The effect of the statutory ceiling, however, sharply distinguishes the Foreign Service from the private sector; and the greatest portion of the Foreign Service policy at the statutory plateau falls below the market average, and the most senior job content levels, it approaches the private sector Low line.

With respect to the comparison of total cash compensation -- base salary plus incentive/bonus paid in cash to private sector professionals -- the competitive base salary posture of the Foreign Service is modified to some degree. To date, the U.S. Government pays no such bonus; but the private sector utilization of this compensation element is emphasized by the fact that the average bonus (at 1000 H points) was 32% of base salary. The impact of this additional element is emphasized at the salary ceiling where the Officer Level policy is increasingly less competitive.

C. DOMESTIC TOTAL REMUNERATION FINDINGS

The Foreign Service Benefits Program is slightly more generous than that of the Federal Civil Service because of the higher benefit formula and earlier retirement age under the Foreign Service pension plan. At the lower Officer Level positions, the Foreign Service program is of comparable employer-paid value to the average benefit program of the private sector, while at the more senior levels, the Foreign Service Benefit Program is of greater employer-paid value than the American Business average. This suggests that the lack of perquisites (such as cars and clubs) which are often provided to private sector executives (but not to those in the Federal Government) are balanced by the more generous benefits, particularly retirement.

In terms of Support Level Total Remuneration the Foreign Service policy is approximately 22% higher than that of the Civil Service. At the Officer Level, the Foreign Service policy is slightly more competitive than the General Schedule (GS) policy up to 200 Hay Points of job content, but becomes increasingly less competitive to 420 Hay Points where it is about 20% lower than the Civil Service. At 430 points the Foreign Service assumes a competitive posture vis-a-vis the Civil Service.

Relative to the American Business average, the Foreign Service Officer Level is about 20% higher at 100 Hay Points of job content. It becomes increasingly less competitive as job content increases, and falls slightly below the private sector average. From about 434 Hay points, the Foreign Service policy flattens because of the cap on salaries. At 434 Hay Points, it is well above the average American Business practice, but from that point becomes increasingly less competitive.

D. OVERSEAS COMPENSATION FINDINGS

In total, the overseas allowances and benefits typically provided by the Foreign Service are quite comparable to those provided by U.S. multinationals except at the more senior levels, where the Foreign Service is less competitive due to the effects of the salary ceiling. The overseas assessments, however, addressed only the Officer Level since few private sector companies send nonexempt or support level employees abroad. The higher housing (or quarters) allowance and paid time-off for home leave provided by the Foreign Service almost balances the overseas (or inducement) premium paid by private sector companies except at the senior officer levels. It should be noted, however, that a minority of senior members of the Foreign Service are either provided Government-owned housing or are paid an allowance greater than that provided other officers. For this minority, the total allowances are equal to or greater than the typical allowances provided by the selected multinational companies.

Total Foreign Service overseas compensation (including allowances) is slightly more competitive than the average of a selected group of 13 multinational companies up to approximately 200 Hay Points of job content and generally less competitive thereafter. At about 430 Hay Points, the Foreign Service is slightly above the multinational average, but becomes less and less competitive as the Foreign Service policy flattens due again to the influence of the statutory salary ceiling.

Overall, these findings suggest that the Foreign Service is, to a greater or lesser degree, competitive with large multinational companies except at those levels affected by the pay cap. The consultants would suggest, however, that the Department review and consider increasing the quarters allowances for levels 1 and 2 if private sector comparability is considered appropriate. Similarly, Foreign Service Support Level personnel, although not examined in the context of overseas compensation comparison, do not consistently receive overtime compensation, and this should also be closely examined to establish a consistency of policy in this area.

Service.

E. PROPOSED GRADE STRUCTURE FINDINGS

Utilizing the results of the linkage and compensation analyses, the consultants examined the feasibility of integrating the existing Foreign Service classification systems into a single grade structure. Two options were developed, although a wide variety of other alternatives could also be used to achieve the integration of the current Foreign Service classification systems in a responsible and responsive fashion.

In the first option proposed by the consultants, a ten-grade structure was developed. Equivalencies between the proposed FS grade and the General Schedule (GS) were identified. In addition, the salary range for each proposed FS grade was extended by 15% to reflect the universal applicability of the "overseas dimension" in the Foreign Service. The horizontal construction (job content point spread) of the Option One FS structure is somewhat conservative at the higher job content levels in that GS median values for particular grades (e.g., GS-15) were placed within the job content point spread for the next lowest grade (e.g., GS-14).

In Option Two, the consultants developed a nine-grade structure in an attempt to more precisely link higher-level FS grades to their GS equivalents. This was accomplished by increasing the amount of constant progression between grades at the higher levels, which permitted a broader spectrum of positions to be accommodated within the higher-level grades. The job content point spreads and salary ranges for the lower-level grades in Option Two parallel the Option One approach. However, for the grades at the upper end of the job content continuum (proposed FS grades 4 through 1), the salary range was extended by only 7½%, rather than the 15% proposed in Option One. In addition, the FS minimum of the salary range for FS grades 4 through 1 was obtained by decreasing the GS minimum by 7½%.

This approach does permit an easier transition from the current systems to a new structure; however, over time, the Department should make an effort to gradually increase the FS grade 4 through 1 structure to reflect the 15% extended range for the FS maximum.