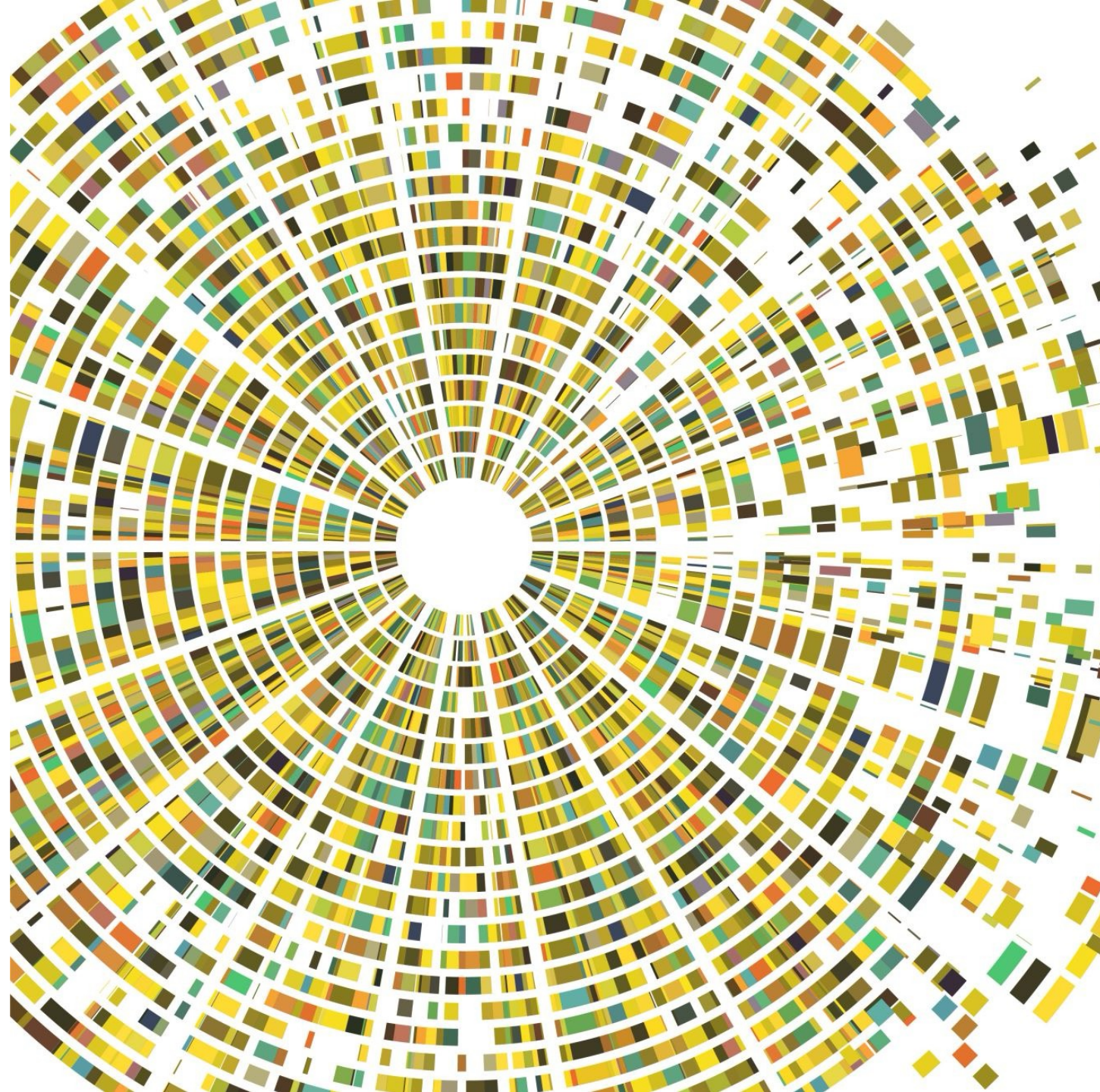# Job-based Pay Structures and Job Evaluation & Person-Based Pay Structures

Week 4

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Learning Outcomes

Define job evaluation.

Describe the ranking method of job evaluation and explain three specific methods of ranking.

Discuss the classification method of job evaluation and how benchmark jobs are used in this method.
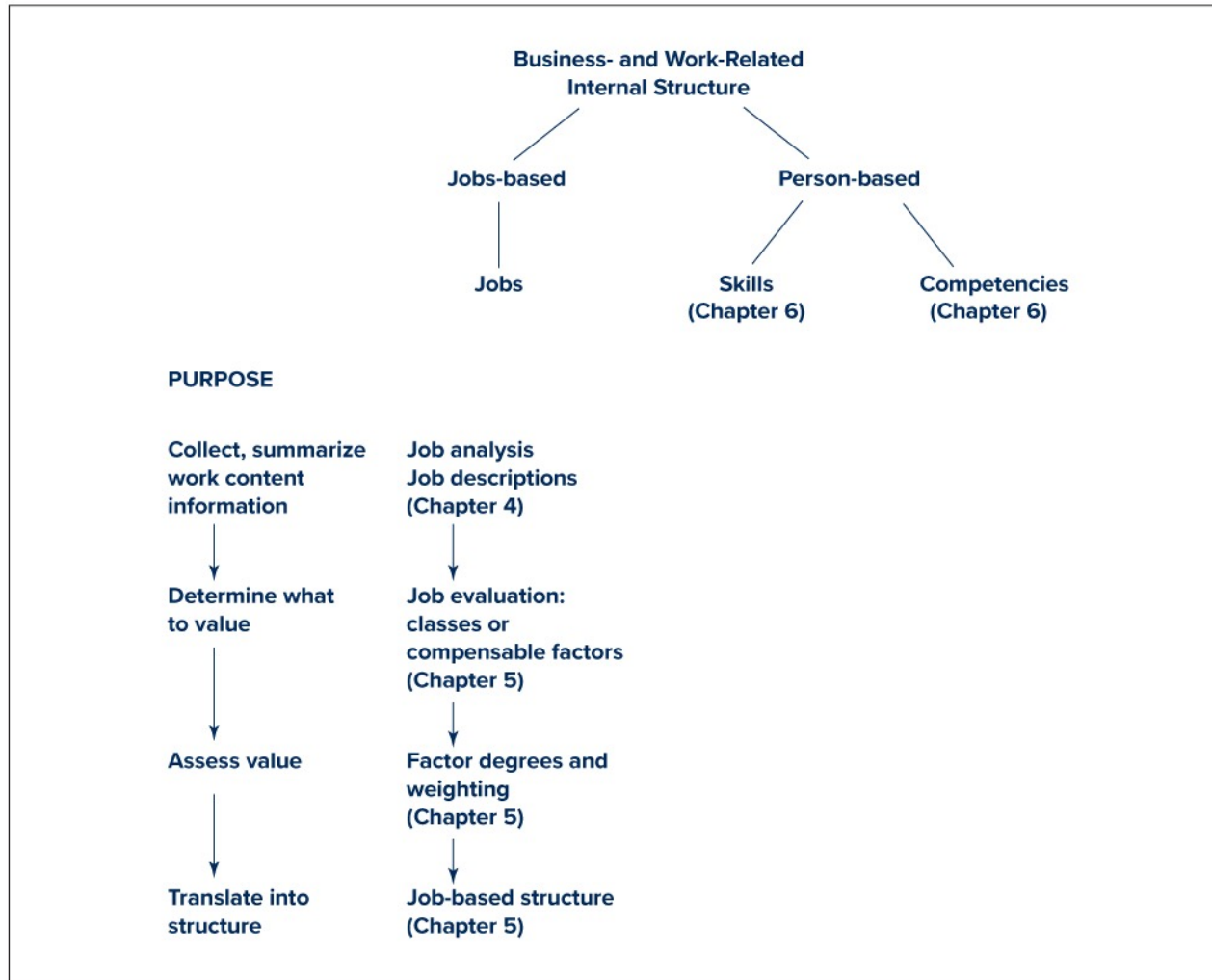
Explain the six steps involved in the point method of job evaluation and describe the three common characteristics of point plans.

Discuss who should be involved in job evaluation.

EXHIBIT 5.1 Many Ways to Create Internal Structure

Business- and Work-Related
Internal Structure

Jobs-based   Person-based

Jobs   Skills   Competencies
                    (Chapter 6)   (Chapter 6)

PURPOSE

Collect, summarize   Job analysis
work content   Job descriptions
information   (Chapter 4)

↓   ↓

Determine what   Job evaluation:
to value   classes or
                          compensable factors
                          (Chapter 5)

↓   ↓

Assess value   Factor degrees and
                          weighting
                          (Chapter 5)

↓   ↓

Translate into   Job-based structure
structure   (Chapter 5)

Job Evaluation

❑ process of systematically determining the relative worth of jobs to create a job structure within an organization.

❑ The evaluation is based on a combination of job content, skills required, value to the organization, organizational culture, and the external market.

❑ This potential to blend organizational forces and external market forces is both a strength and a challenge of job evaluation.

Major Decisions in Job Evaluation

❑ Establish purpose of evaluation

❑ Decide whether to use single or multiple plans.

❑ Choose among alternative approaches.

❑ Obtain involvement of relevant stakeholders.

❑ Evaluate the usefulness of the plan.

Establish the Purpose

❑ A structure is aligned if it:
  ❑ supports organization strategy,
  ❑ supports work flow,
  ❑ is fair to employees, and
  ❑ motivates behavior toward organization objectives.

❑ Establishing a purpose helps ensure the evaluation is a useful systematic process.

Single versus Multiple Plans

❑ Many employers may design different evaluation plans for different types of work.

❑ The number of job evaluation plans hinges on how detailed it needs to be to make pay decisions, and how much it will cost.

Choice of Job Evaluation Methods

Job Ranking

- Raters examine job description and arrange jobs according to their value to the company
- Types: Simple, Alternation & Paired Comparison

Job Classification

- Classes or grades are defined to describe a group of jobs

Point Method

- Numerical values (points) are assigned to specific job components; sum of values provides quantitative assessment of the job's worth

Simple Ranking

❑ Orders job descriptions from highest to lowest based on relative value.

❑ Advantages:
  ❑ Simple, fast, and easy to understand and explain to employees; least expensive, initially.

❑ Disadvantages:
  ❑ If ranking criteria is poorly defined, evaluations become biased.
  ❑ Evaluators must be knowledgeable about every job.
  ❑ Results are difficult to defend and costly solutions may be required.

Other Ranking Methods

Alternation Ranking

- ❑ Orders job descriptions alternately at each extreme.

- ❑ Evaluators agree on which jobs are the most and least valuable, then the next, etc.

Paired Comparison

- ❑ Uses a matrix to compare all possible pairs of jobs.

- ❑ When all comparisons are completed, the job judged "more valuable" becomes the highest ranked job, and so on.

Classification

A series of classes covers the range of jobs.

Class descriptions are the labels which capture general nature of work.

Job descriptions are compared to class descriptions to determine class level.

Greater specificity of the class definition improves the reliability of the evaluation.

To determine the number of classes and to write class descriptions, define boundaries between each class.
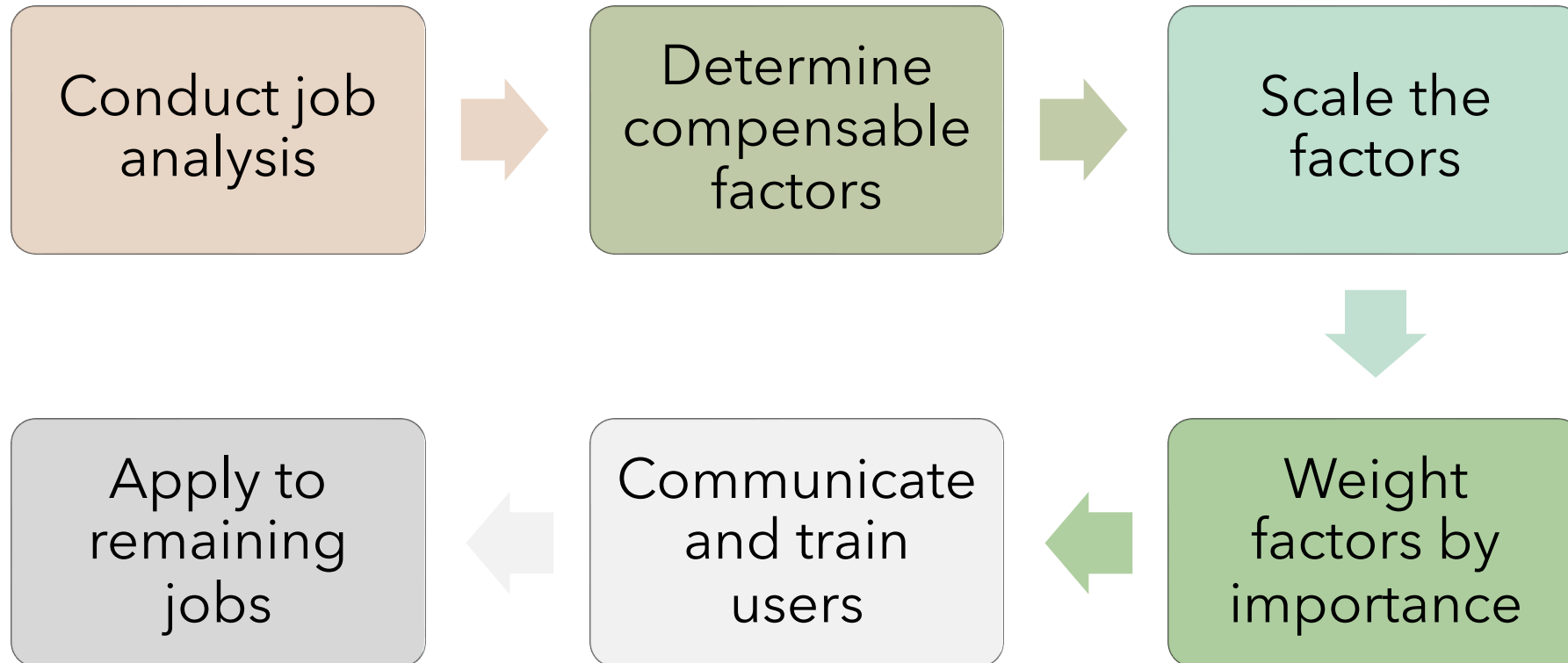
The end result is a job structure made up of a series of classes with a number of jobs in each class.

Point Method

❑ This method allows the assignment of a numeric score to each job in an organization, through the identification of factors that are valued by the organization.

❑ This procedure results in a relative ordering of jobs based on the number of points that each job "scores".

Steps in Designing a Point Plan

Conduct job analysis → Determine compensable factors → Scale the factors → Weight factors by importance → Communicate and train users → Apply to remaining jobs

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Step 1: Conduct Job Analysis

❑ A representative sample of benchmark jobs is drawn for analysis.

❑ Benchmark jobs:

   ❑ Its contents are well known and relatively stable over time.

   ❑ The job is common across employers.

   ❑ A reasonable proportion of the work force holds this job.

   ❑ Should capture the diversity of work.

Step 2 Determine Compensable Factors

Compensable factors
Characteristics in the work that the organization values, that help it pursue its strategy and achieve its objectives.

Compensable factors should be:
❑ based on the strategy and values of the organization,
❑ based on the work performed, and
❑ acceptable to the stakeholders affected by the resulting pay structure.

The four universal compensable factors are: Skill, Effort, Responsibility and Working Conditions.

Number of Compensable Factors – Challenges

❏ Some factors may overlap or fail to account for unique criteria.

  ❏ The belief that factors capture divergent aspects of a job.

❏ Another challenge is called "small numbers".

  ❏ If even one job has a certain characteristic, it is used in the entire work domain.

Step 3: Scale the Factors

❑ Factors are scaled for presence

❑ Most factor scales have 4 to 8 degrees.

❑ Criteria for scaling factors:

    ❑ ensure the number of degrees is necessary to distinguish jobs,

    ❑ use understandable terminology,

    ❑ anchor degree definitions with benchmark job titles and/or work behaviors, and

    ❑ make it apparent how the degree applies to the job.

Step 4: Weight the Factors

❑ Factors are weighted for importance

❑ Factor weights reflect the relative importance of each factor

❑ Weights are often determined through an advisory committee – a priori judgment approach

❑ Statistical modeling techniques determine the weight for each factor – this statistical approach is called policy capturing

Steps **5 & 6** Communicate, Train & Apply

❏ Step 5: Communicate the plan and train users

   ❏ Prepare a manual and train users.

      ❏ An appeals process may be included for employee recourse.

      ❏ Employee acceptance is crucial.

❏ Step 6: Apply to remaining jobs

Who Should Be Involved?

❑ Design should involve managers and employees with a stake in the results.

❑ A common approach is to use committees, task forces, or teams that include:

  ❑ Employees from key operating functions

  ❑ Union representatives
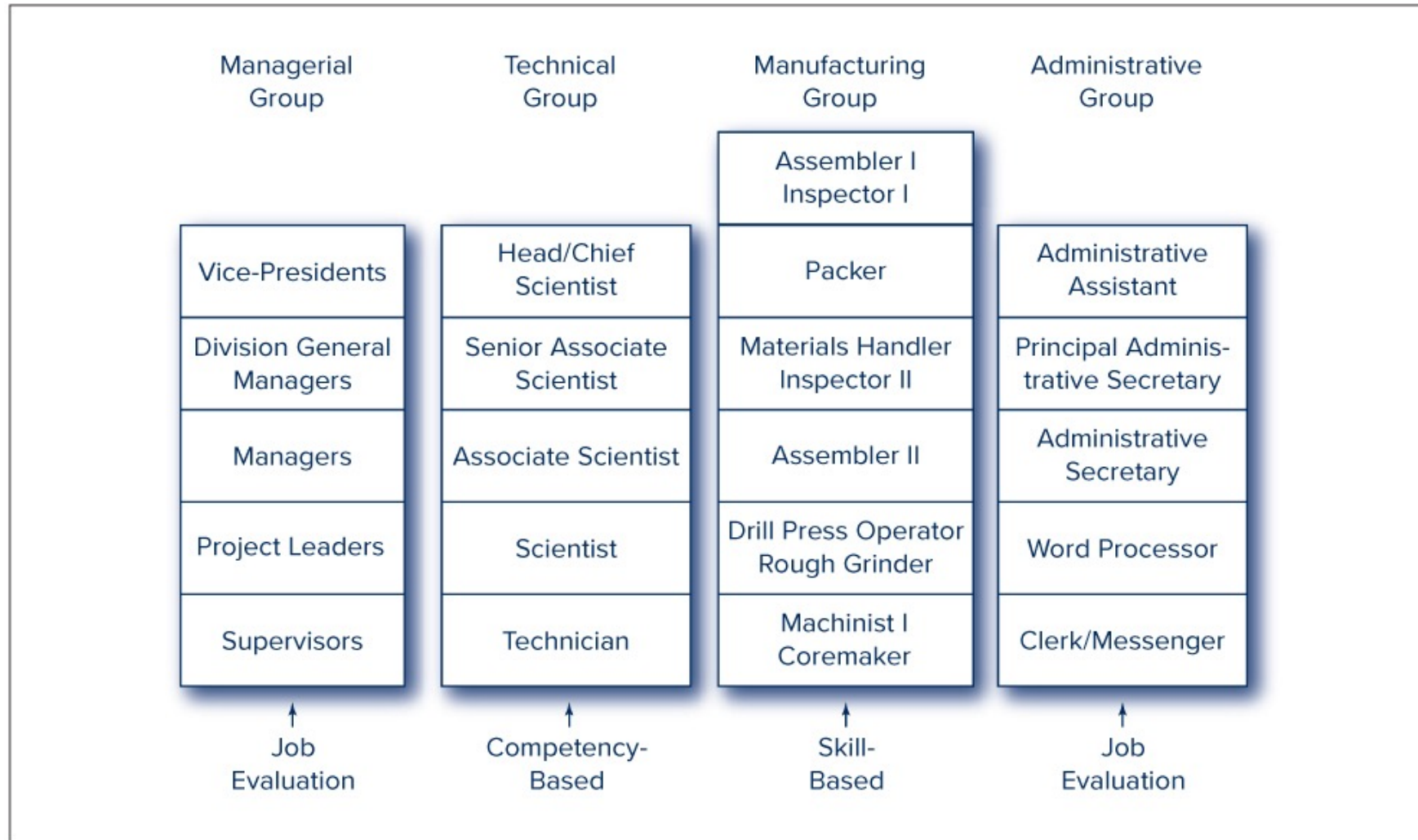
  ❑ Compensation professionals

  ❑ Consultants

The Design Process Matters

❑ Fairness of the design process helps achieve:

  ❑ employee and management commitment, trust, and acceptance of results.

❑ Appeals/review procedures are required.

  ❑ This ensures procedural fairness.

  ❑ Procedures should be judged for their susceptibility to political influences.

The Final Result: Job Structure

❑ The final result of the job evaluation process is a hierarchy of work, or a job structure

❑ Although the point method allows an organization to develop one job evaluation plan for all jobs in the organization, most times it is difficult to identify one set of compensable factors that is applicable for all jobs.

❑ Hence, organizations commonly have multiple structures, derived from different approaches, and applicable to different functional groups or units.

EXHIBIT 5.12   Resulting Internal Structures—Job, Skill, and Competency Based

Managerial Group	Technical Group	Manufacturing Group	Administrative Group
		Assembler I Inspector I	
Vice-Presidents	Head/Chief Scientist	Packer	Administrative Assistant
Division General Managers	Senior Associate Scientist	Materials Handler Inspector II	Principal Administrative Secretary
Managers	Associate Scientist	Assembler II	Administrative Secretary
Project Leaders	Scientist	Drill Press Operator Rough Grinder	Word Processor
Supervisors	Technician	Machinist I Coremaker	Clerk/Messenger
↑ Job Evaluation	↑ Competency-Based	↑ Skill-Based	↑ Job Evaluation

Balancing Chaos and Control

❑ Complex procedures and bureaucracy can cause users to lose sight of the objectives.

❑ Allow flexibility to adapt to changing condition.

❑ Flexibility without guidelines increases chaos.
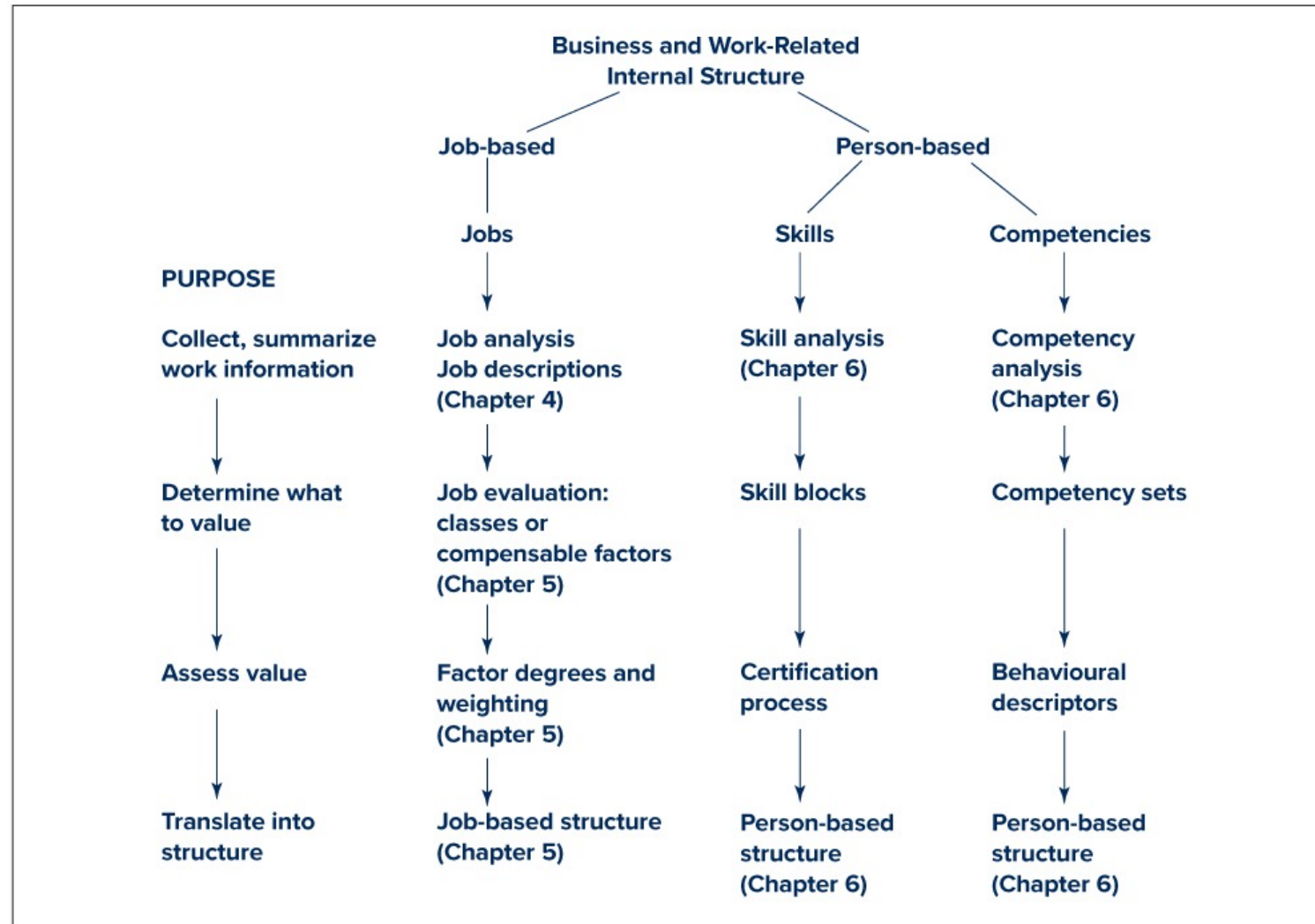
❑ Balanced guidelines ensure employees are treated fairly.

Summary

- Job evaluation is the process of determining and quantifying the relative value of jobs within an organization.

- The ranking method of job evaluation ranks the jobs on the basis of a global definition of value. Three methods of ranking are simple ranking, alternation ranking and paired comparison.

- The classification method of job evaluation uses class descriptions to categorize jobs. Descriptions of benchmark jobs are used as part of the class descriptions for clarification.

- The steps involved in the point method of job evaluation are: conduct job analysis, determine compensable factors, scale the factors, weight the factors and assign points, communicate the plan and train users and apply the plan to non-benchmark jobs.

- Committees, task forces, or teams including non-managerial employees should be involved in job evaluation. Union participation may also be desirable.

Learning Outcomes

❑ Explain the difference between skill-based pay plans and competency-based pay plans, and describe the types of jobs to which each is commonly applied.

❑ Describe the four basic decisions in skill analysis.

❑ Define competency, and explain what is meant by core competencies, competency sets, and behavioural descriptors.

❑ Explain why employee acceptance is crucial for person-based pay plans, and how this acceptance can be obtained.

❑ Describe two potential sources of bias in internal pay structures.

EXHIBIT 6.1 Many Ways to Create Internal Structure

Business and Work-Related Internal Structure

- Job-based
  - Jobs
- Person-based
  - Skills
  - Competencies

PURPOSE	Jobs	Skills	Competencies
Collect, summarize work information	Job analysis Job descriptions (Chapter 4)	Skill analysis (Chapter 6)	Competency analysis (Chapter 6)
Determine what to value	Job evaluation: classes or compensable factors (Chapter 5)	Skill blocks	Competency sets
Assess value	Factor degrees and weighting (Chapter 5)	Certification process	Behavioural descriptors
Translate into structure	Job-based structure (Chapter 5)	Person-based structure (Chapter 6)	Person-based structure (Chapter 6)

Skill-Based Plans

❑ Link pay to the depth or breadth of the skills, abilities, and knowledge a person acquires that is relevant to the work.

❑ pay individuals for all the relevant skills for which employees have been certified regardless of whether the work they are doing requires all or just a few of those particular skill – the wage attaches to the person.

❑ In contrast, a job-based plan pays employees for the job to which they are assigned, regardless of the skills they possess.

❑ An advantage is higher flexibility as multi-skilled employees can be better matched to the work flow.

Types of Skill-Based Plans

Specialist: Depth

- ❏ Pay is based on knowledge of the person doing the job, rather than on job content or output.
- ❏ Basic responsibilities do not vary on a day-to-day basis.

Generalist/Multiskill Based: Breadth

- ❏ Pay increases by acquiring new knowledge.
- ❏ Higher pay from certification of new skills.
- ❏ Responsibilities can change over a short time.

Purpose of a Skill-Based Structure

❑ Supports organization's strategy

❑ Supports work flow: A main advantage is matching people to changing workflow

❑ Fair to employees: Skill-based plans may give workers more control over their work life but favoritism and bias may be a problem.

❑ Motivates behaviours toward organization objectives

Suited for continuous-flow technologies where employees work in teams.

Skill Analysis

❑ A systematic process to identify and collect information about skills required to perform work in an organization

❑ What information to collect?
  ❑ Defining the skills
  ❑ Arranging them into a hierarchy
  ❑ Bundling them into skill blocks

❑ Establish methods to determine and certify skills
  ❑ Peer review, on-the-job demonstrations, or tests
  ❑ Scheduled fixed review points and recertification

❑ Whom to involve? Employees and managers

❑ Need to monitor removal of certification when a skill is deemed obsolete

Outcomes of Skill-Based Plans

❑ Well accepted by employees and provide strong motivation for individuals to increase their skills.

❑ Become increasingly expensive – when workers top-out

❑ Unless flexibility permits a leaner staff, labor costs will be higher

❑ A plan's success is determined by how well it aligns with the organization's strategy.

Guidance from Research & Experience

❑ Research showed 60% of companies starting a skill-based plan continued using the plan after seven years.

❑ These plans may be a better fit in industries where labor costs are a small share of total costs.

   ❑ These plans have an estimated 10-15% higher labor costs.

❑ Are jack-of-all-trades really a master of none?

   ❑ Greater increments of flexibility achieve fewer improvements.

   ❑ There may be an optimal number of skills per individual.

Purpose of a Competency-Based Structure

❑ Supports organization's strategy

❑ Supports work flow: Competencies may require more tacit knowledge

❑ Fair to employees:

    ❑ Advocates say they can empower employees.

    ❑ Critics worry about basing pay on personal characteristics.

    ❑ Justifying pay differences may create risks that need managed

❑ Motivates behaviours toward achieving organization objectives

Competency-Based Structure

❑ Competencies are underlying, broadly applicable knowledge, skills, and behaviours that form the foundation for successful work performance (exhibited by excellent performers more consistently than average performers)

❑ Core competencies are often linked to the mission statement.

❑ Competency sets translate each core competency into action.

❑ Competency indicators are the observable behaviors that indicate competency.

Competency Analysis

- ❑ A systematic process to identify and collect information about the competencies required for successful work performance.
- ❑ Core competencies are not unique for each company.
- ❑ What differs is how each company applies their competencies.
- ❑ Competencies derive from leadership's beliefs about the organization and its strategic intent.
- ❑ Not all employees understand the connection.
- ❑ If people are paid based on competencies, there must be a way to certify their possession of that competency.
- ❑ There seems to be no objective way of certifying competency.
- ❑ Competency-based structures have relatively few levels and wide differentials for increased flexibility.

Guidance from the Research on Competencies

❑ Competencies may identify outstanding performance but there is debate on whether they can be measurable and objective.

❑ Competencies often morph into compensable factors.

❑ Is it appropriate to pay for what a person is believe capable of doing versus what they are doing?

❑ Are competency-based systems susceptible to discrimination?

Internal Alignment Reflected in Structures

❑ The purpose of job- and person-based procedures is to design and manage a pay structure that aids success.

❑ Managers must ensure the structure *remains* aligned by reassessing work/skills/competencies as necessary.

❑ In practice, when evaluating higher-value, nonroutine work, the distinction between job- and person-based approaches blurs.

Administering and Evaluating the Plan

Essential criteria:

❑ Fairness in the plan's administration.

❑ Availability of sufficient information to apply the plan.

❑ Adequate communication and employee involvement are critical for acceptance.

Reliability & Validity

❑   A reliable evaluation is one where different evaluators produce the same results.

❑   Improve reliability by using evaluators familiar with the work and trained in job evaluation.
  ❑   Some organizations use group consensus.

❑   Validity refers to the degree the evaluation assesses relative job worth.
  ❑   needs to be broadened to include the impact on pay decisions.

Acceptability

❏ Methods to assess and improve employee acceptability:

  ❏ formal appeals process allows a request for reanalysis and/or skills reevaluation.

  ❏ employee attitude surveys assess perceptions of how useful evaluation is as a management tool.

Bias in Internal Structures

❑ Job evaluation may be susceptible to gender bias.

❑ Recommendations to ensure bias-free evaluation plans:

- ❑ Define the compensable factors and scales to include the content of jobs held predominantly by women.

- ❑ Ensure that factor weights are not consistently biased against jobs held predominantly by women. Are factors usually associated with these jobs always given less weight?

- ❑ Apply the plan in as bias free a manner as feasible. Ensure that the job descriptions are bias free, exclude incumbent names from the job evaluation process, and train diverse evaluators.

These issues also apply to skill- and competency-based plans.

The Perfect Structure

❑ The best approach to pay structures depends on the situation.

    ❑ Provide sufficient ambiguity to afford flexibility.

❑ Internally aligned pay structures can be designed to:

    ❑ Help determine pay for the wide variety of work and ensure that pay influences attitudes and behaviors and directs toward objectives.

Summary

❑ Skill-based pay plans and competency-based pay plans are conceptually identical, but skills are very specific and competencies are more general.

❑ The major skills analysis decisions are: (1) What is the objective of the plan? (2) What information should be collected? (3) What methods should be used to determine and certify skills? (4) Who should be involved?

❑ Competencies are underlying, broadly applicable knowledge, skills, and behaviours.

❑ Employee acceptance is crucial for person-based plans. Employee involvement, having a formal appeals process, and conducting employee attitude surveys are ways to enhance employee acceptance.

❑ Possible sources of bias in internal pay structures are bias in the job evaluation of traditionally female-dominated jobs and bias in current wages that may be perpetuated when job evaluation plans are structured to mirror existing pay rates.