

Chapter 12 Employee Compensation

Learning Objectives

- Understand the need to link compensation policies and practices with an organisation's strategic business objectives.
- Identify the key objectives of employee compensation.
- Explain the components of a systematic compensation program.
- Understand the mechanics of common job evaluation systems.
- Explain how to link pay to performance.
- Explain the steps in salary planning.

Chapter outline

This chapter examines the different compensations systems available to an organisation and how the relative worth of jobs is calculated. There are eight sections within the chapter, each of which focuses on a key aspect of developing appropriate compensation systems. Section one discusses the importance of developing a compensation system that is tied to the strategic objectives of the organisation. The second and third sections consider the process of job evaluation and the importance of the job description in the job evaluation process. The remaining sections of the chapter are devoted to examining the complex issues of salary surveys, salary ranges, establishing equitable compensation, relating pay to performance, and determining pay increases.

Strategic compensation

Compensation is one of the most important HRM functions. It can help to reinforce the organisation's culture and key values and to facilitate the achievement of its strategic business objectives. An organisation's compensation policies and practices, by rewarding desired results, can reinforce employee behaviour that realises its strategic business objectives. Compensation is a formidable communicator and can be a powerful instrument for change and a major determinant of the culture of an organisation. (reward systems by themselves will not change a culture, they can help reinforce a desired culture. Individual pay for performance undermines collective employment relations and marginalises unions, which in turn explains union hostility towards such compensation approaches. If there is any significant mismatch between compensation and organisational strategy, it is likely to result in major barriers to the achievement of strategic business objectives. For many organisations, employee compensation is the biggest single cost of doing business. 'Pay and benefit costs,' according to O'Neill, 'are the largest single operating expense for most service companies, and typically the second or third highest expense category in manufacturing.'

Compensation philosophy

An organisation's general approach to compensation must be consistent with its overall strategic business objectives. Compensation policies and practices should emanate from the organisation's strategic business objectives because these determine the performance and behaviours to be motivated, the kind of people to be attracted and retained, and the structure of the organisation.

A formal compensation policy should:

- reflect the organisation's strategic business objectives and culture
- articulate the objectives that an organisation wants to achieve via its compensation programs
- be communicated to all employees
- provide the foundation for designing and implementing compensation and benefit programs.

Compensation program objectives

Common compensation program objectives.

For the organisation

- Attract and keep the desired quality and mix of employees.

- Motivate employees to continually improve their performance and achieve the organisation's strategic business objectives.
- Reinforce the organisation's key values and the desired organisational culture.
- Drive and reinforce desired employee behaviour.
- Ensure compensation is maintained at the desired competitive level.
- Control compensation costs.
- Ensure optimum value for each compensation dollar spent.
- Comply with legal requirements.

For the employee

- Ensure equitable treatment.
- Accurately measure and appropriately reward performance and contribution to the achievement of the organisation's strategic business objectives.
- Provide appropriate compensation changes based on performance, promotion, transfer or changing conditions.
- Provide regular compensation and performance reviews.

Compensation program components

To achieve these objectives, it is essential that organisations have a systematic approach to compensation. The affects of inadequate compensation planning are numerous (see page 431).

Job evaluation

Job evaluation is a systematic method of determining the worth to the organisation of a job in relation to the worth of other jobs. It is concerned with 'how big' or 'how small' a job is. The aim is to ensure that jobs of different sizes are paid proportionately different salaries.

Job evaluation systems

There are many methods used to evaluate jobs and each is subjective to some degree. All are based on the assumption that jobs can be differentiated by evaluating the information in a job description. The most common systems include job ranking and job grading or classification, the points and factor comparison methods.

Job ranking - This is the simplest and oldest job evaluation method. The evaluator ranks the jobs from 'biggest' to 'smallest'

Job grading or job classification - A refinement on job ranking is the system of job grading or job classification. That uses a number of job-related factors to create generic or 'benchmark' job descriptions for each grade or class. Tthe job is compared with the benchmark description for each of the grades or classes then assigned to the appropriate one.

Point system - This system involves quantifying a set of job factors by allocating points to each factor.

Factor comparison system - The factor comparison system is a refinement of the ranking and point systems. It uses job factors such as education, experience, responsibility and working conditions, and allocates points to quantify these factors.

'Pre-packaged' or proprietary job evaluation systems - A number of job evaluation systems are commercially available, such as

1. The Hay guide chart profile.

2. Role-based evaluation
3. Mercer Cullen Egan Dell method
4. Watson Wyatt evaluation systems — FACTORCOMP[®] and MULTICOMP[®].

Weighted job questionnaire - The weighted job questionnaire is based on a multiple-choice job analysis questionnaire, using a standard points factor approach. The five core job factors are skill and knowledge, contacts, working conditions, problem solving and scope of responsibility.

Which system?

There is no one system which should be used. Before selecting a system the HR manager should consider

- Objectives.
- Size of the organisation.
- Organisational resources.
- Plan users.
- Corporate culture.
- Employee attitudes.

Job description

Is the vehicle used by most job evaluation systems to translate words into numbers. Job description formats vary from brief summaries to essay-type descriptions and may follow a rigid format or be relatively unstructured. The job description is a blueprint that profiles the design of the job, making its potential usefulness to management almost limitless.

Salary surveys

The salary survey is the vehicle for relating an organisation's salaries to those for similar jobs in other organisations. There are two main types of salary survey. One is based on matching similar jobs on their content, the other is based on matching jobs according to their job size using a common job evaluation method. The survey gives information on base salaries and benefits. This can be used by the HR manager to calculate the organisation's competitive position and to plan any corrective action required.

Job evaluation and the salary survey

Job evaluation determines the relative worth of each job to the organisation. The salary survey makes it possible to assign appropriate salary ranges to each job.

Salary structure

Individual salaries are normally determined by job size and employee performance. The salary structure presents all salary ranges over the whole spectrum of job sizes and is an essential tool in salary administration.

Salary line or curve

The salary line or curve graphically depicts the salaries being paid for jobs, related to job size and shows the relationship between the size of a job and the average salary paid for it.

Salary ranges

Standard range - Sets the minimum and maximum scheduled amounts paid for a job at a particular job size.

Broadbanding – Collapses numerous job grades with narrow salary bands in a salary structure into a few broad job grades with wide salary bands.

Market posture - An organisation can adopt one of the three basic market postures

- • Pay above market average
- • Pay market average.
- • Pay below market average.

Selecting a salary policy line - Salary survey data are historical information. The compensation specialist uses these data to determine the organisation's current competitive position and to develop the organisation's new salary policy line.

The salary policy line is a graphical representation of the organisation's predicted salary midpoints for the twelve-month period ahead. Its purpose is to ensure that the organisation's stated market position is achieved and maintained.

Equitable compensation

When designing a compensation system the HR manager must also consider issues to do with equity – both real and perceived. Therefore they need to make decision about issues such as pay secrecy, pay compression, and senior executive pay rates

Setting pay rates

Seniority - Pay increases based on seniority are determined not by performance but by the employee's length of time on the job. Seniority pay is most effective in keeping employees within the organisation. However, this may too heavily reduce labour turnover, resulting in many poorly motivated (and poor performing) employees staying on until retirement.

Pay-for-performance - The objective of performance-based compensation (also called merit pay) 'is to develop a productive, efficient, effective organisation that enhances employee motivation and performance'.

Skill-based pay - Skill-based pay, or pay for competencies or knowledge, compensates employees on the basis of the job-related skills, competencies and knowledge they possess. The purpose of this system is to motivate employees to gain additional skills, competencies and knowledge that will increase their personal satisfaction and value to the organisation.

Relating pay to performance

Compa ratio or salary index - The compa ratio is the ratio or salary index between the average salary for a particular job point or grade and the midpoint of the salary range for that point or grade. It assumes that the salary midpoint is the desired level of payment for acceptable performance.

Performance index – A salary administration technique used to better align performance with rewards. It matches the performance index with the salary index (compa ratio) to determine the appropriate increase that best equates with performance.

The merit grid - Another way to link pay to performance.

Salary increases

Salary increases recognise the employee's contributions to the achievement of the organisation's objectives. In most organisations, salaries are reviewed annually. It does not mean everyone is guaranteed an increase every twelve months. The systematic review of salaries is facilitated by having all the necessary information presented in a logical format.

Merit increase size

In most organisations, merit increases are a composite of payments for merit, cost of living and inflation. The system used will depend on factors such as the organisation's strategic objectives, culture, compensation philosophy, business results, competitiveness in the salary market and the age and growth rate of the organisation.

Promotional increases

A promotion involves a change to a bigger job with a higher salary range. This is a significant milestone in an employee's career and should be appropriately recognised.

General adjustments

If pay for performance is a compensation objective, then across-the-board increases should be avoided. Organisations that follow an entitlement philosophy often refer to employee pay increases as cost-of-living increases even though the link between the size of the increase and the movement in the cost of living indicators may be weak.

Automatic progression

Automatic progression or incremental salary scales are not concerned with relating salary increases to performance and should be avoided. Typically, such salary programs reward membership of the organisation and longevity in the job; they do not encourage employees to improve their performance.

Blue and red circle salaries

Blue circle salaries are individual anomalies which are adjusted because the salary is below the minimum of the salary range, or within the salary range but considered too low in relation to the employee's performance and experience; whereas Red circle salaries are those above the range maximum for the job.

Salary reviews

There are three main types of salary reviews.

1. Fixed-date reviews
2. Anniversary reviews
3. Flexible-date reviews

Summary

Compensation is a critical part of strategic HRM. Compensation policies and practices should reinforce employee behaviours that help achieve the organisation's strategic business objectives and reinforce its desired culture. In short, money must match the message.

No system for compensating employees is perfect. Details of administration always involve the element of human judgement. However, a systematic approach to compensation reduces the level of subjectivity and increases the likelihood of an organisation attracting, retaining and motivating suitable employees and gaining a competitive advantage. Without a systematic approach to compensation, an organisation will have difficulty monitoring cost-effectiveness, legal compliance, pay equity, the relationship between pay and performance, and whether its compensation program supports its business strategy.

TERMS TO IDENTIFY

across-the-board increases	job grading	red circle salaries
automatic progression	job ranking	salary line
benchmark jobs	market postures	salary policy line
blue circle salaries	merit grid	salary range
broadbanding	merit pay	salary review
compa ratio	pay compression	salary structure
compensation	pay for performance	salary survey
factor comparison system	pay secrecy	seniority-based pay
job description	performance range	skill-based pay
job evaluation	point system	strategic compensation

REVIEW QUESTIONS

Questions in **bold** print are recommended as exam questions

1. Would you prefer to be employed by an organisation with or without a job evaluation system? Explain your answer.

Students' answers should indicate a preference for a company with a job evaluation system. It depends a bit on how big your organisation is. The bigger the organisation, the more important and beneficial it is to have a Job Evaluation system. Job evaluation is a systematic method of determining the worth to the organisation of a job in relation to other jobs. It is concerned with 'how big' or 'how small' a job is. The aim is to ensure that jobs of different sizes are paid proportionately different salaries.

For example, an accounting manager's job would require greater know-how, responsibility and so on than the work of a trainee, so it would be worth more to the organisation in helping it achieve its objectives. It follows that the salary range for the job of accounting manager should be higher than that for the trainee.

Job evaluation forms the basis for establishing the organisation's job hierarchy and associated salary structure. 82 per cent of senior Australian human resource managers for example, believe that a formal job evaluation system is essential to effective salary administration.

2. **How can an organisation's culture affect employee compensation? How can employee compensation affect an organisation's culture?**

Compensation is one of the most important human resource management functions. It can help to reinforce key organisation values and to facilitate the achievement of organisation objectives. By rewarding desired results, an organisation's compensation policies and practices can reinforce employee behaviour that realises its business objectives. Organisations that are seeking to gain a competitive advantage through a high innovation strategy utilise remuneration practices that encourage, facilitate and reward strategy relevant behaviours. Compensation thus can be an important tool for motivating higher levels of job performance and enhancing organisational effectiveness. Compensation moreover can be a powerful instrument for change and a major determinant of the culture of an organisation.

Job evaluation plans should be in harmony with the organisation's culture. It is pointless to introduce a highly structured plan suited to a large bureaucracy if the organisation is small, fast-moving and entrepreneurial.

Organisations according to a recent survey favour broadbanding because it reflects their flatter structures, facilitates internal transfers and job mobility, emphasises promotion, gives employees greater pay potential and supports their new organisation culture. Broadbanding involves considerable cultural change and should not be attempted without appropriate employee communication and training.

Organisations that adopt skill based pay tend to have a participative organisational culture and a high commitment to employee training and development.

3. Why are the point method and the factor comparison method more common than job ranking or job grading?

Point and factor comparison methods are more applicable in larger organisations. Because larger organisations are more likely to have job evaluation, these methods are going to be more common. They are quantitative, whereas job ranking and grading are not. The quantitative methods are more objective, and are therefore less open to dispute. This makes them more popular. While of some value, the job ranking method is too subject to bias and too clumsy to be used in any but the smallest of organisations. A major problem with job grading is the writing of satisfactory descriptions for each of the grades. In large organisations, this can become extremely complex and in practice is often unworkable. Job grading does not provide a precise classification, but it is suited to smaller organisations where benchmark jobs are well known and understood and are thus a valid and reliable guide to classification. Job grading does have the advantage that it is a relatively inexpensive system to operate.

4. What are the major steps involved in establishing a salary structure?

- Conduct job evaluation to determine job size.
- Conduct performance appraisal to determine employee performance.
- Determine minimum and maximum salary for each job size.
- Construct salary line to indicate the relationship between job size and salary.
- Determine salary ranges.
- Conduct broadbanding (or narrowbanding) if necessary.

5. What is a salary survey? What is the best way to conduct one?

The salary survey is the vehicle for relating the organisation's salaries to those for similar jobs in other organisations. Salary survey information provides the raw material for translating job sizes into dollars, that is, for job pricing. Figure 12.8 illustrates a typical format for a salary market survey. The survey gives information on base salaries and benefits. This can be used by the human resource manager to calculate the organisation's competitive position and to plan any corrective actions required. As a first step in this process the human resource manager must identify the organisations for labour. In other words, does the organisation want to compare itself with:

- organisations in the same or related industries
- organisations in the same geographical area
- progressive Australian organisations
- multinationals
- organisations of a similar size in terms of sales, number of employees and so on
- the general community
- private sector companies only

- mix of private and public sector organisations?

By answering such questions, the human resource manager can determine the type of salary survey required to meet the organisation's objectives.

For a survey to be of value, it is essential for an organisation to ask the following questions:

- Who are the participants? Are they quality organisations, or unsophisticated or unknown organisations?
- Who has access to the published information? Some organisations may be reluctant to disclose information if the survey is commercially available and not restricted to participants only.
- How was job matching completed? By personal interview? By comparing job titles? By looking at salary levels? By matching job descriptions?
- Who did the matching? An experienced salary administrator or a junior clerk? If the survey is to have value, it is critical that 'apples be compared with apples'. The saying 'garbage in, garbage out' is especially true in salary surveying.
- Who is conducting the survey? Are they ethical? Are they experts?
- How is the survey information to be presented? Is it in a format which is meaningful, easy to understand and statistically correct?
- Is professional assistance available to help with interpretation if required?
- Does the survey cover an appropriate range of relevant jobs for the organisation's requirements? Are there sufficient good job matches to make participation worth the effort?
- How old is the information? When was the survey conducted?

It must be stressed that to get valid data from a survey requires a lot of preparation and hard work. There is a direct relationship between quality of results and the effort made by the participants to ensure that jobs are matched correctly for job content, and that salary information is reported accurately. Although basic, the most widely acknowledged shortcoming of salary surveys is the problem of job compatibility.

Exchange of salary survey information between human resource managers is facilitated if organisations use the same job evaluation technique. Most salary administrators are prepared to exchange information and spend time to ensure that guesswork is eliminated from job matching.

Job evaluation determines the relative worth of each job to the organisation. (i.e., job evaluation is concerned with **internal** equity). The salary survey makes it possible to assign appropriate salary ranges to each job (i.e., the salary survey helps to ensure that **external** equity is achieved and maintained).

6. Do you believe pay increases should be linked to performance? Explain your answer.

Students should consider the following :

The objective of performance based compensation is to develop a productive, efficient, effective organisation that enhances employee motivation and performance. Australian organisations have never been strong in relating pay to performance. Merit pay systems which reward employees for past performance have been the usual method for rewarding good performance. Merit increases however have had little if anything to do with performance. All too often the merit increase is influenced by tax considerations, award changes, cost of living, seniority, number of employees supervised, internal relatives and how desirable or undesirable a job is. Another major problem is that the difference in merit increases for outstanding and poor performance are so small that they have little incentive value. Finally, it is not always clear why an employee got a higher or lower merit increase. Consequently, many employees distrust merit or pay for performance plans. In practice, merit plans fail to reward performance because

- Employees fail to make the connection between pay and performance.
- Secrecy of the reward is perceived by other employees as inequity.

- Size of the merit increase has little effect on performance.
- Performance evaluation system is inadequate.

Competitive pressures and the demand for higher employee productivity mean however that organisations are being forced to find ways to better ensure merit increases reflect performance. Unfortunately, there is no single right answer or objective solution to what or how an employee should be rewarded. What employees will accept, be motivated by or perceive as fair is very subjective. As communication, participation and trust have an importance impact on an employee's perception of pay. The process of introducing a pay system may be as important as the system itself.

7. How can gender bias arise in job evaluation?

The level of the job within the organisational hierarchy is an important determinant of job evaluation. Because women still do not rise to the same levels in the hierarchy as men, there could be a bias against women.

Job evaluations are tied to job descriptions. If the job description has the potential for discrimination, then it follows that the job evaluation will also have this potential. Special problems such as sex stereotyping can affect the wording of job descriptions. An Australian study found major differences in the language used to describe male and female jobs. Similarly, a UK study by McNally and Shimmin found firmly held views concerning sexual characteristics and the relative value of men's and women's work. Managers (mostly men), lay and official trade union representatives (mostly men) and members of job evaluation committees (mostly men) showed a tendency to positively evaluate the work of men and to hold relatively negative assumptions about the inherent worth of women's jobs.

Each job evaluation system is to some degree subjective. Subjectivity is a breeding ground for discrimination. The intentional and unintentional biases of people can surface when evaluating people and jobs.

Evaluation of jobs can sometimes be confused with evaluation of people. Those who are subject to discrimination are likely to be those who will confuse job evaluation with employee evaluation.

Job grading, the point system, and the factor comparison system use experience as one of the criteria of evaluation. If women are out of the workforce raising children for some time, they will not be able to gain the same level of experience as men, and consequently will not be able to get into jobs that are evaluated at the top end of the range.

8. What are the advantages and disadvantages of (a) pay openness and (b) pay secrecy?

Equity in compensation is a major concern of employees. Where inequities are perceived to exist, the impact on morale and motivation can be devastating. One way management's try to avoid this problem is by maintaining pay secrecy. This is especially so in organisations which do not have an objective and defensible compensation program.

Research by Lawler however suggests that secrecy over pay can generate mistrust of the compensation program, reduce employee motivation and inhibit the organisation's effectiveness. Nevertheless, pay secrecy remains the norm in Australian private-sector organisations. In contrast, information on public-sector salaries is readily available. Private-sector salaries however are now being subjected to increased publicity via consultants' surveys and business articles which facilitate comparisons.

9. What are the arguments for and against across-the-board salary increases?

Across-the-board increases are also known as general adjustments. If 'pay for performance' is a salary administration objective, then across-the-board increases should be avoided. Such increases have little or no

motivational impact. Organisations that fail to pay for performance will receive less in terms of effort and contribution from their employees' and are more likely to discourage and even lose their best performers. Interestingly, in a US survey conducted by the Wyatt Company, only 31 per cent of participants rated their compensation programs as successful in relating pay to performance.

10. How can an organisation ensure that its employee compensation supports its strategic objectives?

An organisation's approach to compensation must be consistent with its overall corporate objectives. Compensation programs should emanate from strategic and tactical plans. Unfortunately, many organisations fail to appreciate this and respond in a reactive fashion and deal with compensation issues on an item by item basis rather than as a comprehensive whole. As a result, the organisation fails to achieve optimum value from the compensation dollars it spends. Compensation cannot be looked at in isolation. The HR manager must change the emphasis from questions such as "how much do we need to pay and how should it be packaged?" to a more strategic "What does the organisation want in return for its pay and how can compensation policies and programs be structured to achieve these objectives?". If an organisation's stated objective is to employ the 'best' people in its industry, then it is pointless to try to compensate employees at below-market rates. Likewise, if an organisation wants to be a good 'corporate citizen', then questionable tax avoidance techniques cannot be used.

A formal compensation policy should:

- articulate the objectives an organisation expects to achieve from its compensation programs
- be communicated to all employees
- provide the foundation for designing compensation and benefit programs.

DIAGNOSTIC MODEL

1. Identify and discuss the key influences from the diagnostic model (figure 1.11) that have significance for employee compensation.

Compensation is one of the most important human resource management functions. It can help to reinforce key organisation values and to facilitate the achievement of organisation objectives. By rewarding desired results, an organisation's compensation policies and practices can reinforce employee behaviour that realises its business objectives. Recent USA research suggests for example 'Organisations that are seeking to gain a competitive advantage through a high innovation strategy utilise remuneration practices that encourage, facilitate and reward strategy relevant behaviours. 'Compensation thus can be an important tool for motivating higher levels of job performance and enhancing organisational effectiveness'. Compensation moreover can be a powerful instrument for change and a major determinant of the culture of an organisation.

Finally, for many organisations, employee compensation is the biggest single cost of doing business. For employees, it is a necessity of life. Pay is the means by which they provide for their own and their family's needs. As such, it is the only reason to go to work. This does not mean that non-financial or intrinsic rewards are unimportant and can be ignored, simply that money can be a powerful source of motivation.

An organisation's approach to compensation must be consistent with its overall corporate objectives. 'Compensation programs should emanate from strategic and tactical plans'. Unfortunately, many organisations fail to appreciate this and respond in a reactive fashion and deal with compensation issues on an item by item basis rather than as a comprehensive whole. As a result, the organisation fails to achieve optimum value from the compensation dollars it spends. Compensation cannot be looked at in isolation. The HR manager must change the emphasis from questions such as "how much do we need to pay and how should it be packaged? to a more strategic "What does the organisation want in return for its pay and how can compensation policies and programs be structured to achieve these objectives?". If an organisation's stated objective is to employ the 'best' people in its industry, then it is pointless to try to compensate

employees at below-market rates. Likewise, if an organisation wants to be a good 'corporate citizen', then questionable tax avoidance techniques cannot be used.

A formal compensation policy should:

- articulate the objectives an organisation expects to achieve from its compensation programs
- be communicated to all employees
- provide the foundation for designing compensation and benefit programs.

The chapter, at the start, takes you through some common compensation program objectives.

2. Explain the impact of employee compensation on the acquisition, development, reward, maintenance and departure of an organisation's human resources.

The text does not make these linkages very clear. It is very much a practitioners 'how to' book rather than a conceptual investigation of such connections. Be that as it may, competitive compensation levels will help an organisation to acquire good staff. Conversely, poor compensation levels will make acquisition a stiffer task. The acquisition techniques will have to be more rigorous in such a case. Compensation must be thought of in terms of intrinsic rewards as well as extrinsic rewards. Development of human resources is a form of compensation. Career development and progression is, in itself, a reward. The means of setting pay rates which are set out in this chapter are a way of maintaining equity and motivation for employees. The rigorous practices of this chapter will tie up the loose ends, and ensure employee maintenance.

3. Discuss the impact that employee compensation policies and practices may have on commitment, competence, cost-effectiveness, congruence, adaptability, performance, job satisfaction and employee motivation.

Question 1 ties the HRM activities back to the philosophies and policies of the organisation. The desired outcomes of compensation are:

For the organisation

- Attract and keep the desired quality mix of employees.
- Motivate employees to improve their performance.
- Ensure compensation is maintained at the desired competitive level.
- Control compensation costs.
- Ensure optimum value for each salary dollar spent.
- Comply with legal requirements.

For The Employee

- Give the employee equitable treatment.
- Measure and reward appropriately the employee's performance.
- Provide proper salary changes based on merit, promotion, transfer or changing conditions.
- Provide regular salary and performance reviews.

Soapbox

There are seldom clear answers to these questions. The idea is to stimulate debate as much as to determine the answer.

ETHICAL DILEMMA

A personal reward

Discussion questions

1. What would you do with the money?

There are several courses of action that could be taken. The answers given by students will vary, but they may include:

- Return the money and explain that such practices are not considered acceptable here
- Declare the bonus on your next tax return
- Just keep the money and say nothing
- Donate the money to charity
- Explain that you would rather have the bonus as some form of benefit ie. company car, health insurance

2. What ethical issues, if any, are raised in this case?

This is a case of tax avoidance, so clearly there are ethical issues here. The first is should you take the money.

CASE STUDY

Bureaucratic nonsense

Discussion questions

1. Is Zigarelli right? Are systematic salary systems just a lot of bureaucratic nonsense?

Not at all. Salary surveys can serve a valuable purpose. But they can be overly bureaucratized. The salary survey is the vehicle for relating an organisation's salaries to those for similar jobs in other organisations. Thus, salary surveys are a key plank in the design of an organisation's compensation program. Salary survey data provide the raw material for job pricing by translating job sizes into dollars. There are two main types of salary survey. One is based on matching similar jobs on their content, the other is based on matching jobs according to their job size using a common job evaluation method (for example, the HayGroup guide chart profile method). The job match approach can be less expensive to implement, but proponents of the job size approach argue that it is also less precise. The survey gives information on base salaries and benefits. This can be used by the HR manager to calculate the organisation's competitive position and to plan any corrective action required. To begin this process, the HR manager must identify the appropriate labour market and those organisations that compete for labour. In other words, does the organisation want to compare itself with:

- organisations in the same or related industries?
- organisations in the same geographic area?
- 'best practice' companies?
- domestic companies?
- multinationals?
- organisations of a similar size in terms of sales, number of employees and assets?
- the general community?
- private sector companies only?
- a mix of private and public sector organisations?

Answering such questions helps the HR manager to clarify the type of data needed, to ensure comparisons are from the appropriate labour marketplace and to determine the type of salary survey required.

An organisation needs to ask the following questions if a salary survey is to be valuable.

- Does the survey provide participants with clear, concise job descriptions and adequate written instructions?
- Are the data screened for consistency and accuracy? Are part-time, temporary or contract employees excluded?
- Who are the participants? Are they best-practice companies, or unsophisticated or unknown entities?
- Who has access to the published information? Some organisations may be reluctant to disclose information if the survey is commercially available and not restricted to participants.
- How was job matching completed? By personal interview? By comparing job titles? By looking at salary levels? By matching job descriptions? By comparing job points?
- Who did the matching? An experienced salary administrator or a junior clerk? If the survey is to have value, it is critical that ‘apples be compared with apples’. The saying ‘garbage in, garbage out’ is especially applicable to salary surveying.
- Who is conducting the survey? Are they professional? Are they ethical? Are they specialists in survey methods?
- How is the survey information to be presented? Is it in a format which is meaningful, easy to understand and statistically correct? For example, does the survey provide twenty-fifth, fiftieth and seventy-fifth percentile data for both base salary and total compensation?
- Is professional assistance available to help with interpretation if required?
- Does the survey cover an appropriate range of relevant jobs for the organisation’s requirements? Are there sufficient good job matches to make participation worthwhile?
- How old is the information? When was the survey conducted?

Getting valid data from a survey requires considerable preparation and hard work. There is a direct relationship between the quality of results and the effort made by the participants to ensure that jobs are properly matched and that salary information is correctly reported. The most common shortcoming of salary surveys is the problem of job compatibility. Other problems relate to the inclusion of mainly high-paying (or low-paying) organisations, poor definition of benchmark jobs and misinterpretation of the data.

2. If you were Mary O’Brien, how would you have handled the meeting with Zigarelli? What would you do now?

He would have to be won over. Mary won’t convince him immediately, but a rational argument, persuasively put, might make him reconsider.