

Job Evaluation: Understanding the Issues

A Brief Overview by
Effective Compensation, Incorporated

Businesses have wrestled with questions about what constitutes the best administrative processes for handling organizational hierarchy and pay guidelines. Unfortunately, there is no clear best approach. Each business is unique. What works for one company may not work for another similar organization. Luckily there are a number of viable alternatives available to use. The key is selecting the right solutions for your unique situation and culture.

This white paper discusses various salary administration approaches, including Career Path Job Evaluation^K, an innovative model that ECI developed for organizations that are seeking pragmatic approaches that are easy to use and communicate.

[NOTE: IF YOU ARE A COMPENSATION EXPERT, YOU MIGHT WANT TO SKIP TO THE SECTION TITLED "CAREER PATH JOB EVALUATION^K" STARTING ON PAGE 5.]

Point Factor Job Evaluation Programs: A Historical Perspective

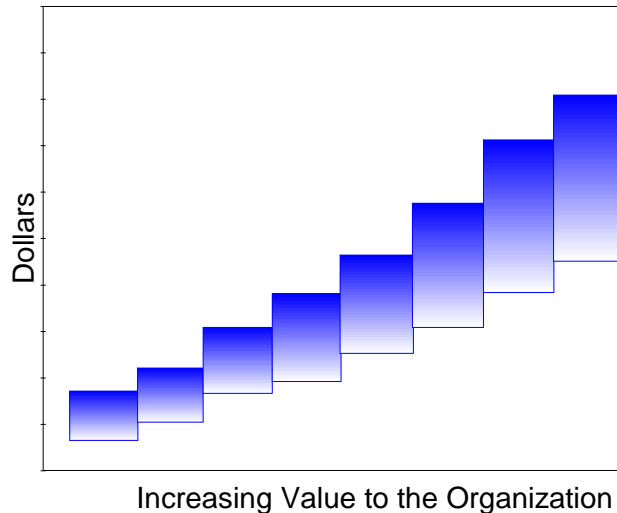
In the 1950's, a number of point factor plans came to prominence, including those developed by the National Metal Trades Association and Edward N. Hay. It became an accepted practice to use these and other similar plans as the "professional" approach to ranking or leveling positions into a grade structure.

These plans identified a number of factors relevant to the range of jobs being assessed, such as formal education and physical requirements. Typical designs might have 3 to 8 factors with 4 to 15 levels per factor, with points assigned to each level. Each position would be "scored" on each factor. Positions receiving higher total scores were seen as higher ranking jobs.

With the perceived precision of point factor plans, pressure existed to create a large number of grades. At the extreme, every unique point score was treated as a unique level with its own salary range. In some organizations this resulted in literally hundreds or thousands of ranges. Most organizations, however, grouped positions receiving similar scores (with intervals established perhaps every 8 to 12%) into grades that would have the same salary range. While some approaches created different salary ranges for each point total, most organizations ended up with 20 to 45 different salary grades. Those responsible for using the job evaluation system tended to focus on the jobs that fell near the "break-points" (or "cusps"), since those were seen as potential problems given the statistical error acknowledged to exist in point factor plans.

Salary ranges that were assigned to each grade normally had a spread from minimum rate to maximum rate of 30 to 40% for lower level positions and 50 to 60% for higher level positions (*for instance a clerical position might have a range of \$20,000 to \$28,000 per year, while a manager job might be \$50,000 to \$75,000*).

Sample Salary Structure



A study by the National Science Foundation in the late 1970's concluded that ***all of the major plans tended to have similar results*** (i.e., companies would obtain a similar hierarchy of jobs regardless of which job evaluation plan they used)—since they were all designed to correlate with the available market data. This study compared the different job evaluation processes to economic models that analyzed the value of jobs using factors that could be grouped into the general categories of 1) skill, 2) effort, 3) responsibility and 4) working conditions.

While it goes beyond the scope of this paper to review all of the various plans and factors, we have included a table below that lists some of the factors that might be considered.

POTENTIAL POSITION ASSESSMENT FACTORS (Sample categories)			
Skill	(Mental) Effort	Responsibility (for)	Working Conditions
Ability to Make Decisions Analytical Ability Clerical Skills Complexity of Duties Creativity Education Experience Flexibility Human Relation Skills Ingenuity Interpersonal Skills Management Skills Manual Skills Motivational Skills Professional Skills Specialized Knowledge Technical Skills Training Skills Versatility	Attention to Details Complexity of Duties Coping with Conflicts Coping with Stress Creativity Ingenuity Initiative Interpretation Judgment Monotony Pressure of Work Problem Solving Resourcefulness Supervision Received Visual Demands	Accuracy Assets Cash Commitments Confidential Data Dependability Determining Policy Equipment Financial Results Material Operational Latitude Organizational Latitude Process Property Public Relations Quality Risk Safety Supervision	Manual Dexterity Physical Demands - Bending - Fatigue - Hazards - Lifting - Sitting for Long Periods - Standing - Stooping Equipment Used/repetition Work Environment - Temperature - Noise - Humidity - Interruptions - Lighting

Point factor plans seemed to work well as long as the organization did not change quickly. The process to evaluate a position was tedious and relatively expensive since it normally required writing descriptions, having a committee “evaluate” the positions and then reviewing the resulting ratings against the available market data before finalizing the evaluation. As jobs became more fluid, it became harder and harder to maintain the evaluation programs on a timely basis. Compensation departments typically had to operate independently, often using discretion instead of the formal plan in order to place jobs into grades so that managers would know what to pay employees. Attempts to speed up the process by using computers or having decentralized committees only yielded minor improvements in the process.

Point factor plans were also ***complex and difficult to explain to employees and supervisors.*** While it might be appropriate for one factor to have twice the weight of another, employees who were negatively affected could not understand the details. In one our clients many years ago, even 400 Ph.D. economists found point factor plans (which are essentially economic models) confusing—necessitating a different, more explainable approach.

Point factor job evaluation plans appear to be most appropriate in organizations with a very stable job base and a high percentage of jobs for which there is no good market data.

Market Pricing

While market pricing has always been the dominant way that organizations determine their pay levels, the scarcity of quality survey data was a problem before the mid 1960's. Since that time, there has been an explosion of reasonably representative and usable data sources. ***This abundance of data has diminished the need for complicated internally-focused job evaluation programs*** (like point factor plans). In our consulting practice, we often find that firms can locate credible market data for 60 to 80% of the jobs in a company. In firms that have a very simple and common industry structure, we have been able to find reasonable market data for 100% of the jobs in the company.

When a significant amount of market information exists, it is possible to place jobs into grades based on the level of the competitive pay for the various jobs. Generally, a simple ranking process is used to “slot” the positions without market data into the structure—this works best when market data is available for at least a few jobs in the job family.

The largest problems exist in functions where market data is not available or good matches are hard to identify. This is often the case for jobs like “strategic planners,” where the role varies widely from one organization to another.

When good market data exists, management can use the competitive pay information as a frame of reference in determining its grade structure, although we still encourage organizations to reconcile the external data with the way they view the internal value of the various jobs.

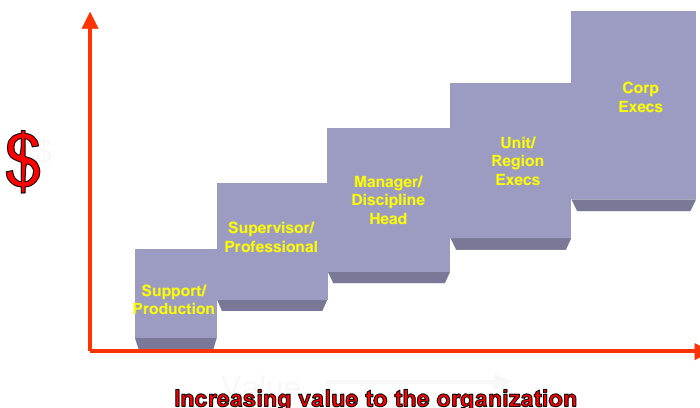
Both market pricing and point factor approaches share the misconception that the numbers represent a precise answer. In reality, both approaches can yield a relatively large potential statistical error. Many users are tempted to use the perceived accuracy of these systems as a basis to justify fine-tuned systems with many grades. As a result, it is easy (and relatively common) to place jobs in the wrong grades. As a practical issue, the more grades there are, the higher the chance will be that a job is placed into one that is higher or lower than it should be.

Broad Banding

The early 1990's saw the development of simpler grade structures, where all of the jobs in an organization might be classified into only 5 to 8 grades (called bands instead of grades to indicate a difference in approach).

With fewer “break-points”, there is less likelihood of placing jobs in the wrong grade. Accordingly, this approach avoided the need for detailed analysis of job differences. Point factor job evaluation approaches fell out of favor since they were perceived as too administratively difficult and overly precise for the task of placing jobs in the few bands. Generally, the differences between jobs in different bands was very apparent. Broad banding also enabled a more decentralized approach where local managers received more autonomy and the role of central compensation controllers was diminished.

Many firms with broad banding approaches used market data as a key part of their banding programs. Salary ranges often had 80% to 100% spread from minimum to maximum (and sometimes significantly more). As a result local managers were asked to make decisions about how a specific individual should be paid by considering the market — since the salary range for the band provides little guidance for paying an individual.



Broad banding typically results in the compensation department needing to share a significant amount of competitive pay information with each manager and educate them on how to interpret and apply it.

There are many reasons why organizations have adopted broad banding. While a key driver has been dissatisfaction with traditional salary administration and job evaluation approaches, other drivers have included desires to:

- 1) Have fewer levels, placing less emphasis on organizational hierarchy—seen as positive in organizations using more teams,
- 2) Allow more managerial freedom to consider local job roles/definitions and geographic influences,
- 3) Avoid conflicts with employees regarding job grades, and
- 4) Recognize the pressures that exist in “flatter organizations,” which have fewer promotional opportunities and yet still want to provide employees with salary growth.

Broad banding greatly simplifies the life of the Compensation Manager. However, many of the decisions made in the past by the compensation department are essentially delegated to local managers. This change requires educating these managers so they can make the right choices.

While the responses of Human Resources Managers to broad banding systems have frequently been favorable, broad bands have generated several challenges that need to be addressed, including how to:

- 1) Move employees through the ranges, considering a) how much they do, b) how well they do it, and c) how long they have been in the job,
- 2) Address ***employee concerns about the lack of career growth*** (since there are typically very few promotional opportunities),
- 3) Keep employee pay competitive without the more frequent promotions found in traditional systems (obviously, other pay increases must be larger to make up for the diminished promotional adjustments),
- 4) Administer broad bands without creating sub-bands (which essentially means a return to the more traditional grading system (it is our belief that firms that use sub bands while claiming to be broad banding are attempting to deceive those affected), and
- 5) Supply data to and retrieve survey data from compensation surveys once you have adopted broad bands and broad/generic job titles since surveys typically are based on fairly narrow job descriptions.

While we appreciate the advantages of broad banding, we believe it is important to recognize its limitations and implement it only in organizations whose cultures will minimize the challenges listed above.

Broad banding generally requires that managers need to be competent in making decisions within looser guidelines and that the communications processes relating to pay and career growth must be thorough and positive in nature.

Career Path Job EvaluationK

Effective Compensation, Incorporated has developed a relatively simple job evaluation process we call Career Path Job EvaluationK. We developed this approach in response to client requests for programs that:

- 1) Are less complicated than point factor approaches yet provide more structure than is typically found in market pricing or broad band approaches,
- 2) Relate closely with the market, yet allow for internal considerations in “ranking” jobs,
- 3) Are easy to communicate and can be readily understood by supervisors and employees,
- 4) Are relatively quick to develop and implement and are relatively easy to maintain,
- 5) Recognize the fluid nature of jobs and roles in the modern workplace, and
- 6) Relate naturally to the number of position levels that employees and managers see as reasonable.

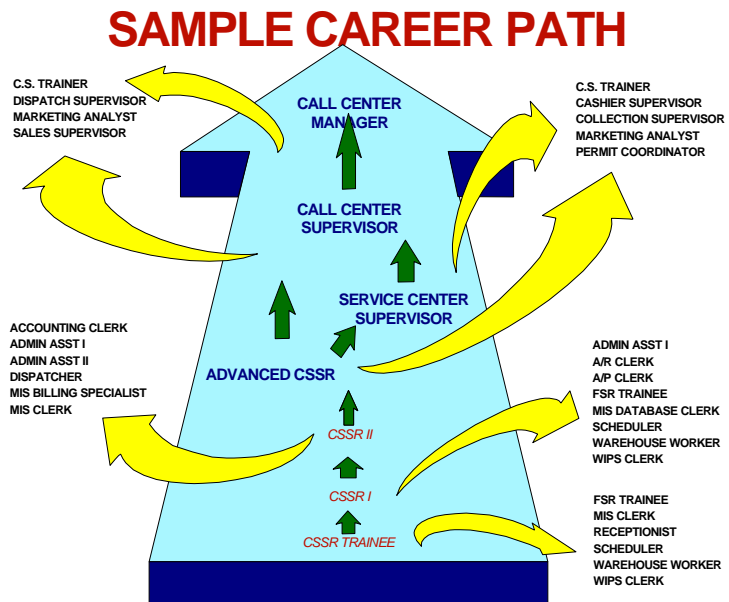
Why Focus on Career Paths?

Our hospital clients have used clinical (career path) ladders since the late 1970's. In areas such as nursing that traditionally have had limited career growth opportunities due to extremely flat organizational structures, hospitals sought ways to reward employees who continue to grow professionally and recognize employees who can contribute more as a result of their growth. These organizations typically have severe compensation cost constraints and financial pressures. Our work in this industry stimulated the ideas we share below.

In the mid 1990's we refined the process of Career Path Job EvaluationK for employers with high turnover and/or very low unemployment markets—and with customer pressures to keep prices low. Here is a simplified version of the process:

Step 1: Identify Career Paths

We recognized early that **most employees can readily outline the natural career path within their department.** By tapping into the organizational knowledge that exists, there is generally little argument about how many levels are needed. The challenge is to get agreement on what differentiates the levels. In a small firm, there may only be two levels of accountants, while in a large firm there may be six or eight. The incumbents, however, are generally able to define the role of each level and why the levels are needed in their firm. The documentation can be in the form of job descriptions or organizational charts that “flow chart” the career growth and reporting relationships.



Step 2: Align Career Paths

Once career paths have been developed for each department, a challenge exists to put them all on a common hierarchy — typically shown on a large spreadsheet. We found using a committee of 4 to 8 representative, knowledgeable employees provides us with a good starting point.

Sharing the basis for each of the department career paths, we then ask committee members to identify cross departmental career paths, based either on past instances or logical places where jobs share sets of information. For instance, a customer service representative in a call center may possess a lot of knowledge that would be useful if the person is transferred to the warehouse or to accounting. By looking at this information, along with a general perspective of what differentiates position levels (e.g., skill, effort, responsibility, working conditions), the committee makes decisions about what job in one career path corresponds to another job in a separate career path.

Our experience is that committee members do not even ask the question about how many grades or levels are needed—the number of levels developed is natural for their organization.

Step 3: Validate Alignment of Career Paths

Treating the initial alignment of career paths as a starting point, we then review the available market data for as many jobs as possible. Typically, we do not share market data with the committee members, since we want them to focus on what makes sense internally. We do, however, develop a version of the alignment spreadsheet that shows the market data for all the jobs. We then identify jobs where the market data challenges the placement done by the committee.

Next we share a version of the spreadsheet with the committee members that does not include actual market data, but does indicate the jobs that the market data challenged, noting whether the pressure is upward or downward. The committee then reviews the challenges and re-thinks the job placements. In some cases they may agree with the market data, challenge it, or they may decide to ignore it.

SAMPLE POSITION SPREADSHEET						
<ul style="list-style-type: none"> • = Market data confirms placement (i.e., it is similar for all those in the same row) – = Market data indicates lower grade may be more appropriate, • = Market data indicates that a higher grade may be more appropriate, • = No market data located 						
Grade	Customer Service	Accounting	Collections	Dispatch	Technical	Warehouse
15	Office Supv. • TC Supv. •	Accountant •	Collection Supv. •		Line Tech •	
14	Outage Coord. Monitor •			Lead Dispatch •	Install Coord - (non tech) • Service Tech - CLI Tech •	Bench Tech •
13	Cashier Special Proj. CSR •	Acct Clerk II - Control Clerk • - A/P Purch Clerk •	Collection Clerk •	Dispatch –	Sr. Installer •	Clk II • Whse/Maint. • Fleet Mech/ Custodian •
12	CSR • Sale/Billings CSR • Cashier Trainee –	Acct Clerk I •	Collection Clerk Trainee •	Quality Control Rep • Dispatcher Trainee •	Installer/Disco Tech • - Converter Retrieval Tech •	Converter Clk I • Maint. Whse Pull/Pack –
11	CSR Trainee •				Installer Trainee •	Courier •

Step 4: Develop Grade/Band Guidelines (optional)

Some of our clients have felt the need for written guidelines to assist supervisors and employees in understanding what is required for a position to be in each level. This has been addressed either by defining the requirements (i.e., skills or responsibilities) for the steps within each department's career path or by defining in more general terms the characteristics of positions by grade/band.

When we have defined the levels of each grade, it has typically taken the form of a placemat size chart that provides definitions for four or five different factors (similar to point factor definitions) that can be shared with both managers and employees. This approach has been most popular in large organizations that have a more complex employee communications challenge.

Step 5: Development of Pay Ranges and Practices

Along with the development of an organizational hierarchy, complete with career paths and definitions, the program typically involves the development of salary ranges (that may include geographic or industry differentials) and a variety of relevant pay practices or policies.

Steps 6, 7 and 8: Approvals, Employee Communications and Program Maintenance

As with all forms of job evaluation and salary administration, it is important for management to sign on and support the results. Accordingly, we normally involve key decision makers early and often throughout the process.

Without strong employee communications and supervisory training, any new compensation program will find significant resistance. Full and open communications and an approach that employees can understand and relate to on an intuitive basis will increase the likelihood of success.

We strongly believe it is important to have a significant program "roll out" and ongoing communications. Short-cuts will diminish the value and acceptance of the program.

By focusing on the career paths within a department, as well as acknowledging the cross-department opportunities, it is possible to create better understanding of why jobs are in different grades and how employees can progress through their careers (if they choose to progress).

We have found that using graphics of the career path process (as shown earlier), rather than charts or lists of grades, helps employees visualize how the program will affect them. The arrow graphics tend to focus employees on the relationship of jobs within their own department, which are much clearer than cross-department comparisons. We also frequently develop and communicate career path specifications such as performance standards and tests (similar to those used in skill or competency based pay programs). This allows employees and managers to have a clear, documented way to use the career paths, so they can systematically develop their skills over time.

Change is a given in today's organization. The program design must recognize that jobs will change and so will the competitive environment.

The results cannot be "carved in stone", but the process to update and maintain the program can be —if it is thoughtfully developed and includes periodic audits.

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The **Career Path Job EvaluationK** approach that we have outlined is not radically new. It builds on the strengths and lessons learned in applying more traditional programs. The approach resonates with decision makers and employees alike since it focuses on levels and opportunities they find “natural” within their business perspectives. It focuses on the issues that employees and managers see as important in differentiating job levels. It is popular for human resources managers since it leads to results that are easier to use and explain than more complicated approaches or approaches that fail to differentiate job levels clearly.

Career Path Job EvaluationK is best suited for dynamic organizations that are large enough to have career paths within many of their departments or functions and where there is a reasonable amount of competitive data. It requires a pragmatic management style and a relatively open communication process.

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Effective Compensation, Incorporated is an independent consulting firm, providing a full range of customized compensation-related services on a fee sensitive basis. We assist organizations in becoming more productive and profitable through improving their employee cultures. If you are interested in learning more about how ECI can assist you with performance-oriented pay or other compensation-related issues, please contact:

Effective Compensation, Incorporated

Lakewood, CO

877.RING.ECI (877.746.4324)

E-mail: eci@eci-us.com

Website: www.eci-us.com