

## Integrating Job Evaluation, Market Remuneration and Competencies

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### Introduction

*In recent years much has been written about the merits of “Competency based” or “Skills based” pay structures, touting such systems as the solution to the long standing criticisms of more traditional pay fixing methods, in particular, job evaluation. The latter has of course long been criticised for its inflexibility, high cost and formula driven solutions, seemingly only paying lip service to the user’s actual needs, and imposing rigid solutions on organisations which do little to assist in the achievement of organisational goals . Small wonder that these “one size fits all” solutions are no longer attractive, and alternative solutions are being sought.*

*But are competency based pay systems alone the real answer? Will they in fact be any better than existing systems at meeting unique organisational needs? Or will they merely impose a new set of limitations which produce the same sorts of criticisms, albeit in a different way?*

*Perhaps a better solution is to combine the two systems into a single “composite” pay system, drawing on the strong points of each, and discarding, or at least overcoming, the demerits of any single approach.*

### The Challenge of Remuneration Strategy

Historically in New Zealand pay fixing has not been regarded as a strategic issue. Rather, it was seen as something of a necessary evil, in which employers were obligated to provide some form of pay structure, simply because they employed people. Often such structures were little more than the name implies; a rigid structure into which employers slotted individual jobs and people, often with little thought as to the level of contribution to overall business objectives expected of the job holder.

As if to reinforce these views, until recently pay fixing was characterised by centrally driven industrial

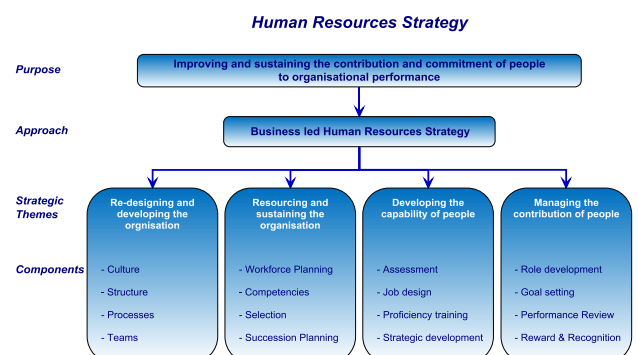
processes producing a mixture of national or multi employer sectoral awards, which gave little recognition of the needs and objectives of individual employers. Even at executive level, where the same constraints were not present, there was a marked reluctance to break the mould, for fear of setting precedents which could not be allowed to continue over any extended period.

The challenge facing employers over recent years in trying to move away from such rigid centralised structures is how to turn remuneration setting into a strategic issue. How do you develop an overall approach which allows remuneration structures and the supporting systems that go with them, to become an enabling mechanism which actively contributes to the achievement of organisational objectives?

### Remuneration Strategy in Context

To answer that question you need to step outside the bounds of simple pay structuring, to examine the needs of overall HR Management strategy. There is no point in having the most sophisticated remuneration strategy around, if the other elements of sound HR Strategy are not present. To do so is to ask for trouble, and is likely to be the kiss of death for your carefully designed remuneration system.

As illustrated below Remuneration Strategy (or Rewards Strategy) is simply one of a number of interlocking Human Resources elements which overall help to underpin the achievement of organisational goals.



Others include the recruitment policies, training programme, and succession planning processes. All are needed, as none can work in isolation from the others. The “glue” which will hold them all together



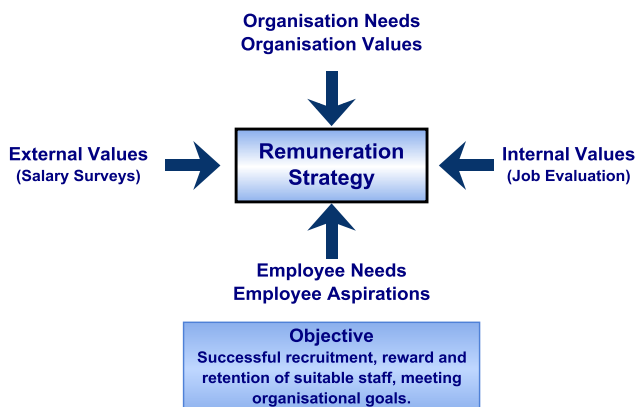
should be your Remuneration Strategy, as ultimately it will be this which allows you to recruit, motivate and retain the right people, with the right skills to enable you to meet your organisational objectives.

### The Elements of Remuneration Strategy

Although Remuneration Strategy is itself part of a wider overall HR Strategy, it too has individual elements, all of which need to be addressed in some way to ensure that the overall objective (to recruit, retain etc...) are met.

As seen in the figure below, the achievement of this requires the balancing of four seemingly conflicting forces:

- Organisational values, or corporate culture
- Internal relativities, established by job sizing, or job evaluation
- External market rates, established from salary surveys and other “market intelligence”
- Individual needs and aspirations, through performance management, and training and development programmes



Striking the right balance will require every organisation to mix the elements differently, as at the very least, the organisation values and needs will differ markedly, even for two organisations working in the same field.

### The Role of Competencies in this Model

Ironically it is the need to balance these four forces which makes it so difficult to develop a successful competency based pay system.

Few experienced HR practitioners would try to develop a remuneration system which relied solely on either internal relativities alone, or market based remuneration alone. The pitfalls of such single focus systems are too widely recognised:

- Too much emphasis on internal relativities, at the expense of external values, means you may not be competitive externally, and will be unable to attract the right skills.
- Conversely, too much emphasis on external rates ultimately produces distortions between jobs in different parts of the organisation as you react to market pressures.

While it is technically possible to build a remuneration structure around either approach, ultimately either will educe the effectiveness of remuneration policies, and constrain your ability to recruit the people needed to achieve your organisational aims. The trick is to get the balance right.

The same is true of an over reliance on competencies. While it would be technically possible to build a remuneration system which is based solely on competencies, such an approach is fraught with difficulties.

For example, if we assume that each position can be defined by reference to a set of “core competencies” identified by the organisation, supplemented by a set of secondary, job specific, competencies:

- How do you “price” the core competencies when each job requires them in different measures?
- How do you “price” the secondary competencies, when there is potentially such a wide range of them, and no definitive means of comparison?
- Even if you can “price” either set of competencies, how can you be certain that the combined effect will allow you to



compete with other employers for the recruitment of staff?

- And how can you justify decisions relating to two or more positions within your organisation, when there is no transparent way of comparing them?

To find the answer we need to re-examine the diagram showing the four conflicting forces.

### Organisational Values and Needs

One of the primary criticisms of traditional pay structures is their lack of flexibility to recognise individual organisational needs. The “one size fits all” philosophy embodied in “off the shelf” job evaluation systems and the remuneration structures derived from them cannot hope to meet the needs of widely different organisations.

A sound Remuneration Strategy will start by identifying key organisation needs (that is, what it is that an organisation needs to meet its objectives) and values (the way in which employees are expected to meet those needs), and use this as the foundation on which to build the overall strategy.

Earlier I commented on the need to view Remuneration Strategy as part of the overriding HR Strategy. One other part of that wider strategy is the identification of the organisation’s needs and values, which are frequently embodied in the “Mission Statement” as a statement of values. Why not use those same values as the foundation for your Remuneration Strategy?

### Internal Relativities

Internal relativities are traditionally set by the use of proprietary job evaluation systems. Indeed it is often the inflexibility of those systems which are the root cause of criticism, providing the impetus for attempts to tinker with results in order to achieve more acceptable outcomes.

It is my view that the days of such systems are numbered. No longer is it possible to force organisations to fit the vanilla flavoured job evaluation system. Increasingly sophisticated and

complex organisations are looking for new flavours which meet their own particular needs.

Many are also looking for more efficient ways of applying the system. Few organisations can continue to carry the high hidden costs of traditional committee based evaluation processes. Nor do they want to carry an ongoing obligation to the use of external resources to run the process.

Together these factors are leading to increasing numbers of organisations recognising the value of fully customised job evaluation processes, and the benefits to be gained from full computerisation, preferably within an expert system.

The advantage of this approach is that in designing a customised system you can start to recognise your organisational values within the evaluation system itself. This can be achieved either by building in the primary value as an overriding “theme” within all factors used in the evaluation process, or by developing individual factors which are themselves based on one or more of your values.

It is in doing this that you can start to recognise (and value) the core competencies needed throughout the organisation. Where core competencies are identified within an organisation there is not unnaturally a close fit between these and the organisation’s values. For example, an organisation with an emphasis on meeting customer needs (a “value”) will frequently identify “Interpersonal Skills” or “Communication Skills” as core competencies. Both lend themselves to use as evaluation factors.

In short, building the job evaluation factors around the organisational values in itself provides the opportunity to recognise core competencies.

### External Market

Reliable external market data is generally only available from two sources; either job evaluation based surveys, or job description (whole of job) surveys, although both can be augmented with data from other sources (provided those sources are themselves reliable).

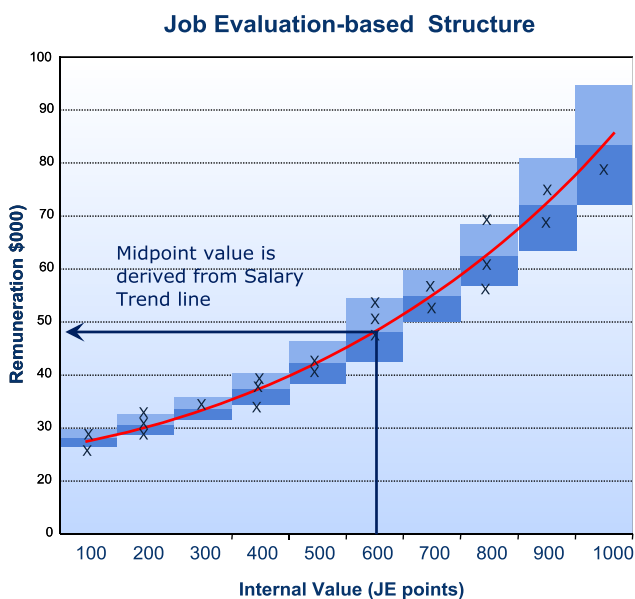
There is however a problem with the points based surveys; if you customise your evaluation system a



points based survey is of little use unless you are able to convert your points into the points system used in that survey, or you are able to identify individual position data from that survey, and use this with your own points values.

My preference is the latter approach, which is not only administratively simpler than trying to establish conversion formulae, but has the added advantage that it does not tie you to a single source of market data.

By plotting both your organisation's current remuneration and the market remuneration for similar positions against the same points value generated by your carefully constructed evaluation system, you can effectively tailor your external comparisons to your own needs, as illustrated below:



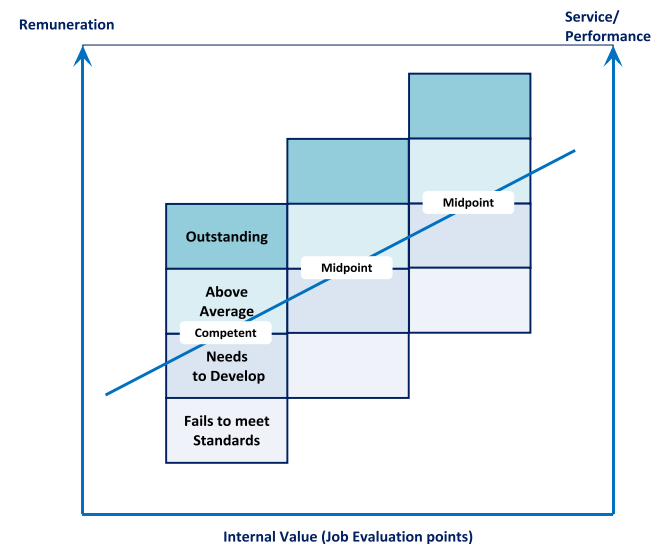
This process of course does not of itself build further on the use of competencies, beyond the way in which they have been used for setting internal relativities. Because of the very nature of competencies, and the diversity needed in any one organisation to cover all the different positions there, it is most unlikely that market data will be available on a competency basis.

The place for competencies therefore is in providing the final balance between the four forces, in meeting the needs and aspirations of individual staff.

## Needs and Aspirations of Staff

The final element in building a remuneration structure is in developing a framework which will allow you to meet the very different needs of different staff. This needs to allow for the reward of high performing staff, and provide a career path for those you wish to retain, but must also recognise the contribution of those who may see your organisation as simply a stepping stone to a different role elsewhere, or as a means of financing other life style choices and have little interest in a long term career.

Traditional structures have achieved this by providing



a series of grades, through which employees move by either performance or service, as illustrated:

Fortunately the majority of employers have moved toward performance based progression formula, and are seeing the benefits of this. There is however, a third option.

Performance, by definition, arises from the ability of the individual to meet the required needs of the position. To do this requires a certain set of skills, or competencies.

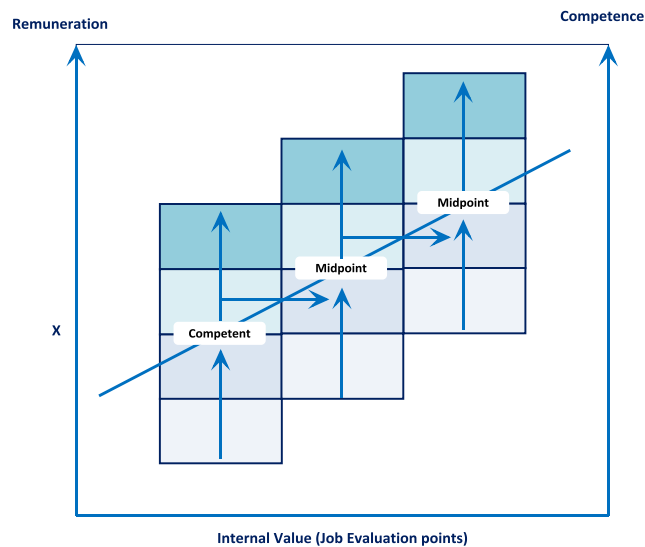
Someone performing at the level required to meet all the job's objectives is often described as "fully competent"; logically therefore the midpoint of any given grade could be equated to someone who possesses the "core competencies" needed for the job.



The extension of this of course, is that to progress beyond that point the employee has to perform beyond the level required of someone who is “merely” competent. To do this requires either additional competencies, or a higher level of performance in the core competencies.

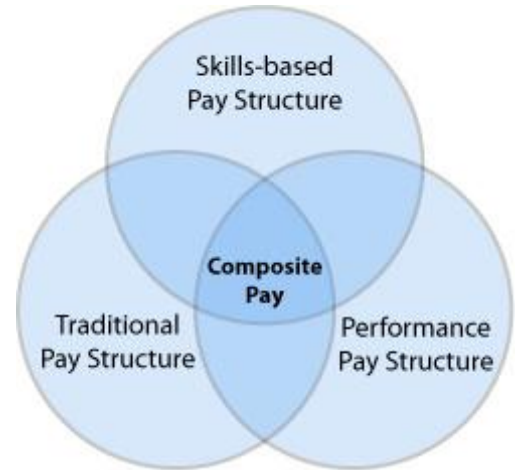
This fact can be used to develop a structure which emphasises competencies as the main determinant of progression, rather than merely performance against agreed objectives.

The added advantage is that if the additional competencies needed, or the higher skills levels needed, are identified properly, they can also be a pointer to potential performance in a higher graded position.



## Conclusion

One solution for clients may lie in better use of “Composite” remuneration systems which draw on the strengths of other remuneration systems in order to meet the varied needs of different organisations:



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