

Job Evaluation and Employee Compensation

What is Job evaluation?

Job evaluation is the process of analyzing and assessing the various jobs systematically to ascertain their relative worth in an organization.

- Job is evaluated on the basis of their content and is placed in the order of their importance.
- It should be noted that in a job evaluation programme, the jobs are ranked and not the jobholders. Jobholders are rated through performance appraisal.

“Job evaluation is a process of finding out the relative worth of a job as compared to other jobs”

Define Job evaluation

In the words of Kimball and Kimball “Job evaluation is an effort to determine the relative value of every job in a plant to determine what the fair basic wage for such a job should be”.

What are the objectives of job evaluation?

- 1) To gather data and information relating to job description, job specification and employee specifications for various jobs in an organization.
- 2) To compare the duties, responsibilities and demands of a job with that of other jobs.
- 3) To determine the hierarchy and place of various jobs in an organization.
- 4) To determine the ranks or grades of various jobs.
- 5) 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.
- 6) To minimize wage discrimination based on sex, age, caste, region, religion etc.

Explain the process of Job Evaluation

Processes of job evaluation are as follows

1. Gaining acceptance

Before undertaking job evaluation, top management must explain the aims and uses of the programme to the employees and unions. To elaborate the programme further, oral presentations could be made. Letters, booklets could be used to clarify all relevant aspects of the job evaluation programme.

2. Creating job evaluation committee

It is not possible for a single person to evaluate all the key jobs in an organization. Usually a job evaluation committee consisting of experienced employees, union representatives and HR experts.

3. Finding the jobs to be evaluated

Every job need not be evaluated. This may be too taxing and costly. Certain key jobs in each department may be identified. While picking up the jobs, care must be taken to ensure that they represent the type of work performed in that department.

4. Analyzing and preparing job description

This requires the preparation of a job description and also an analysis of job needs for successful performance.

5. Selecting the method of evaluation

The most important method of evaluating the jobs must be identified now, keeping the job factors as well as organizational demands in mind.

6. Classifying jobs

The relative worth of various jobs in an organization may be found out after arranging jobs in order of importance using criteria such as skill requirements, experience needed, under which conditions job is performed, type of responsibilities to be shouldered, degree of supervision needed, the amount of stress caused by the job, etc. Weights can be assigned to each such factor. When we finally add all the weights, the worth of a job is determined. The points may then be converted into monetary values.

7. Installing the programme

Once the evaluation process is over and a plan of action is ready, management must explain it to employees and put it into operation.

8. Reviewing periodically

In the light of changes in environmental conditions (technology, products, services, etc.) jobs need to be examined closely. For example, the traditional clerical functions have undergone a rapid change in sectors like banking, insurance, railways after computerization. New job descriptions need to be written and the skill needs of new jobs need to be duly incorporated in the evaluation process. Otherwise, employees may feel that all the relevant job factors have not been evaluated properly, based on which their pay has been determined.

Merits and demerits of job evaluation

Merits of Job Evaluation:

(1) It Facilitates Selection, Training and Placement of Employees:

Job evaluation is based on job analysis which consist of job description and job specification, which helps in scientific recruitment, selection, and training of the employees.

(2) Minimisation of Employee Grievances:

Job evaluation is a systematic and orderly process for wage and salary fixation. Therefore employees feel that the wage rates and salaries offered to them by their employees are just, fair and equitable, therefore it minimizes the employee grievances.

(3) It Enhances Job Satisfaction:

One of the major causes of employee dissatisfaction is wage and salary related problems and issues. When the employees are fully convinced that their wages and salaries are based on job evaluation technique, automatically their wage and salary related issues come to an end. Moreover they will get the job satisfaction also in the sense whatever they are earning is just fair and equitable to the services rendered by them.

(4) Objectivity in Ranking:

Job evaluation is based on objectivity not on subjectivity; therefore it removes all sorts of wage inequality and establishes a rational and consistent wage and salary structure for their employees.

(5) Cordial and healthy Industrial Relation:

The rationality and consistency in wage and salary structure help to develop and establish cordial healthy relations between employees and employer ultimately resulted into the healthy industrial relations.

(6) No Scope for Personal Bias and Prejudice:

This technique leaves no scope for favoritism and nepotism simply because it is based on objectivity and not on subjectivity. Moreover it has relevance in scientific rating of the jobs and not of the job holder.

(7) Simplification of Wage Determination:

This technique assists the management in the task of wage and salary administration. Moreover it is an ongoing process therefore it assists in updating the wage structure whenever it becomes obsolete. Moreover it helps to simplify the wage determination.

(8) Standardization of Wage and Salary Structure:

Job evaluation facilitates a comparison of wage rates for similar jobs within the company as well as those prevailing in the industry. Therefore it is possible to adopt a standardized wage and salary structure for their employees which reduces the rate of absenteeism and labour turnover rate and employees will get similar pay scales for similar jobs. At National level it is possible to establish a standard wage and salary structure for identical jobs also.

(9) It Enhances Goodwill and Reputation of the Company:

The companies who adopt the job evaluation technique for wage and salary fixation and give just fair and equitable wage or salary to their employees, such companies' goodwill and reputation will be automatically enhanced.

Limitations/Criticism/ Demerits of Job Evaluation:

1. Lacks Accuracy – Job evaluation is not a scientific technique of estimating the job. Job evaluation lacks in scientific precision because all factors cannot be measured accurately.

- 2. Problems Faced in Adjustment** – Though there are a number of ways of applying the job evaluation techniques yet rapid changes in technology and in the supply and demand of particular skills have given rise to problems of adjustment.
- 3. Unrealistic** – Substantial differences exist between job factors and the factors emphasised in the market. These differences are wider in those cases wherein the average pay offered by a company is lower than that prevalent in other companies in the same industry or in the same geographical area.
- 4. Unrealistic Assumptions** – It is presumed that jobs of equal worth are equally attractive to all workers. However the reality is not so. If a job offers bright prospects, it will attract more people.
- 5. Limitations of Evaluator** – In case evaluator is not well-versed in techniques and principles of job evaluation then the results of the job evaluation will be quite inconsistent. Again evaluator is biased to a particular job; it will be assigned more weightage.
- 6. Subjective** – A great number of factors are used in job evaluation, moreover there are no understanding list factors to be considered. Definitions of factors vary from organisation to organisation. Many researches present that the factors used are not independently be valued at all. Further it gives more reliance on internal standards and evaluation of fixing wage rates.
- 7. Faces Trade Union's Opposition** – The workers trade unions regard this job evaluation with suspicion because it is made on certain principles and results are generally ignored. Some of the methods of job evaluation are not easily understood by workers. Workers fear that job evaluation will do away with collective bargaining.
- 8. Increase in Cost** – A job evaluation takes a long time to install. It requires specialised personnel and it is costly.

Explain the job evaluation method

There are four basic methods of job evaluation which are grouped into two categories

1. Non-quantitative method
2. Quantitative method
 1. Non-quantitative methods: it consists of
 - a) Ranking or job comparison method
 - b) Grading or job classification method
 2. Quantitative method: it consists of
 - a) Point Rating method
 - b) Factor comparison method

a) Ranking Method:

- The ranking method is the simplest form of job evaluation.
- In this method, each job as a whole is compared with other and this comparison of jobs goes on until all the jobs have been evaluated and ranked.
- All jobs are ranked in the order of their importance from the simplest to the hardest or from the highest to the lowest.
- The importance of order of job is judged in terms of duties, responsibilities and demands on the job holder.
- The jobs are ranked according to “the whole job” rather than a number of compensable factors.

Ranking method has the following merits:

- It is the simplest method.
- It is quite economical to put it into effect.
- It is less time consuming and involves little paper work.

The method suffers from the following demerits:

- 1. The main demerit of the ranking method is that there are no definite standards of judgment and also there is no way of measuring the differences between jobs.
- It suffers from its sheer unmanageability when there are a large number of jobs.

b) Grading or job classification method

- Under this method, job grades or classes are established by an authorized body or committee appointed for this purpose.
- A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them.
- Job grades are determined on the basis of information derived from job analysis
- The grades or classes are created by identifying some common denominator such as skills, knowledge and responsibilities.
- The example of job grades may include, depending on the type of jobs the organisation offers, skilled, unskilled, account clerk, clerk-cum-typist, etc.
- Once the grades are established, each job is then placed into its appropriate grade or class depending on how well its characteristics fit in a grade.
- In this way, a series of job grades is created. Then, different wage/salary rate is fixed for each grade.

The main merits of grading method of job evaluation are:

1. This method is easy to understand and simple to operate.
2. It is economical and, therefore, suitable for small organisations.

3. The grouping of jobs into classifications makes pay determination problems easy to administer.
4. This method is useful for Government jobs.

The demerits of this method include:

1. The method suffers from personal bias of the committee members.
2. It cannot deal with complex jobs which will not fit neatly into one grade.
3. This method is rarely used in an industry.

a) Points Rating:

- This is the most widely used method of job evaluation.
- Under this method, jobs are broke down based on various identifiable factors such as skill, effort, training, knowledge, hazards, responsibility, etc.
- Thereafter, points are allocated to each of these factors.
- Weights are given to factors depending on their importance to perform the job.
- Points so allocated to various factors of a job are then summed. Then, the jobs with similar total of points are placed in similar pay grades.
- The sum of points gives an index of the relative significance of the jobs that are rated.

The procedure involved in determining job points is as follows:

- **Determine the jobs to be evaluated.** Jobs should cover all the major occupational and levels of responsibility to be covered by the method.
- **Decide on the factors to be used** in analysing and evaluating the jobs. The number of factors needs to be restricted because too many factors result in an over-complex scheme with overlap and duplication between factors.
- **Define the factors clearly in written.** This is necessary to ensure that different job raters interpret a particular factor in the same sense.
- **Determine degrees of each factor** and assign point value to each degree.
- **Point values are assigned** to different degrees on the basis of arithmetic progression.
- Finally, **money values are assigned** to points. For this purpose, points are added to give the total value of a job. Its value is then translated into money terms with a predetermined formula.

Merits:

1. It is the most comprehensive and accurate method of job evaluation.
2. Prejudice and human judgment are minimised, i.e. the system cannot be easily manipulated.
3. Being the systematic method, workers of the organisation favour this method.
4. The scales developed in this method can be used for long time.
5. Jobs can be easily placed in distinct categories.

Demerits:

1. It is both time-consuming and expensive method.
2. It is difficult to understand for an average worker.
3. A lot of clerical work is involved in recording rating scales.
4. It is not suitable for managerial jobs wherein the work content is not measurable in quantitative terms.

b) Factor Comparison Method:

- This method is a combination of both ranking and point methods in the sense that it rates jobs by comparing them and makes analysis by breaking jobs into compensable factors. This system is usually used to evaluate white collar, professional and managerial positions.

The mechanism for evaluating jobs under this method involves the following steps:

- First of all, the key or benchmark jobs are selected as standards.
- The factors common to all jobs are identified, selected and defined precisely. The common factors to all jobs are usually: mental requirements, physical requirements, skill requirements, working conditions and responsibility.
- Once the key jobs are identified and also the common factors are chosen, the key jobs are, then, ranked in terms of the selected common factors.
- The next step is to determine a fair and equitable base rate (usually expressed on an hourly basis) and, then, allocate this base rate among the five common factors as mentioned earlier.
- The final step in factor comparison method is to compare and evaluate the remaining jobs in the organisation.

This method enjoys the following merits:

1. It is more objective method of job evaluation.

2. The method is flexible as there is no upper limit on the rating of a factor.
3. It is fairly easy method to explain to employees.
4. The use of limited number of factors (usually five) ensures less chances of overlapping and over-weighting of factors.
5. It facilitates determining the relative worth of different jobs.

The method, however, suffers from the following drawbacks:

1. It is expensive and time-consuming method.
2. Using the same five factors for evaluating jobs may not always be appropriate because jobs differ across and within organisations.
3. It is difficult to understand and operate.

Employee Compensation

What is employee compensation?

Employee compensation refers to the benefits (cash, vacation, etc.) that an employee receives in exchange for the service they provide to their employer.

Define Employee Compensation

R. Wayne Mondy defines compensation as, “Compensation is the total of all rewards provided to employees in return for their services. The overall purposes of granting compensation are to attract, retain and motivate employees.”

Gary Dessler opines, “Compensation means all forms of pay or rewards going to employees and arising from their employment.”

What are the objectives of employee compensation?

1. To attract well-qualified and competent personnel.
2. To motivate them for higher levels of performance by making arrangement of incentive payments.
3. To retain the present workforce by keeping their pay levels at the competitive levels.
4. To raise the morale of workforce.
5. To establish internal as well as external equity. Internal equity refers to payment of similar wages for similar work. External equity means payment of similar wages to similar jobs in comparable firms.
6. To maintain the labour and administrative costs in line with the ability of the organization to pay.
7. To comply with wage legislation.
8. To project a good image of company.

9. To satisfy employees and to reduce the incidents of grievances, absenteeism and quitting.

10. To reward the desired behaviour such as good performance, loyalty, dedication, etc.

Essentials of sound wage system

1) Equitable to All:

The wage plan must be within the capacity of industry ability to pay the wages set by the plan.

2) *Fair and Adequate Compensation:*

The wage plan must recognise the principle of “**equal pay for equal work**”. Of course, there should be proper wage differentials, based on job evaluation, to compensate skill, training, experience and other job requirements.

3) *Simplicity, Certainty and Flexibility:*

The wage plan should be simple so that it is easily understandable to average employees and can be administered smoothly. It should have reasonable certainty and stability.

4) *Incentive Wages:*

Wherever desirable and practical we should introduce elements of wage incentives, i.e., payment by results, and compensation should be directly in proportion to the output above the standard quota.

We should introduce Merit Rating for linking payment directly with merit or performance so that services of able and skilled operatives can be retained and integrated sequences of job promotion by merit can be easily secured. Incentive wages through productivity bonus or premium can facilitate higher production and higher rate of economic growth.

5) *Merit Rating:*

Introduction of performance appraisal studies as a regular feature will enable easy promotion, transfers, etc., i.e., organisational flexibility. Sound merit rating policy primarily based on ability and competence will ensure higher employee morale and better industrial relations.

6) *Minimum Guaranteed Earnings Base Rate:*

Minimum or base wage rate for each job is fixed on the basis of job evaluation studies. This will give security of income to incentive workers.

7) *Easy Collective Bargaining:*

The wage plan should simplify collective bargaining process between the Management and Labour Union. Voluntary conciliation and arbitration are definitely superior devices than compulsory conciliation and arbitration for settlement of wage problems.

8) *Wage Control:*

The wage plan should help wage-cost determination, control and payroll administration as well as budgeting. Modern management under competitive conditions is vitally interested in unit cost of labour.

Significance of Economic Reward:

Monetary or financial incentives constitute the greatest motivators compelling men and women to work with interest. Economic security can ensure high employee motivation and morale.

Standing Grievance Mechanism:

Under a sound wage plan, management must provide, particularly under incentive plan, effective grievance procedure for listening and adjusting wage disparities and complaints which are almost certain to arise a part of regular machinery for handling of grievances.

Current Going Rate:

Actual wages and salaries under any plan must be at least in line with the going or prevailing pay level in the labour market or in industry.

Additional Payments and Allowances:

The wage plan should also establish supplementary compensation and/or fringe benefits, e.g., overtime rates, shift differentials, paid vacations, sick leave, insurance, pension or provident fund benefits, severance pay, etc.

Fringe benefits include paid vacation, profit and bonus, social security payments, welfare cess, employer's contribution under voluntary schemes, e.g., post-retirement, medical, educational, cultural, recreational needs of employees, monetary equivalent like free housing, lighting, water, fuel, telephone, car use, etc.

What are the factors affecting determination of employee compensation (Wage system)?

The significant factors affecting the employee compensation can be grouped together into two broad categories, external and internal factors.

I. External Determinants of Compensation:

1) Ability to Pay:

The ability of an industry to pay will influence wage rate to be paid, if the concern is running into losses, then it may not be able to pay higher wage rates. A profitable enterprise may pay more to attract good workers.

2. Demand and Supply:

The labour market conditions or demand and supply forces to operate at the national and local levels and determine the wage rates. When the demand for a particular type of skilled labour is more and supply is less than the wages will be more. One the other hand, if supply is more demand on the other hand, is less then persons will be available at lower wage rates also.

3. Prevailing Market Rates:

No enterprise can ignore prevailing wage rates. The wage rates paid in the industry or other concerns at the same place will form a base for fixing wage rates. If a unit or concern pays low rates then workers leave their jobs whenever they get a job somewhere else. It will not be possible to retain good workers for long periods.

3. Cost of Living:

In many industries wages are linked to enterprise cost of living which ensures a fair wages to workers. The wage rates are directly influenced by cost of living of a place. The workers will accept a wage which may ensure them a minimum standard of living.

4. Bargaining of Trade Unions:

The wage rates are also influenced by the bargaining power of trade unions. Stronger the trade union, higher will be the wage rates. The strength of a trade union is judged by its membership, financial position and type of leadership.

5. Productivity:

Productivity is the contribution of the workers in order to increase output. It also measures the contribution of other factors of production like machines, materials, and management. Wage increase is sometimes associated with increase in productivity. Workers may also be offered additional bonus, etc., if productivity increases beyond a certain level. It is common practice to issue productivity bonus in industrial units.

6. Government Regulations:

To improve the working conditions of workers, government may pass a legislation for fixing minimum wages of workers. This may ensure them, a minimum level of living. In India, Minimum Wages Act, 1948 was passed empower government to fix minimum wages of workers. Similarly, many other important legislation passed by government help to improve the wage structure.

7. Cost of Training:

In determining, the wages of the workers, in different occupations, allowances must be made for all the exercises incurred on training and time devoted for it.

II. Internal Determinants of Compensation:

1. Compensation Policy of the Organization:

Firm's policy regarding pay i.e., attitude to be an industry leader in pay or desire to pay the market rate determines its pay structure. The former can attract better talent and achieve lower cost per unit of labour than the ones that pay competitive pay.

2. Employer's Affordability:

Those organizations which earn high profit and have a larger market share, a large business conglomerate and multinational companies can afford to pay higher pay than others. Besides, company's ability to pay higher pay is impaired by sector- specific economic recession and acute competition.

3. Worth of a Job:

Organizations base their pay level on the worth of a job. The wages and salaries tend to be higher for jobs involving exercise of brain power, responsibility laden jobs, creativity-oriented jobs, technical jobs.

4. Employee's worth:

In some organizations, time rates are granted to all employees irrespective of performance. In such cases, employees are rewarded for their mere physical presence on the job rather than for their performance. However many private sector organizations follow performance-linked pay system. They conduct performance appraisal more often than not which provides input for determining pay levels.

What is Minimum Wage?

Minimum wages have been defined as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.

What is Fair Wage?

Fair Wages are minimum wage rates for specific occupations. They must be paid by contractors doing work for governments with fair wage policies. These policies generally apply to construction, trades and sometimes cleaning and security workers, and are often tied to union wage rates.

What is Living Wage?

A **living wage** is defined as the minimum income necessary for a worker to meet their basic needs. Living wages, on the other hand, enables the worker to not only provide for themselves and their family, but also provide frugal comfort considered necessary for the well-being of the worker with regards to their social status.

What is Time Rate System?

The time rate system is that system of wage payment in which the workers are paid on the basis of time spent by them in the factory. Under this system, the workers and employees are paid wages on the basis of the time they have worked rather than the volume of output they have produced. Hence, according to this system, wages are paid on hourly, weekly or monthly basis.

What is Piece Wage?

This system is also known as payment by results. When wages are paid on that basis of the output of the workers without considering the- time taken in performing work, it is termed as piece wage. Thus under this system, the workers are paid on basis of quantity of work done, i.e., per unit of output, per article, per job, commodity, etc.