
Lecture 4: Job Evaluation and Wages Structure (part 2)

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For Students of 1 Master, HRM

Course: Wages and incentives management

Other Methods of Valuing Jobs

Market-Based Pay Systems

- Market pricing basically involves setting pay structures almost exclusively through reliance on rates paid in the external market.
- **Market prices often use the ranking method to determine the pay for jobs unique to their firms.**
- Often called rank to market, it involves first determining the competitive rates for positions for which external market data is available and then slotting the remaining (nonbenchmark) jobs into the pay hierarchy.

Knowledge-Based Pay Systems

- Some organizations consider individual employee characteristics, in accordance with internal organizational factors and external market conditions, in setting pay rates.
- **Technically, knowledge-based pay systems do not involve job evaluation.**
- Knowledge-based pay systems pay employees based on what they *know* rather than what particular job they are doing (Gupta., et al 1986).

Skill-Based Pay Systems

- Pay is driven by the quantity of tasks a person is qualified to perform.

For instance, if one person could operate machines A, B, and C, he may be paid \$15 per hour (even if he only works on machine A all year). His colleague may be qualified to work on machines A and C, and therefore he would only make \$13 per hour (even if he worked on both machines over the course of the year).

Wage Surveys

- Once the relative worth of jobs has been determined by job evaluation, the actual amounts to be paid must be determined. This is done by making wage or salary surveys in the area concerned.
- Most firms either use the results of “packaged surveys” available from the research bodies, employer’s associations, Government Labour Bureaus, etc., or they participate in wage surveys and receive copies of results, or else they conduct their own.
- These surveys may be carried out by Mailed questionnaire, telephone, or personal interviews with other managers and personnel Agencies.

A wage survey to be useful, must satisfy these points

- **a.Frequency** Affected by rapidity of changes, current and contemplated. Once per year is common.
- **b.Scope (number of firms)** Influenced by the geographic area from which people are drawn, the number of units competing for this labor, accuracy requirements, and willingness of organizations to share information.
- **c. Accuracy** The greater the accuracy and detail needed, the greater the requirements for careful description and specification and surveyor's reliance on person-to-person 'interviewing rather than mailed questionnaires.

Relevant Organizational Problems

- In addition to the results of job analysis and wage surveys, several other variables have to be given due consideration in establishing wage structure.
- Belcher has listed 108 variables which can affect levels of compensation and the wage structure

For example, whether there exists well-established and well-accepted relationships among certain jobs which can upset job evaluation, whether the organization would recruit new employees after revised wage structure; are the prevailing rates in industry or community inconsistent with the results of job evaluation? What will be the result of paying lower or higher compensation; and what should be the relationship between the wage structure and the fringe benefit structure?

Preparation of Wage Structure

There are though no hard and fast rules for making such decisions, and procedure commonly used is the two dimensional graph on which job evaluation points for key jobs are plotted against actual amounts paid or against desired levels.

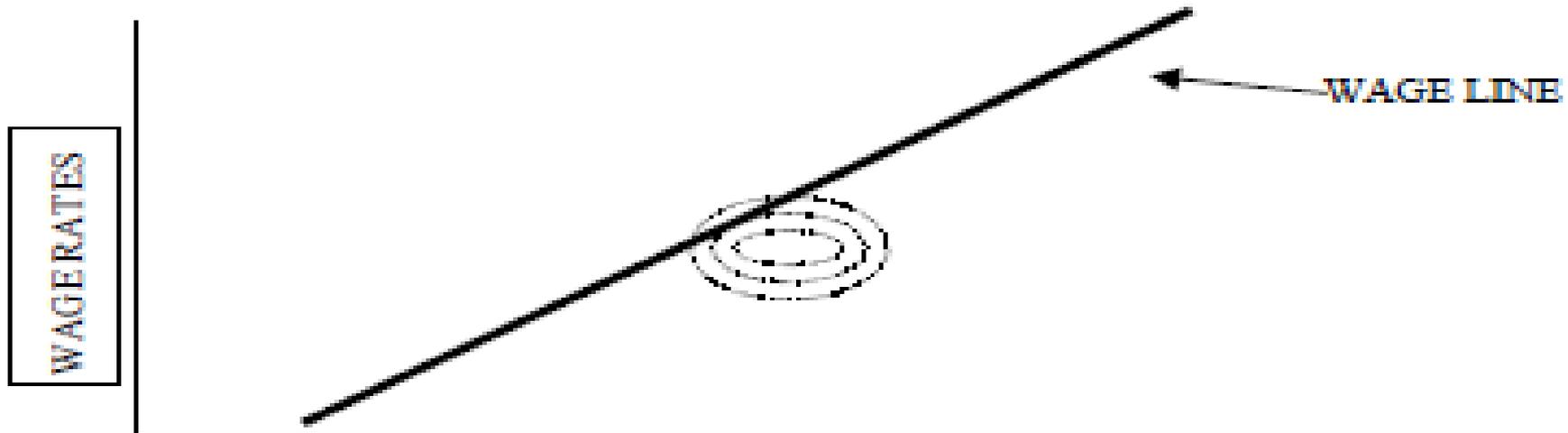
Preparation of Wage Structure considerations

- a. whether the organization wishes, or is able, to pay amounts above, below, or equal to the average in the community or industry;
- b. whether wage ranges should provide for merit increases or whether there should be single rate;
- c. the number and width of the 'pay grades' and the extent of overlap;
- d. which jobs are to be placed in each of the pay grades;
- e. the actual money value to be assigned to various pay grades surveyor's reliance on person-to-person 'interviewing rather than mailed questionnaires.
- f. differentials between pay plans; and
- g. what to do with salaries that are out of line once these decisions have been made.

The wage curve

In the following figure, wage rates are shown on the vertical axis while pay grades (in points) along the horizontal axis. The ‘**wage curve**’ shows the relationship between:

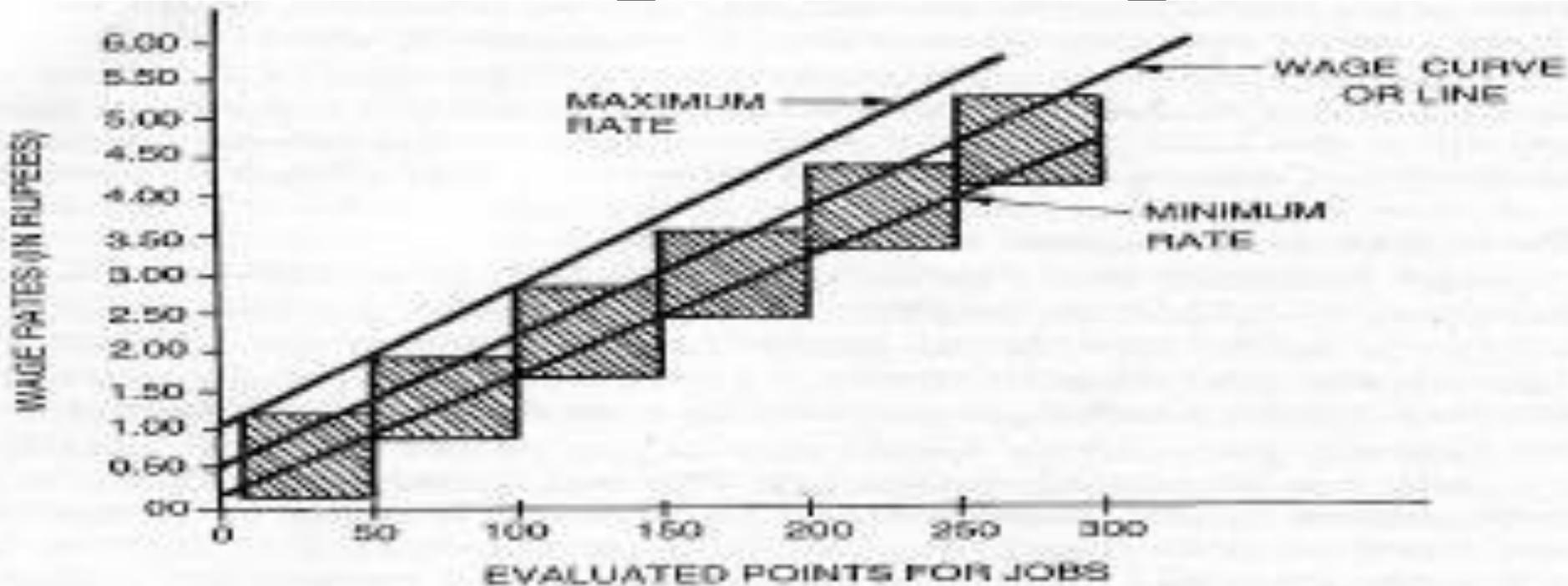
- i. the “value” of the job; and
- ii. the “average wage rates” of these grades (or jobs).



The following steps are involved in drawing a wage curve

- 1. Finding out the average pay rate for each pay grade, for each pay grade may have several jobs and chances are that each of these jobs is currently being paid a different rate.
- 2. Plotting the wage rate for each pay grade.
- 3. Drawing “Wage Lines” through the points plotted.
- 4. Pricing jobs.

Setting of Rate Ranges



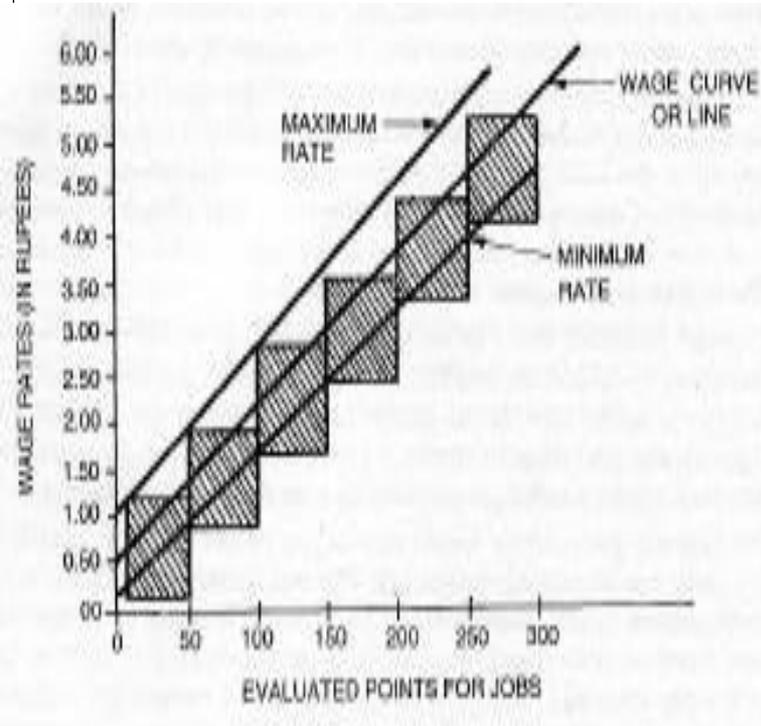
A rate range consists of a minimum pay rate (the beginning hire rate), a midpoint (the market or job rate), and a maximum (the highest rate the organization is willing to pay for the job).

When examining pay ranges we can determine the total wage structure with the help of three characteristics: the breadth of the rate range, the number of pay grades and the overlap.

Pricing jobs

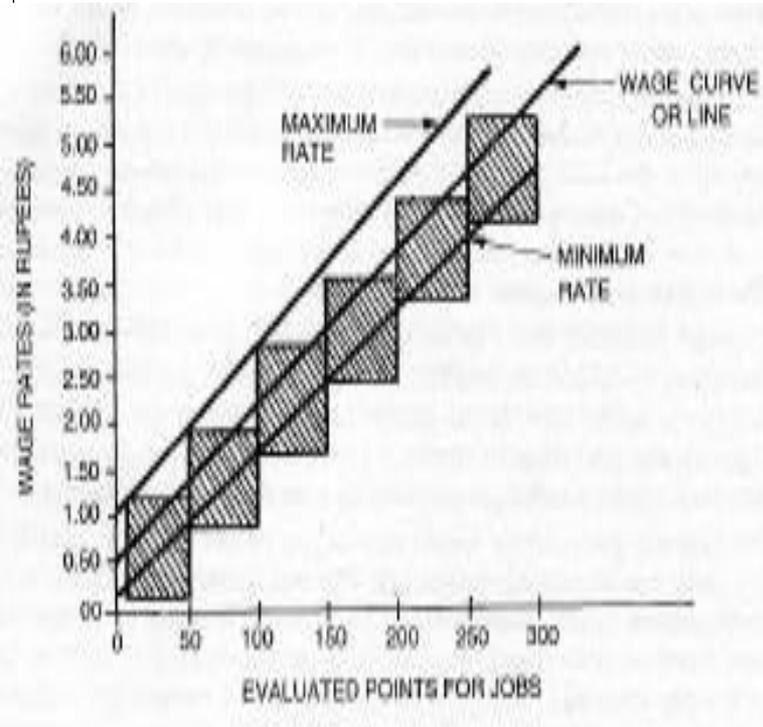
- Wages along the “wage line” are target wages or salary rates for the jobs in each pay grade. It is possible that some of the plotted points may fall off the wage line.
- If the plot falls below the line, raises for jobs in this pay grade may be required. Such a raise may be given either immediately or in one or two steps.
- If the plot falls above the wage line, that indicates rates are high and the over paid employees are often called “red circle,” “flagged,” or “overrates.” This will necessitate either:
 - i. To freeze the rate paid until general salary increases bring the other jobs into line with it, or
 - ii. To transfer or promote the employee to a job where -he can legitimately be paid his current rate; or
 - iii. To cut to the maximum in the pay grade.

Breadth of the rate range



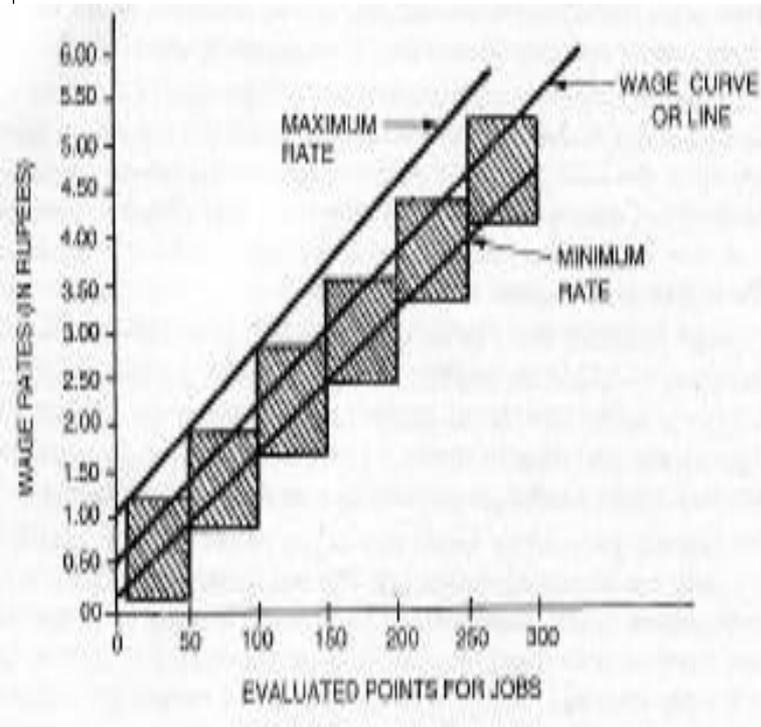
- The breadth of the rate range is the distance from the top to the bottom of the range a to b in figure. It is the vertical dimension of the range. The breadth of the range should vary with the criteria for movement within the range.

Number of pay grades



- The number of pay grades is reflected in the horizontal dimension of figure (a to c).
- In practice, the number of pay grades varies from as few as 4 to as many as 60. But 10 to 16 seem to be most common.
- Several points need consideration when deciding the number of grades. They are mentioned below:
 - 1. Size of the organization.
 - 2. Broadness of the grades.
 - 3. Job homogeneity.
 - 4. Promotion policy

Overlap



- The final pay range determinant is the degree of overlap between any one pay grade and the adjacent grade (c to d in figure). Overlap allows people in a lower pay grade to be paid the same as or more than those at a higher grade. This reasoning seems to work: seldom are there complaints about overlap.
- Overlap will work well where there are many wide pay grades. Some overlap is desirable, but there are problems. The main one comes about in promotions.

References

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- HANNON, J.M, NEWMAN, J.M, MILKOVICH, G.T, & BRAKEFIELD, J.T, (2001), Job Evaluation in Organizations (Chapter 34), *Handbook of Industrial Engineering: Technology and Operations Management, Third Edition.* Edited by Gavriel Salvendy, John Wiley & Sons, Inc.

Thank you for your attention
