

# Management Briefs



## Investing in Employee Compensation: What's the Relative Worth of Your Jobs?

*Second in a Series of Three Installments*

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A critical factor in establishing an employer's ability to retain and motivate employees is the employees' belief that they are being fairly paid for their work. In this context, "fair pay" usually means the employees' perception that their pay is consistent with the value of their jobs to the organization—and relative to the work of others.

When subordinates and supervisors are paid on the same scale, employees in the same job are paid on different scales, or employees are "promoted" to positions that do not offer opportunity for higher income, employers are faced with difficult situations to rationalize.

In this second of a three-part series addressing compensation principles, we detail the process for developing rational internal equity through the development of a hierarchy of relative worth.

### Establishing Your Hierarchy of Relative Worth

Most companies have a sense of the relative values of their jobs, especially at the entry and top levels of the organization. And most have difficulty sorting through the middle of the or-

ganization.

By applying a systematic process for determining relative job values, an organization can assess its jobs to establish a hierarchy of relative worth.

### Types of Job Evaluation Methodologies

While there are a variety of approaches for companies to take, there are three basic job evaluation methodologies—quantitative, non-quantitative (also referred to as qualitative), and market-driven.

It is important to note that regardless of the approach you use, as a first step you must identify and document your jobs, including:

- The general purpose—why the job exists in the organization.
- The duties and responsibilities—the tasks to be performed in order to fulfill the general purpose.
- The qualifications and requirements—the knowledge and experience required to perform the tasks of the job.

Once you have defined your organization's discrete jobs, you can select the job evaluation methodology that best suits your organization to develop your hierarchy of jobs.

As previously mentioned, a variety of job evaluation approaches exist. Below we define the broad methodologies under which an approach may be developed.

### Quantitative Job Evaluation Methodology

Under the quantitative methodology, job values are expressed through assignment of numerical points. The hierarchy resulting from this methodology is a continuum of jobs, from

the top-level jobs with the highest number of points to the entry-level jobs with the lowest number of points. This methodology requires:

- Selecting, defining, and weighting compensable factors representing aspects of job content that the company values (i.e., is willing to pay for). Typically, factors may include knowledge, accountability, contacts, problem solving, supervision, and discretion. The total of the weights assigned to each of the selected factors must equal 100 percent—thereby representing the whole job—and must be applied uniformly to all jobs.
- Establishing a scale to measure the degree to which each factor is present in jobs. The greater the degree to which a factor is present in the job, the higher the number of points assigned to the job.
- Evaluating jobs on a factor-by-factor basis.
- Totaling the points for an overall job value.

The advantages to the quantitative method are that:

- Factors receive uniform consideration.
  - It is not easily biased.
  - The process can be documented.
- The disadvantages are:
- It is time-consuming to design and implement.
  - It requires detailed job descriptions and specifications.
  - The scales are not flexible.

### Non-Quantitative (Qualitative) Job Evaluation Methodology

Under the non-quantitative or qualitative methodology, the whole job is considered, in contrast to the methodology described above by which

job factors are evaluated separately and then “added up” to determine the job’s overall value.

Using this methodology, jobs are compared with each other and ranked from highest to lowest to reflect the organization’s sense of their overall value. Approaches to ranking can be as simple as writing job titles on separate note cards, then arranging them (and re-arranging them as many times as needed to attain consensus) in the order deemed to represent their relative values.

Another “whole job” approach is to compare each job to every other job in the organization to determine which job in each pair is of higher value, or if the jobs are equal. Wins, losses, and equal rankings are totaled by job to determine the hierarchy.

Whichever approach is used, the advantages of a whole-job approach are that it is:

- Simple to use.
- Easy to explain.
- Fast.
- Flexible.

The disadvantages are that:

- It is difficult to give important factors uniform consideration.
- Raters must be familiar with a wide range of jobs.
- It can be easily biased.
- There is no documentation.

### Market-Driven Job Evaluation Methodology

It is important to note that the result of both the quantitative and non-quantitative job evaluation methodologies is an “un-priced” hierarchy of jobs. At the conclusion of the exercise you will have established the relative values of your jobs, but you will not

know what each hierarchy level should appropriately be paid.

A competitive market analysis of those positions for which direct job matches exist would be required to obtain this “pricing” data. Because of the requirement for this second step, many companies have adopted a market-driven approach to job evaluation.

Under this methodology, the hierarchy of jobs is defined by their market values; i.e., the jobs with the highest market values are at the top level of the hierarchy, and the jobs with the lowest market values are at the entry level of the hierarchy.

To effectively use the market to evaluate jobs, the company must have access to appropriate and sufficient surveys of markets in which it competes. Typically these markets are defined by industry, region, and job classification.

This methodology limits evaluation to benchmark jobs—those jobs that are generally present in the workplace—which serve as architectural anchors for slotting non-benchmark jobs, typically by using some form of whole-job evaluation methodology.

The advantages of the market-driven evaluation are that it:

- Combines job evaluation and competitive market assessment steps.
- Ensures external competitive positioning of jobs within company hierarchy.
- Is suitable for large or small organizations.
- Avoids “grade creep.”

The disadvantages are that it requires:

- Conducting, participating in, and/or purchasing multiple survey sources.

- A labor-intensive process of survey conduct and/or participation to ensure the highest degree of market data acquisition to develop a meaningful architecture of benchmark jobs.

- Regular full-scale market review.

Most important, in the absence of a compensation philosophy defining its internal values, a company could be at the mercy of the market, paying more on an ad hoc basis than systematically via its compensation philosophy.

The market does figure prominently in an organization’s ability to attract, retain, and motivate its employees—as we will discuss in more depth in the next installment of this series—but it is only one of the key elements in the development of a sound compensation program.

Identifying its own unique values (philosophy) and establishing its hierarchy of relative worth (internal equity) will serve a company well in ensuring its compensation is externally competitive. ♦

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