

Pay determination in a changing context: job evaluation, market pay and reward

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Changing context

Business environment challenges:

- competition
- regulation
- globalisation
- uncertainty
- scrutiny

Changing context (2)

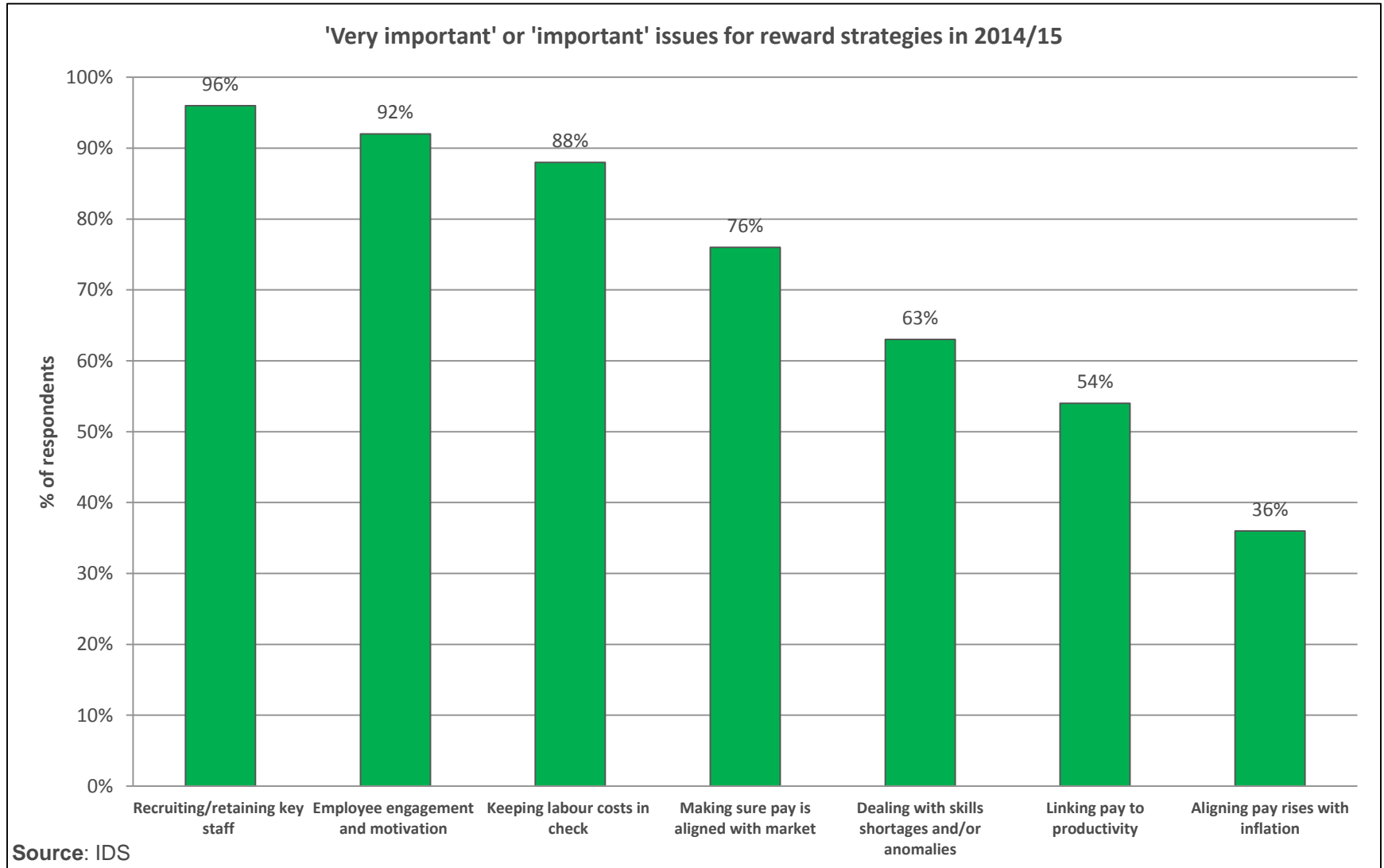
Business strategic positioning:

- cost reduction
- quality improvement
- search for innovation
- productivity pressures
- performance culture

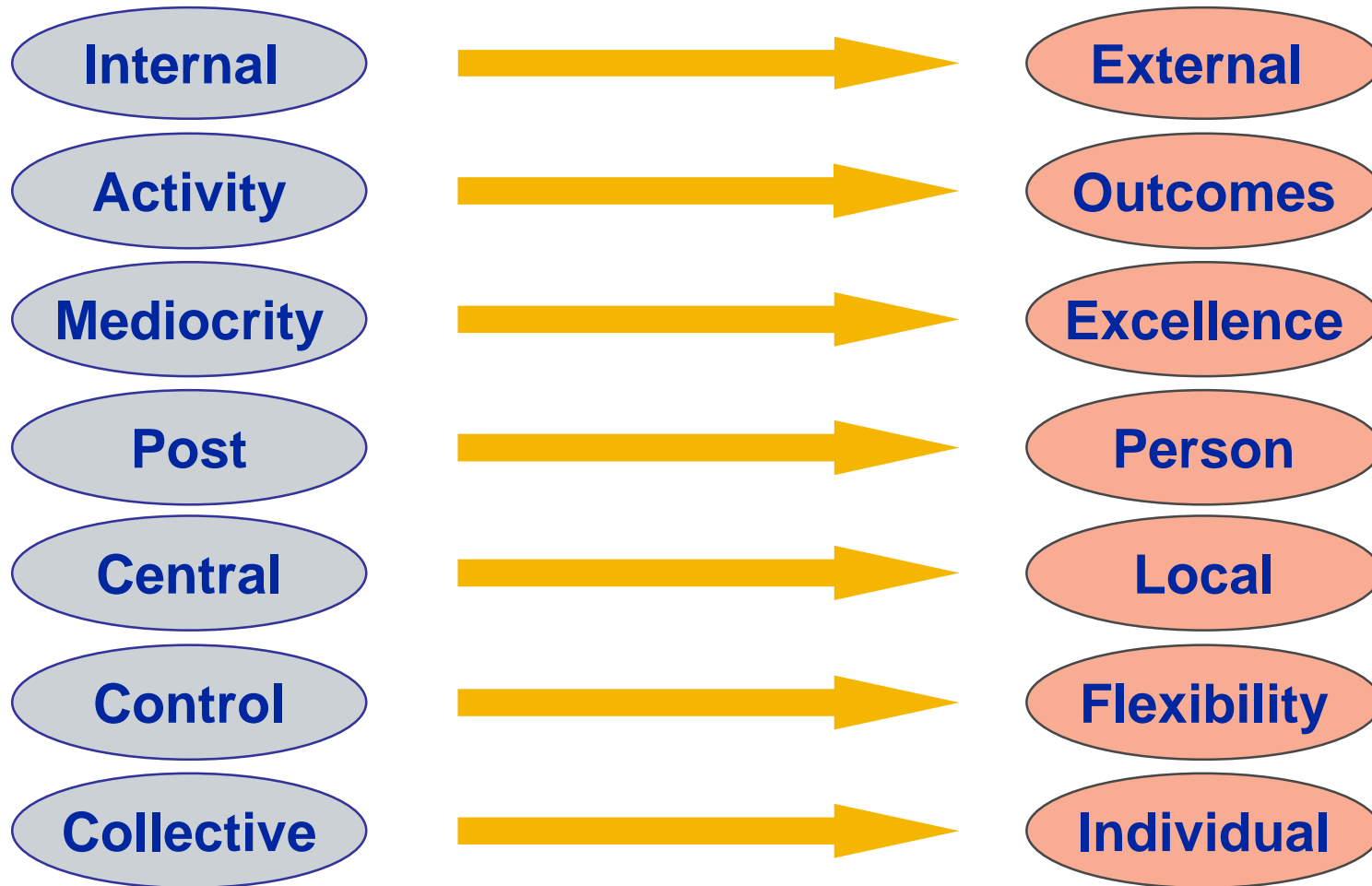
Changing context (3)

- Reduced collectivism
- A litigious society
- Low inflation
- Slow economic growth
- Public sector austerity
- Tight labour market
- New working (contractual) arrangements

External environment: strategic reward priorities



A cultural shift in people management



Ways of determining pay levels

- Ability to pay
- Fixed to index (eg RPI)
- Collective bargaining
- Individual negotiation
- Regulated
- Market benchmarking
 - with/without underpinning job evaluation

Declining importance of JE?

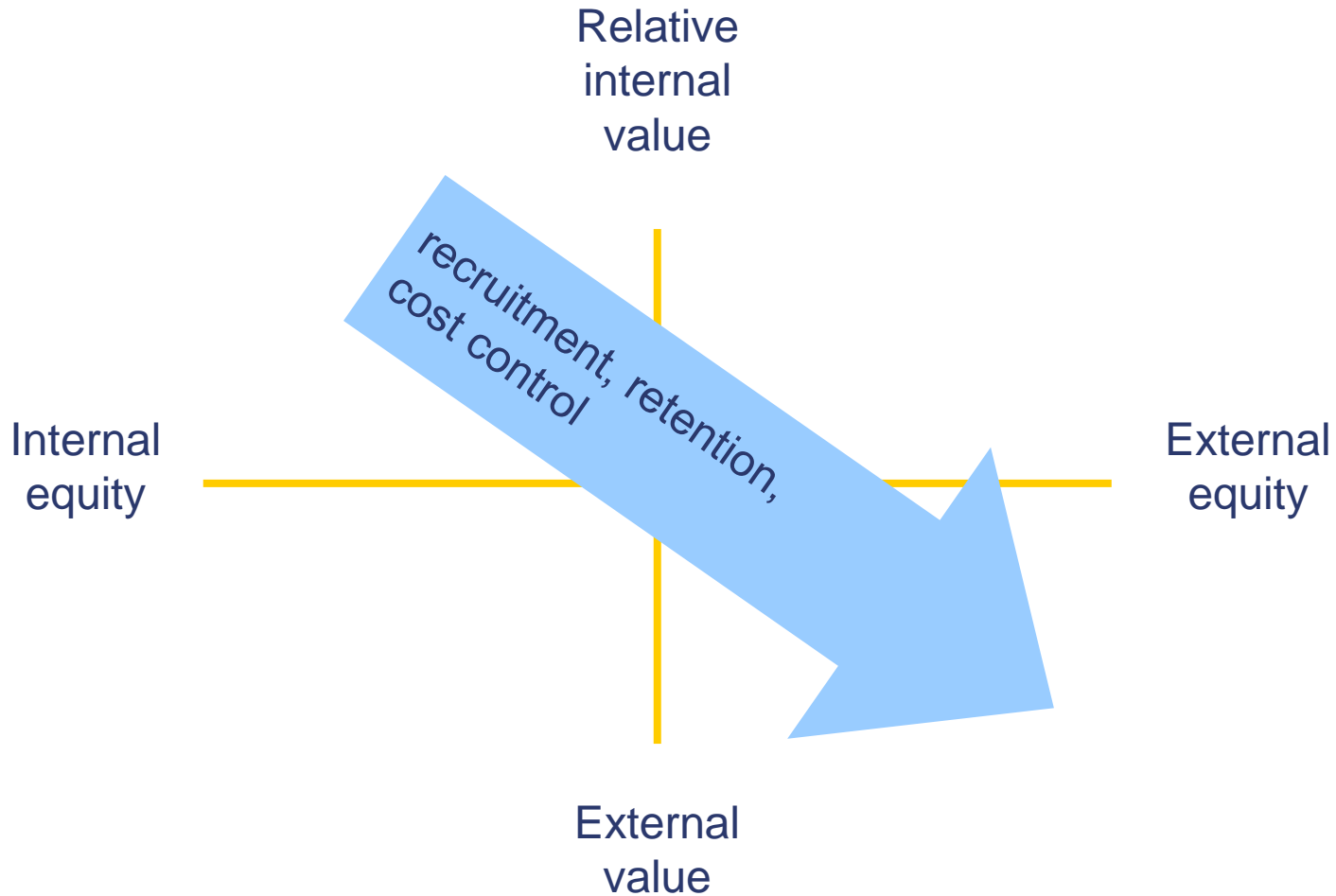
The use of market rates (underpinned by job evaluation) to determine pay “appears to have fallen sharply”. “The organisation’s ability to pay is the most important factor”

CIPD Survey on Reward Management 2014/15

But a lot of sectoral variation:

- ❑ Public sector services 50% more likely to use JE than others
- ❑ Third sector dominated by the ability to pay
- ❑ Private sector equally likely to use market with/without JE

The push towards market pay



Spectrum of pay comparability approaches



Market Pricing

- More informal, flexible, qualitative
- Simple
- Greater external focus

Classification / Factor Comparison

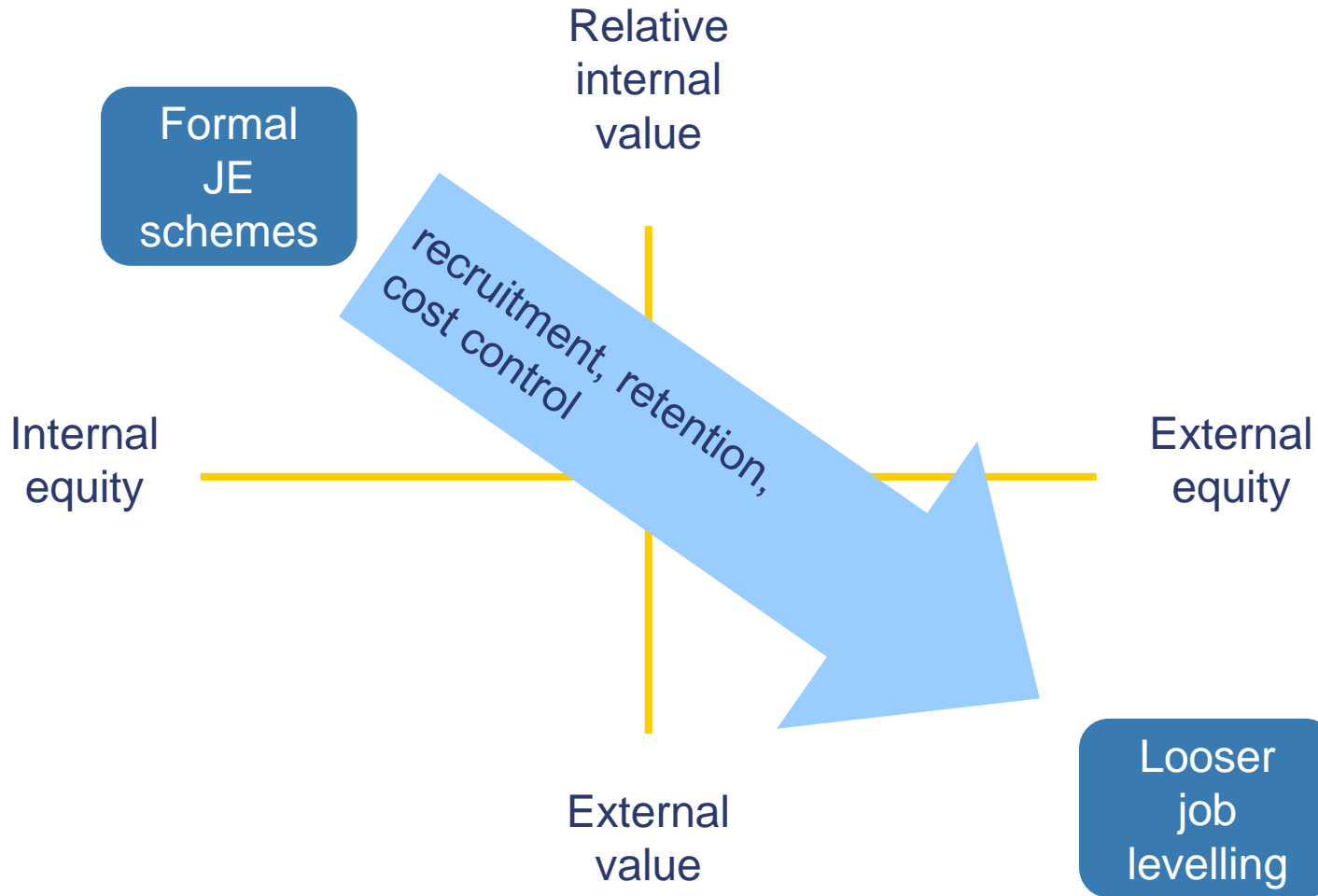
Balance structured calibration and practical considerations with organisational priorities

Points Factor

- More formal, structured, quantitative
- More complex
- Greater internal focus

Source: Aon, 2013

The push towards market pay/lighter JE



Perceived weaknesses of JE

- Some systems complex to develop and costly/time consuming to implement/maintain
- Can appear to be scientific and objective when it is judgmental
- Can lead to slow, inflexible responses to recruitment/retention/recognition difficulties
- Potentially unresponsive in fast changing situations
- JE factors do not accord with what is really valued by the organisation
- Fits some jobs better than others: poor for specialists?
- Internal valuation not external – does not reflect the market

Weaknesses of JE (2)

- Can be used to reinforce existing hierarchies
- Process based on only a superficial understanding of jobs under review
- Conventionally does not address how job is done
- Theoretically job not incumbent focused but overly influenced by job holder in practice
- Can produce gaming of system especially where close connection between £s and points
- Challenge of meeting demand for transparency but wish to preserve sanctity of process

Competing organisational pressures (1)

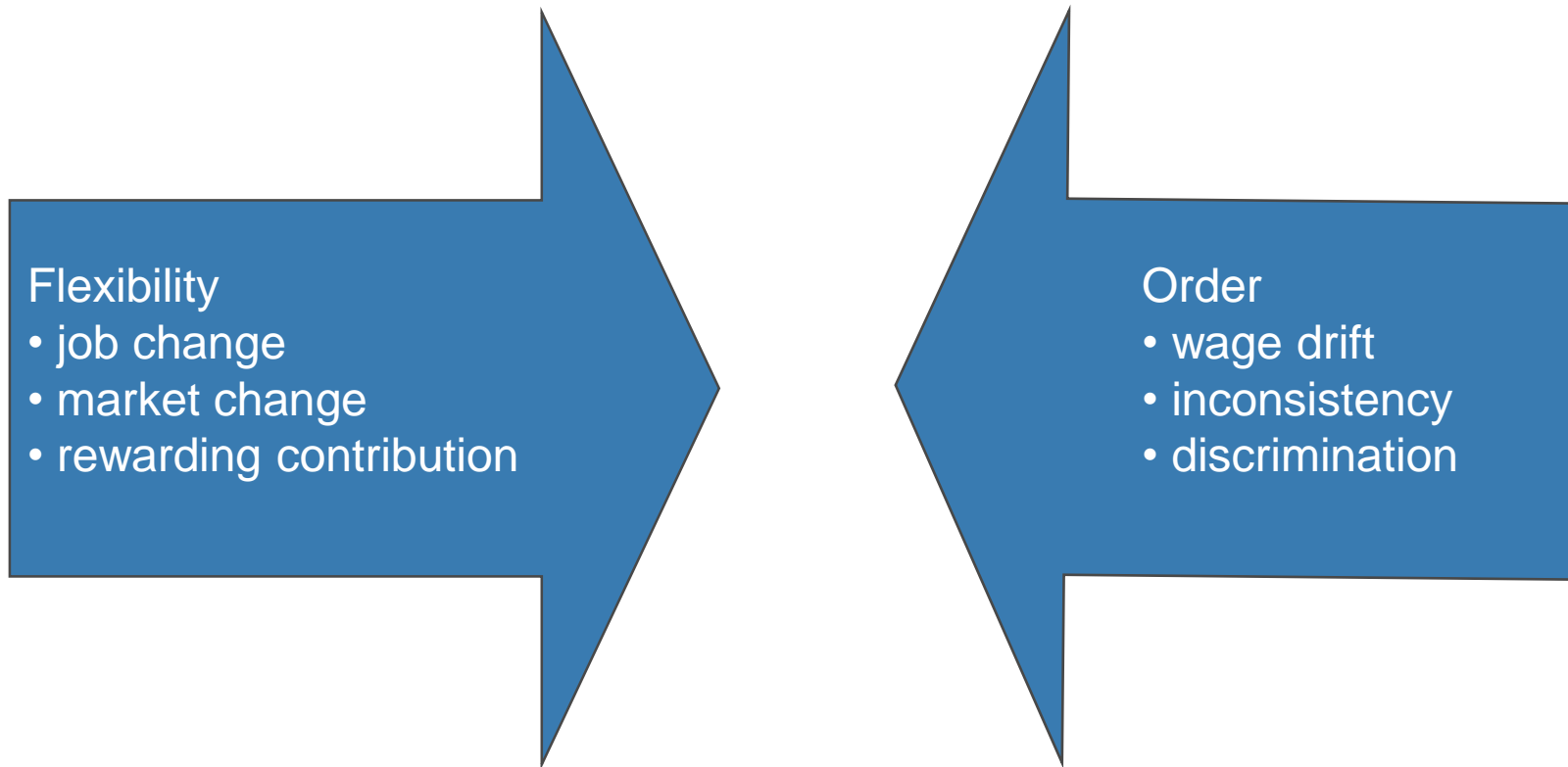
External relativities

- skill shortages
- intense competition
- market alignment

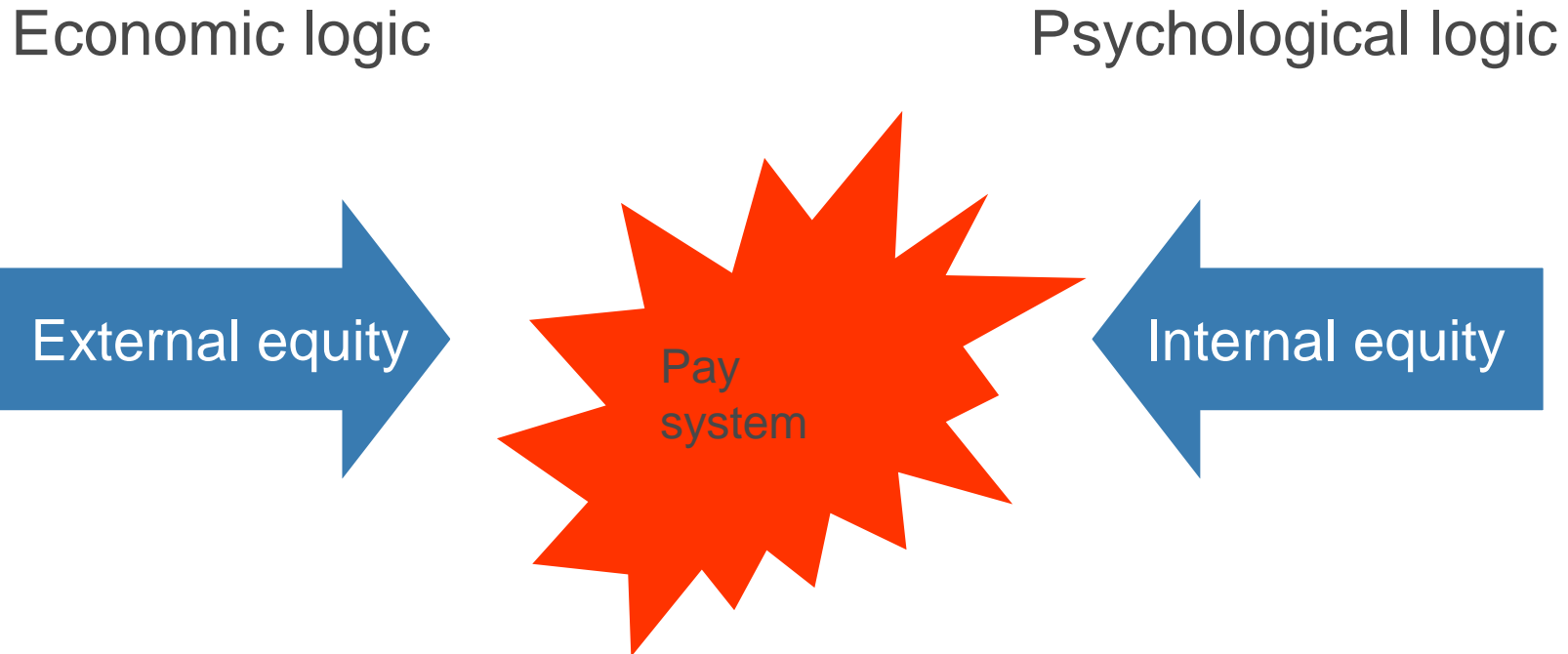
Internal relativities

- felt fairness
- traditional hierarchies
- equal pay drivers

Competing organisational pressures (2)



Balancing priorities!



- market alignment
- supply and demand
- rate for the job

- open/transparent
- felt fair
- justifiable

A job evaluation fightback?

Prominence of
equal pay

Use as an
OD tool

Facilitate a
merger
(other integration)

Link to talent
and career
management

Leadership
development
programmes

To facilitate
reward
management

External market pricing issues

- How do you pitch 'core' workforce against external market:
 - who are the comparators – sector, size...?
 - which jobs used?
 - which market positioning sought?
 - which geographies apply (local, regional, national, international)?
- How homogeneous/heterogeneous a workforce?
- Do specialists (or other segments) differ?

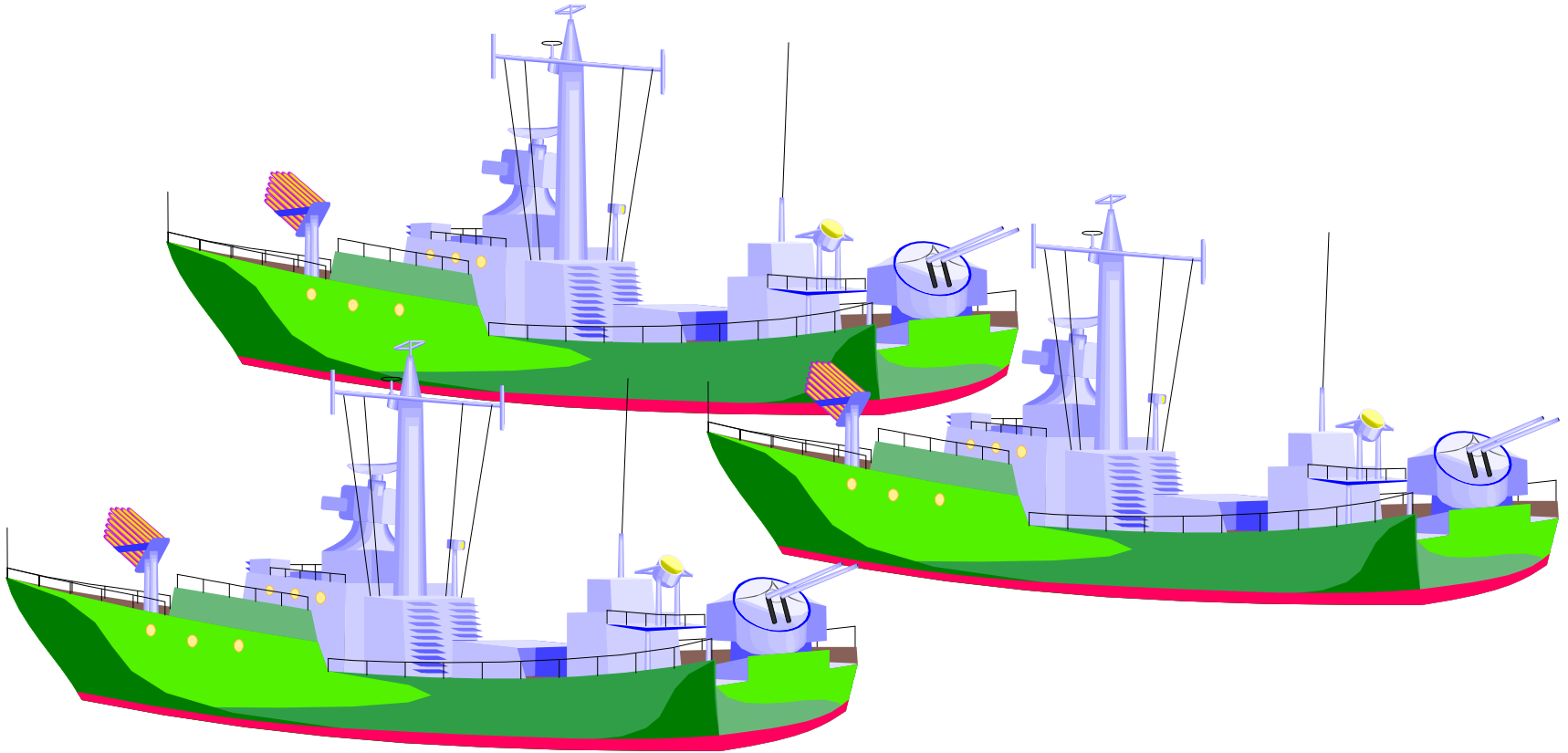
External market pricing issues, cont.

- What matching process is used?
 - Public data or bespoke?
 - Job description or title based?
- Comprehensive or limited remuneration data?
 - Base pay, total pay and benefits?
 - Average pay and structures?
- How reliable is the market data quality?
- Can you defend it publicly?

Risks with market based pay systems

- 'Mimetic wage' systems - simplistic pay matching as a defensive retention strategy

Sectoral convoys in reward management



Risks with market based pay systems

- 'Mimetic wage' systems - simplistic pay matching as a defensive retention strategy
- Ignoring internal cultural requirements?

Internal culture issues?

- Does the culture demand fairness?
- How much difference can be tolerated?
- And on what basis are differences justified?
- What is the relative importance of:
 - procedural justice?
 - distributive justice?
- How transparent does the pay system have to be?
- Is there a bias against complexity?

Risks with market based pay systems

- ‘Mimetic wage’ systems - simplistic pay matching as a defensive retention strategy
- Ignoring internal cultural requirements?
- ‘Self-serving bias’ in data collection and analysis
- Complaints against JE in favour of market pay based on ‘tautological arguments’.

Solutions

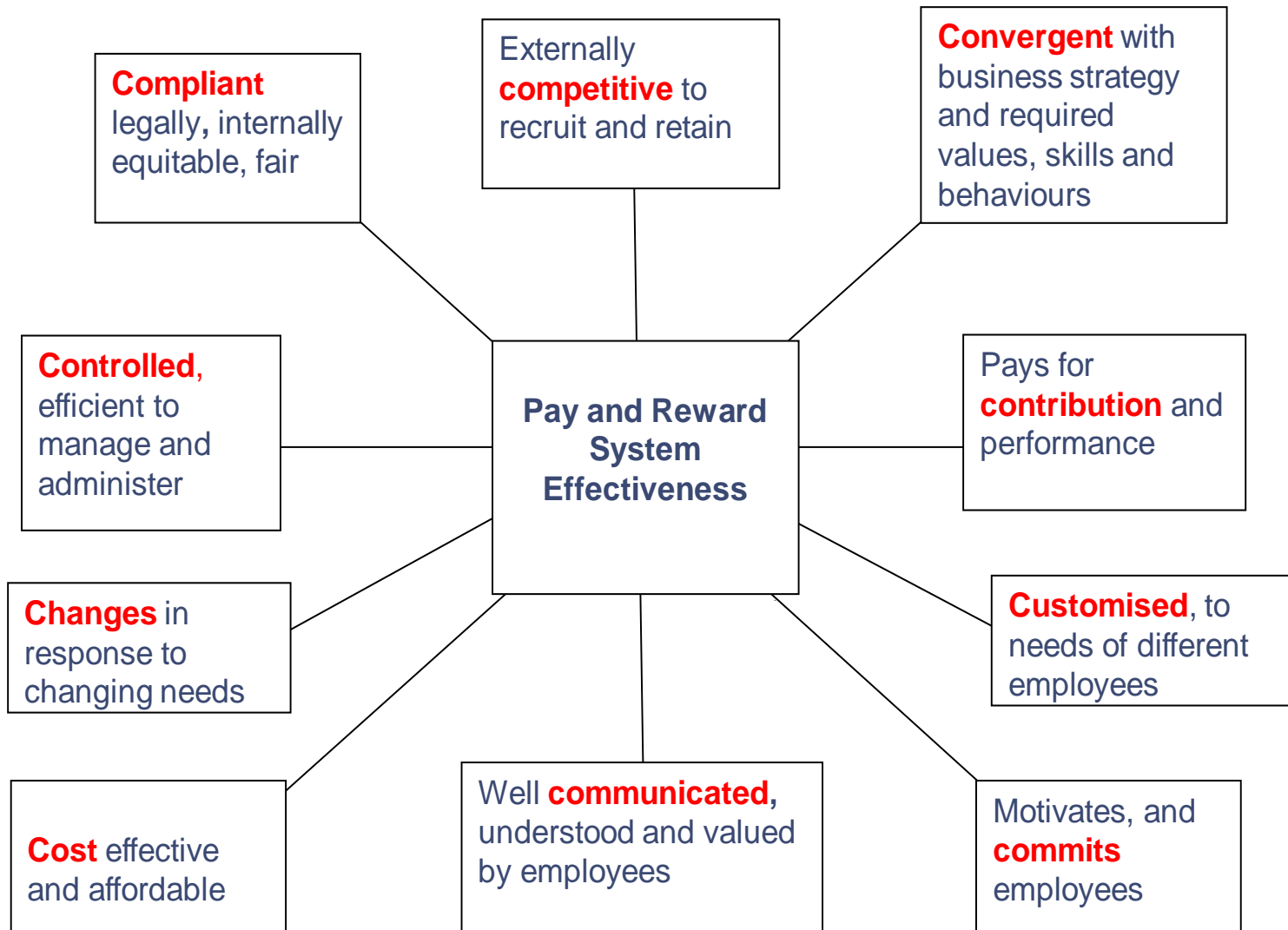
- Avoid false scientism in market benchmarking and job evaluation
- Focus on business goals being met
- Ensure your JE system and pay approach meet that requirement
- Balance internal and external equity in wage setting
- In JE management balance commitment to the core system with process flexibility
- Evaluate the effectiveness of your policies

Testing reward effectiveness

A six step model:

1. Set goals
2. Identify evaluation criteria
3. Select an evaluation method
4. Collect and analyse data
5. Interpret findings
6. Develop and implement improvements

A set of C-criteria for assessment

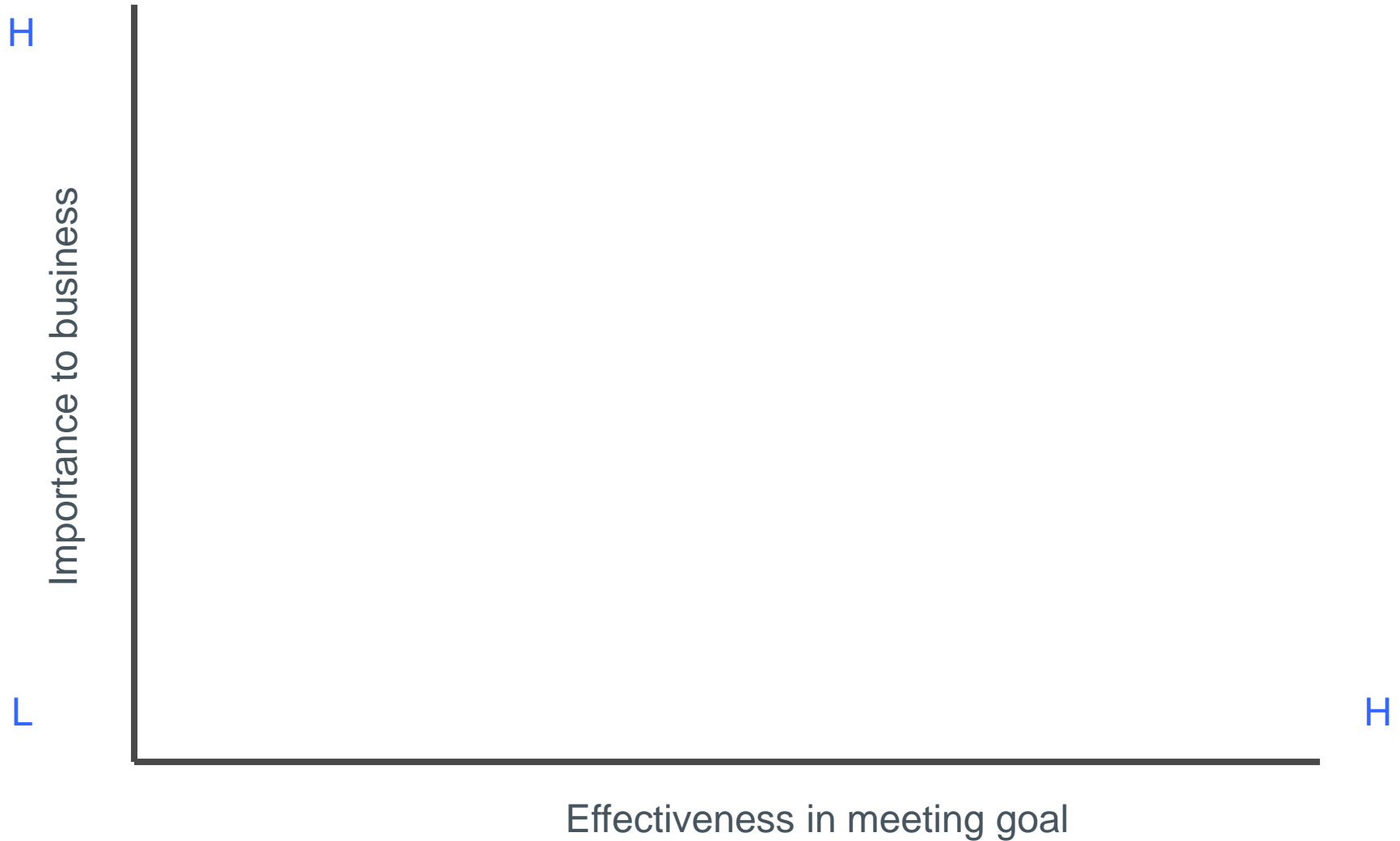


How do you decide what to measure in reward?

Goals

- Organisational impact?
- Effectiveness?
- Efficiency?
- Unique, hard to imitate or generic?

One way of looking at progress



How do you decide what to measure in reward?

Process and time orientation

- Inputs, outputs and/or outcomes?
- Past, present or future orientation?

Useful reading (for an easy summary)

<https://www.gov.uk/government/publications/a-review-of-pay-comparability-methodologies>

Thank you

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