

LESSON 8

3.2-3.3

3.2 Evaluate the process of job evaluation and other factors determining pay

3.3. Assess the effectiveness of the reward systems in different contexts

Objectives : students will be able to

- a) Define and explain key terms associated with the organizational reward system.
- b) Lists different factors associated with compensation and explains their possible control and benefits.
- c) Explain the effects compensation packages within organizations.

Understanding Pay/ Compensation

Pay is a powerful tool that influences and affects a number of things within an organization.

1. It impacts attitudes and behaviours
2. Its determines the kind of employees that are attracted to the organization.
3. It is essential is aligning current employees with the interests and viewpoints of the organization.

COMPENSATION

- Refers to all benefits received by an employee both monetary and non-monetary by an organisation for services rendered. It includes salaries, vacations, health and social benefits etc.

Determining compensation

There are two important challenges that an organisation will face in determining what to pay its employees.

1. Product Market Competition

In the competitive market the organization faces challenges such as competition, cost of raw material, quality of service or goods, price ranges etc.

All these factor will determine the range of income brought into the organisation. This income directly affects labour costs, which is a vital part of the organisation's overall production cost.

2. Labour Market Competition

This is the amount that an organisation will pay its employees in order to effectively compete against its competitors. Mainly those competitors who have the same products and require the same employees. This competition can also be affected by organisations which market different products but are such that they require similar employees to carry out their functions.

Developing Job Structures

- A job structure is define as the relative compensation packages associated with the jobs within an organisation.

There are various ways in which organisations can determine pay.

Job evaluation

- Job evaluation is an administrative method of determine the worth of a particular job relative to others within the organisation. It is a measure of the compensable factors associated with a particular job.

These are skills associated with a job or characteristics which the organisation values relative to its objectives and is willing to compensate an individual for.

Process of Job Evaluation

1. Job Analysis

- involves gaining detailed information about the job usually through job descriptions and job specifications (ksa's).

2. Job Rating

- involves assigning a worth to the job based on the specifications and descriptions obtained and analyzing the compensable factors involved.

3. Classification and Compensation Allocation

- at this stage jobs are categorized based on their value and hence a compensation package attached. Higher paid jobs are also placed at the top levels of the organisation.

The Point Factor system

Another method used by some organisations in assessing job worth and pay is what is referred to as the point factor system.

In this system the compensable factors are weighted and points allocated to each. Various methods are used to determine the importance of each factor considered usually by system experts. At the end of the process the points are summed and each job is ranked based on the points allocated.

Pay and Labour Force composition

- Pay levels have always been seen traditionally as a method of attracting employees . However its seems to have more dynamic effects.
- Its has been found that different pay systems attract employees of different traits and value systems.
- Organisations which link pay to performance usually attract employees which are largely individualistic while organisations which focus on team work usually attract more socially oriented individuals.

Reward systems/ programs

- Merit pay
- These are systems in which an employee is paid based on his performance relative to an established system within the organisation. The compensation factors are usually (1) the employee's performance rating, (2) a comparative ratio relative to organizational factors such as overall production and peer performance.

- Profit Sharing

- Profit sharing is a system that is largely based on the organization's performance. Payments are not apart of the base salary.
- In this system employees usually tend to work harder thinking like the owners (with the bottom line in mind as they carry out activities)

- Employee-share option plans
 - In this benefit system employees are given the option of obtaining shares in company stocks effectively making them part owners in the company. This method usually sees an improvement in employee loyalty as employees naturally develop a vested interest in the company.

Other benefits

- Most organizations although not fully adopting a compensation plan that can be categorized under a main heading offer incentives as a method to boost employees loyalty and improve work output. These include and are not limited to:
 - Pension schemes
 - Bonuses
 - Leave packages
 - Education and mortgage subsidies
 - Family care services