

COMPENSATION MANAGEMENT

HRM3705

Study unit 6
Internally consistent pay systems

Learning outcomes of study unit 6

Once you have completed study unit 6, you should be able to:

- Discuss the different views on the meaning of competency-based pay
- Contrast between person-focused pay plans, pay-for-knowledge pay; and skill-based pay programmes
- Critically discuss the limitations of internally consistent pay systems
- Critically discuss the relationship between job analysis, job evaluation, internal structure and internal consistency
- Discuss the importance of job evaluation as well as job analysis in the compensation management context
- Discuss the process of job evaluation and the reasons for its implementation
- Critically discuss the alternatives to job evaluation
- Explain the importance of job analysis and job evaluation and its relationship to internal consistency

Definitions

Job-based structures	Rely on work content – tasks behaviour and responsibilities
Job-based systems	Compensates employees for jobs they currently perform and focus on jobs as the basic unit of analysis to determine the pay structure; hence job analysis is required. This type of plan pays employees for the job to which they are assigned, regardless of the skills they possess
Person-focused pay plans	These type of plans generally reward employees for acquiring job-related competencies, knowledge, or skills rather than for demonstrating successful job performance
Job based pay	Compensates employees for jobs they currently perform
Competency-based reward system	Recognises what people accomplish at work rather than rewarding the acquisition of additional knowledge or skills. Here two types are identified: pay for knowledge and skill-based pay.
Pay for knowledge plans	Reward managerial, service or professional employees for successfully learning specific curricula. Thus paying employees for the amount of knowledge they possess
Skill-based pay	This term is mostly used for employees who do physical work (manual labour) and increases these workers' pay as they master new skills.

Internal consistency

- Remember in study unit 1 we mentioned internal equity?
- Internal consistency, internal equity and internal alignment are terms that can be used interchangeably
- Thus:
 - Internal consistency/internal equity deals with comparisons of rewards across different jobs within the same organisation

Internal consistency (continue)

- Compares the value of each job within the same company against the rest of the jobs found within that company
- Represents job structure or hierarchy
- Job descriptions are its cornerstone
- Recognizes differences in job characteristics

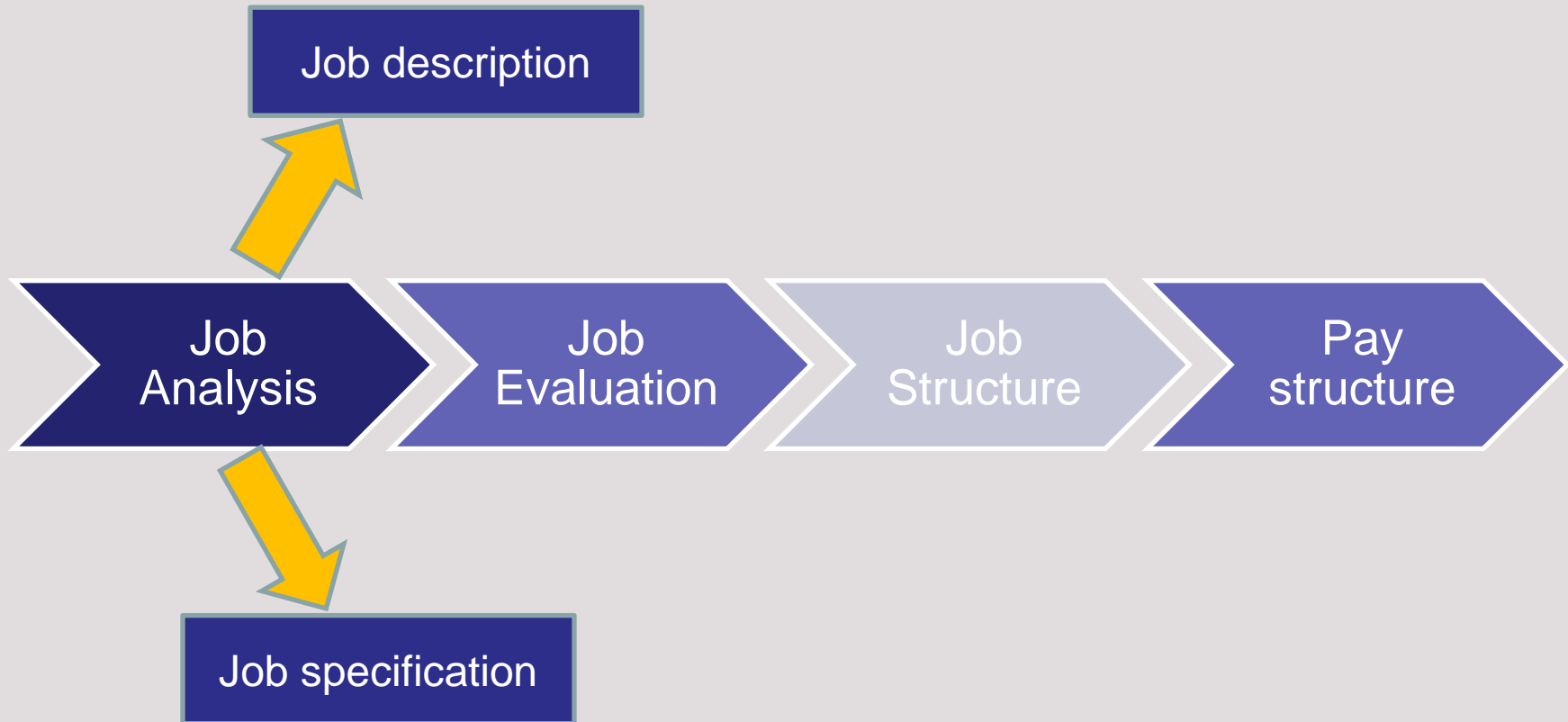
Internal consistency (continue)

- Plays a major role in analysis of the compensation of employees in an organisation.
- Internal consistency is achieved by conducting:
 - Job Analysis
 - Job Evaluation
- Remember, that in all instances a job description and job specification is required.

Job structure process

- **Job analysis**
 - A descriptive procedure
 - Identifies and defines job content
 - Critical uses of job analysis:
 - Establishes similarities and differences in the work contents of the jobs
 - It helps establish an internally fair and aligned job structure
- **Job evaluation**
 - Reflects value judgments
 - Compensation systems set pay levels
 - Process that determines how much a job should be paid. Have two goals:
 - Internal equity
 - External competitiveness

Interrelationship between job analysis and compensation



Job Evaluation



Job evaluation is the process of systematically determining the relative worth of jobs to create a job structure for the organisation.

Purpose: To achieve and maintain an equitable distribution of base pay according to level or position

Job Evaluation (continue)

Objectives of JE

- To gather data and information relating to job description, job specification and employee specifications for various jobs in an organization.
- To compare the duties, responsibilities and demands of a job with that of other jobs.
- To determine the hierarchy and place of various jobs in an organization.
- To determine the ranks or grades of various jobs.
- To ensure fair and equitable wages on the basis of relative worth or value of jobs. In other words equal wages are fixed to the jobs of equal worth or value.
- To minimize wage discrimination based on sex, age, caste, region, religion etc.

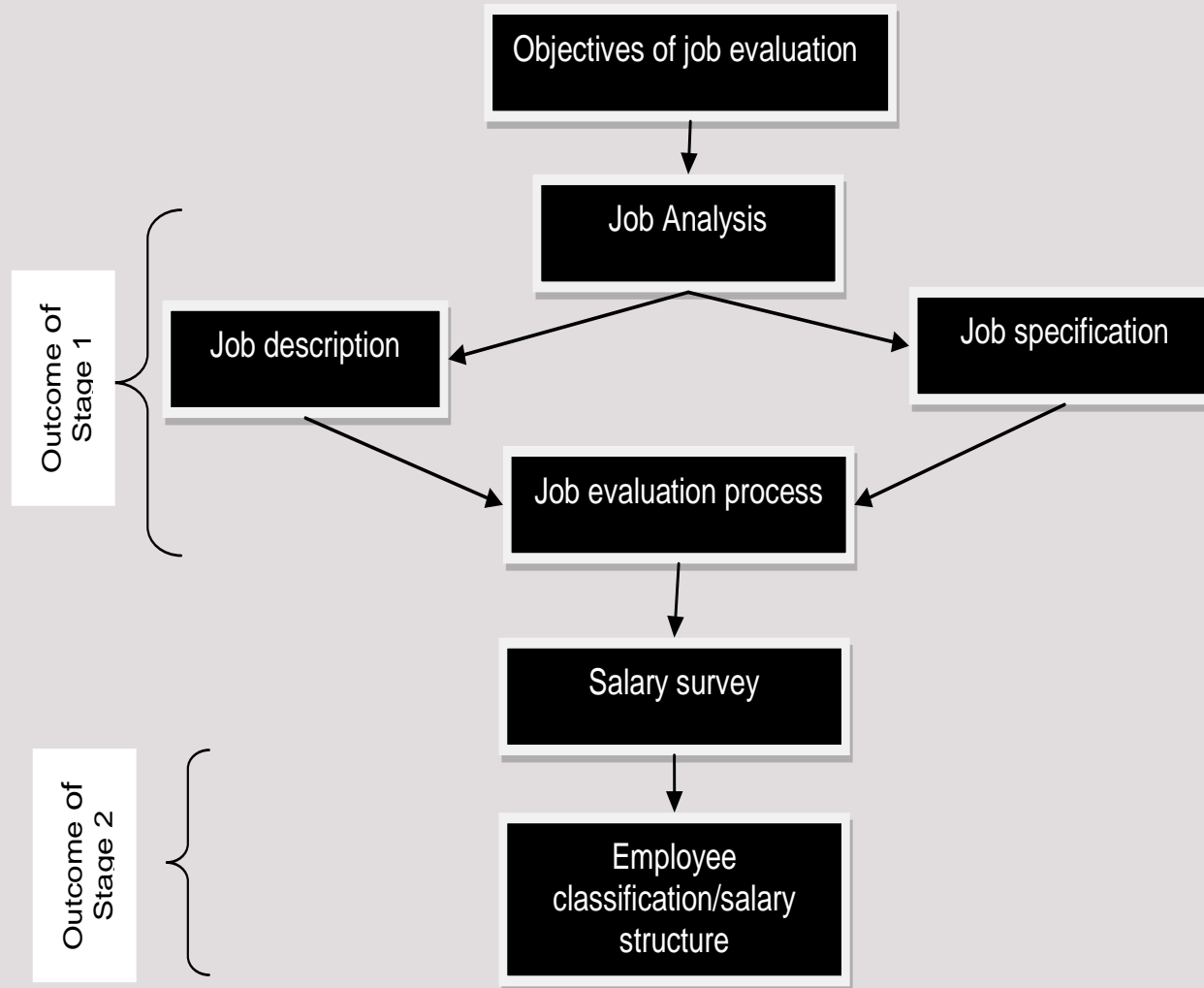
Job Evaluation (continue)

Aims of JE

To ensure that job evaluation is “felt fair” it is best to:

- Involve employee representatives and communicate with employees
- Be thorough and systematic about gathering information
- Ensure employees have an understanding of the basis on which jobs are to be evaluated
- Ensure a consistent method of evaluation
- Comply with the law of equal pay

Grammatical depiction of JE



Compensable factors



Compensable factors are those characteristics in the work that the organisation values that help it pursue its strategy and achieve its objectives
Milkovich et al (2011:140)

In order to be useful, compensable factors should be (Milkovich et al, 2011:140):

- Based on the strategy and values of the organisation
- Based on the work performed
- Acceptable to the stakeholders affected by the resulting pay structure

Job Evaluation process

- **Six steps** are involved in the job evaluation process, namely:
- Determining single versus multiple job evaluation techniques
- Choosing the job evaluation committee
- Training employees to conduct job evaluation
- Documenting the job evaluation plan
- Communicating with employees
- Setting up an appeals process
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- For detailed discussion relating to the steps, refer to the relevant section in the prescribed book.

Job Evaluation techniques/methods



You are required to study ONLY this section in the study guide for examination purposes

Criteria for the choice of a system:

- The Chief Executive understands it and is committed to it (this is a very important criteria, if you CEO does not understand or like the system; it will not be successfully implemented!)
- Everyone, including the employee's at the lowest level in the organisation understand and accept it
- The system is defensible
- Updating and maintaining the system is not an administrative burden
- The system has to be flexible and can accommodate Broad banding
- It has to be easy to understand and implement (user friendly)

Types of JE systems

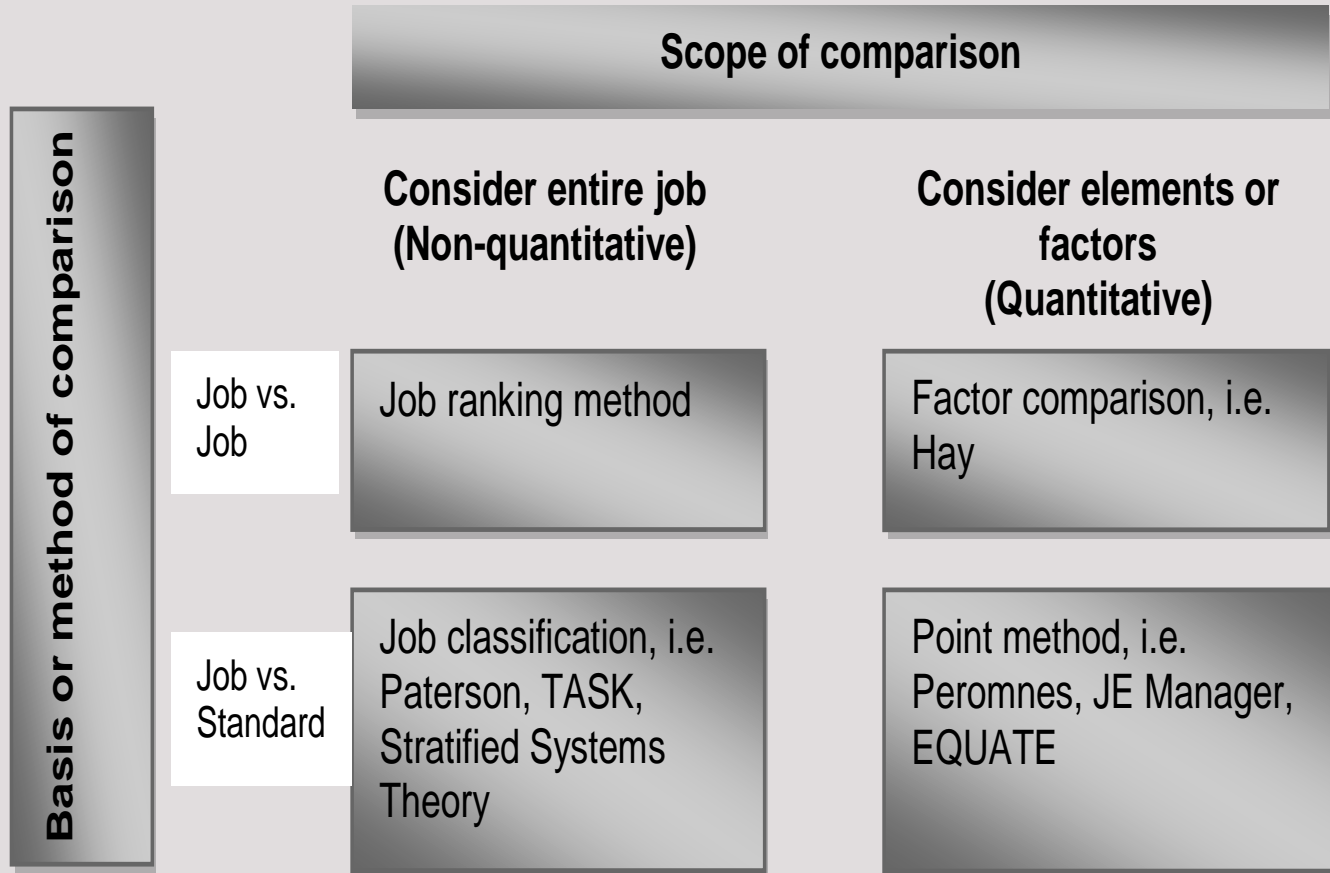
- **Market-based evaluations**

- use market data to determine differences in job worth
- allow companies to assign pay rates that are neither too low nor too high relative to the market.
- Compensation professionals use compensation surveys to determine the prevailing pay rates in the relevant job markets (More about market-based evaluations in study unit 7).

- **Job-content evaluation**

- emphasise the company's internal value system to establish a hierarchy of internal job worth based on each job's role in the company strategy.
- compensation professionals
 - review preliminary structures for consistency with market pay rates on a representative sample of jobs (benchmark jobs)
 - judge the adequacy of pay differentials by comparing market rates with in-house rates and (3) consult with an HR official and chief financial officer, especially if their rates are lower.

Various approaches to categorisation of JE systems



Source: Adapted from Bussin (2011) and Swanepoel, et al (2008)

Job Ranking

- The simplest, easiest and least expensive, and least used job evaluation method
- Most effective in smaller organisations with few job classifications
- Involves judging each job as a whole and arranging them in order of importance

Advantages	Disadvantages
<ul style="list-style-type: none">• Simplicity• Easy to communicate to employees• Easy to understand, and apply• Supports new work design• Supports competency and development drive• Facilitates consensus decisions• Accommodates broad-banding easily	<ul style="list-style-type: none">• Ranking jobs is subjective. Jobs are evaluated, and their value and complexity are often assessed on the basis of opinion• Cumbersomeness and unreliability with increasing numbers of jobs• A lack of specific criteria for the ranking process• An inability to indicate the extent of differences between job levels• Cannot count up points – shift in mindset required• Panel members need thorough understanding of the system

Job Classification

- Place groups of jobs into a number of job grades or classes
- First establish grades and grade descriptions
- Individual jobs are then fitted into the grade with the most appropriate description

Advantages	Disadvantages
<ul style="list-style-type: none">• This method is simple, once you establish your categories• You can assign new jobs and jobs with changing responsibilities within the existing system• Expedient and inexpensive to implement	<ul style="list-style-type: none">• Subjective. Decisions rely on the judgement of the job evaluator.• Inability to cope with complex jobs which will not fit neatly into one grade• Oversimplification of using single job factors to establish remuneration differentials

Factor comparison

- Complex ranking method: Jobs are ranked against a number of compensable factors
- Jobs are ranked that have similar responsibilities and tasks according to points assigned to compensable factors
- Jobs across the organisation are then compared to the benchmark jobs according to the market rate of each job's compensable factors to determine job salaries

Advantages	Disadvantages
<ul style="list-style-type: none">• Comfort• High face validity• Process can be repeated precisely	<ul style="list-style-type: none">• Cut-off's do not necessarily conform to work design• Difficult to distinguish between fine definitions• Grade

Point method

- Most widely used JE method
- The value of a job is expressed in monetary terms
- First identify compensable factors that a group of jobs possess
- Based on these factors, assign points that numerically represent the description and range of the job

Advantages	Disadvantages
<ul style="list-style-type: none">• This method is often viewed as less biased than other methods because the job evaluator assigns each job's total points before the compensable factors become part of the equation• It provides a higher level of face validity than the non-quantitative methods• Ability to assess relative differences between jobs	<ul style="list-style-type: none">• Complex and time consuming to develop and maintain• Subjective decision about compensable factors and the associated points assigned might dominate. The job evaluator must be aware of biases and ensure that they are not represented in points assigned to jobs that are traditionally held by minority and female employees

Market comparison

- An organisation's jobs are compared to the market rate for similar jobs
- Accurate market-pricing surveys are necessary
- When evaluating jobs, the following should be remembered (Bussin, 2011):
 - There is no such thing as a scientific method of job evaluation - all systems have systematic approaches to the establishment of the hierarchy of jobs in an organisation.
 - Virtually all job evaluation methods used world-wide do the same thing – rank the relative worth of one job to another – and produce almost identical hierarchies.
 - Each method has advantages and disadvantages. Organisations should select the best according to their requirements, but realise that more important than the system chosen, is good implementation and on-going management.

Major JE systems used in South Africa

- Paterson
- Peromnes
- HAY job evaluation system
- Equate (South African Government)

(See study guide for detailed discussion on each)

Alternatives to JE

- Market pay rates – more in study unit 7
- Pay incentives – refer to study unit 5
- Individual rates
- Collective Bargaining – refer to study unit 4

END OF STUDY UNIT 6