Admas University

Graduate Studies

MBA and Project Management Programs

HRM Session8

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Part IV (2): Performance and reward management

1. Performance management
2. Job evaluation
3. Reward management

Job evaluation: meaning

- Determining worth/value of a job is a concern of organizations. *What is the value of a job in the marketplace or in comparison with other jobs in the organization?* This is key decision issue in organizations. Job evaluation helps in such decisions.
- **What is job evaluation?**
    - Job evaluation is a systematic process for defining the relative worth or size of jobs within an organization in order to establish internal relativities.
    - Evaluation is based on a combination of *job content, skills required, value to the organization, organizational culture and the external market.*

Job evaluation: purpose

- Establish the relative value or size of jobs (internal relativities) based on fair, sound and consistent judgments
- Enable sound market comparisons with jobs or roles of equivalent complexity and size.
- Be transparent – the basis upon which grades are defined and jobs graded should be clear.
- Ensure that the organization meets equal pay for work of equal value obligations.
- Maintain accurate and impersonal description of each distinct job.
- Determine wage for the job and not for the man and remove grievances from employees regarding discrepancy in wages.
- Can be used as an input for recruitment, selection and promotion procedures

Job evaluation: methods

Method	Description
Point-factor rating	• the most common form of analytical job evaluation • breaks down jobs into factors such as level of responsibility, knowledge and skill or decision making • Each factor is defined hierarchically into degrees (levels) • Points are assigned for each degree of each factor • Grand Total of these points classify the Job Worth
Factor comparison method	• Compares **jobs factor by factor (** such as skill requirements, physical exertion, responsibility, job conditions) using a scale of money values to provide a direct indication of the rate for the job • it is used simply to compare one job with one or two others but not review internal consistency (relativity) • It may use three scales i.e. lower, equal or higher
Job ranking method	• it is the oldest form/method of job evaluation • It is non-analytical in its approach (committee evaluates jobs based on job descriptions and their own judgment) • The process involves comparing whole jobs with one another and arranging them in order of their perceived value to the organization
Job grading method	• It is non-analytical and does not involve detail quantitative analysis • Facts about the job are collected and matched with the grades which have been established by the raters (Committee) • Grades are arranged based on importance of the jobs • Jobs with higher responsibility are grade higher • Lower grade jobs carry little responsibility but require physical work

Job evaluation: methods

- All of the methods have similar purpose: *placing jobs in order based on relative worth/value and maintaining fair and consistent pay structure.* The only difference is on the analytical approaches (formal vs informal, analytical vs non analytical) they follow.
- **Criteria for choice**
  - A method which *thorough in analysis and capable of impartial application*
  - **Appropriate method** – it should cater for the particular demands made on all the jobs to be covered by the scheme.
  - **Comprehensive method** – the method should be applicable to all the jobs in the organization covering all categories of staff and, if factors are used, they should be common to all those jobs.
  - **Transparent method** – the processes used in the method from the initial role analysis through to the grading decision should be clear to all concerned
  - **Non-discriminatory** – the method should meet equal pay for work of equal value requirements.
  - **Ease of administration** – the method should not be too complex or time-consuming to design or implement.

Reward management: meaning

- Reward management is concerned with the formulation and implementation of strategies and policies in order to reward people fairly, equitably and consistently in accordance with their value to the organization.
- Reward management is the process of designing, implementation and maintenance of reward systems that are geared to the improvement of organizational, team and individual performance
- It includes both **financial** (wage, salary, allowances, bonus) and **nonfinancial** (recognitions, promotions) rewards
- It adopts a 'total reward' perspective that recognizes that there are many other and possibly more powerful ways of rewarding people besides financial rewards

Reward management: purpose

- Reward management plays the following purposes
    - Reward people according to what the organization values and wants to pay for.
    - Reward people for the value they create.
    - Reward the right things to convey the right message about what is important in terms of behaviors and outcomes.
    - Develop a performance culture.
    - Motivate people and obtain their commitment and engagement.
    - Helps attract and retain high quality people the organization needs.
    - Develops a positive employment relationship and psychological contract
    - Aligns reward practices with both organization goals and employee values

Reward management: basic philosophy

The philosophy of reward management is guided by the following principles. It is integrated with the overall HRM philosophy of an organization.	
Principle	**Description**
Fairness	• people should feel that they are treated justly in accordance with what is due to them because of their value to the organization
Equity	• people should be rewarded appropriately in relation to others within the organization, • relativities between jobs are measured as objectively as possible • equal pay is provided for work of equal value.
Consistency	• decisions on pay do not vary arbitrarily and without due cause between different people or at different times
Transparency	• people understand how reward processes operate and how they are affected by them
Differential payment	• recognizes that HRM is about investing in human capital from which a reasonable return is required • rewarding people differentially according to their contribution (i.e. the return on investment they generate). • There should be recognition of individual differences in ability and contribution
Total reward	• emphasizes the importance of considering all aspects of reward as a coherent whole • integrating with other HR initiatives designed to achieve the motivation, commitment, engagement and development of employees

Theories in reward management

Theory	Description and application
The law of supply and demand	• Other things being equal, if there is a surplus of labour and supply exceeds the demand, pay levels go down; if there is a scarcity of labour and demand exceeds the supply, pay goes up. • Emphasizes on the importance of labour market factors in affecting pay scales
Efficiency wage theory	• Firms will pay more than the market rate because they believe that high levels of pay will contribute to increases in productivity by motivating superior performance, attracting better candidates, reducing labour turnover and persuading workers that they are being treated fairly. This theory is also known as **'the economy of high wages**' • Organizations use efficiency wage theory (although they will not call it that) when they formulate pay policies that place them as market leaders or at least above the average
Human capital theory	• Workers have a set of skills developed by education and training that generates a stock of productive capital • Employees and employers each derive benefits from investment in creating human capital. The level of pay should supply both parties with a reasonable return on that investment

Theories in reward management

Theory	Description and application
Agency theory	• The owners of a firm (the principals) are separate from the employees (the agents). This difference can create ‘agency costs’ because the agents may not be as productive as the principals. The latter therefore have to devise ways of motivating and controlling the efforts of the former • A system of incentives is needed to motivate and reward acceptable behaviour. This process of **‘incentive alignment**’ consists of paying for measurable results that are deemed to be in the best interests of the owners
The effort bargain	• Workers aim to strike a bargain about the relationship between what they regard as a reasonable contribution and what their employer is prepared to offer to elicit that contribution • Management has to assess what level and type of inducements it has to offer in return for the contribution it requires from its workforce

Reward package

Package	Description and application
Base or basic pay	• The base rate is the amount of pay (the fixed **salary or wage**) that constitutes the rate for the job • It may be varied according to the grade of the job • **Wage** is commonly used for unskilled workers, daily or hourly laborers
Contingent/inceptive pay	• Provided in relation to performance, competence, contribution, skill or service in the grade • Contingent payments may be added to base pay, i.e. 'consolidated' or 'paid variably' as cash bonuses • **Primarily offered as motivators (extrinsic motivators)** • **It is based on performance measurement**
Employee benefits	• include pensions, sick pay, insurance cover, company cars and a number of other 'perks' • comprise elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holidays. • **Provided to meet legal requirements and as motivators**
Non-financial rewards	• do not involve any direct payments and often arise from the work itself, for example, achievement, autonomy, recognition, scope to use and develop skills, training, career development opportunities and high quality leadership. • **Provided as motivators (intrinsic motivators)**
Total reward (total remuneration)	• combination of financial and non-financial rewards available to employees. • value of all cash payments (total earnings) and benefits received by employees.

Reward management: outcomes

- One or more of the following outcomes may be achieved through proper reward management
    - Acquire competent personnel
    - Retain present employees
    - Provide fair and equitable compensation
    - Ensure desired behavior
    - Keep labor costs in control
    - Keep organization capability in mind
    - Improve employee motivation and morale
    - Promote good image of the organization
    - Impartial implementation

Factors affecting reward package

- Reward package of an organization may be affected by several factors including
  - **Internal factors**
    - The organization’s overall philosophy and policy
    - The organization's ability to pay
    - Job requirements
    - Productivity and performance
  - **External factors**
    - Supply and demand of labor
    - The prevailing market rate
    - The cost of living
    - Minimum wage (determined by government)
    - Trade Union’s bargaining power

Thank you!