



Internal Equity and Job Evaluation

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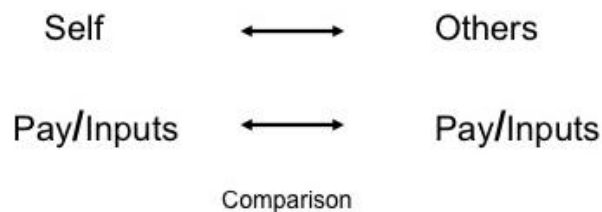
Internal Equity and Job Evaluation

Internal equity in compensation management refers to the relative pay structure among different jobs in an organization. The internal equity goal is to have a pay structure that the organization and the employees believe is fair and equitable.

Why is internal equity so important? Consider equity theory. Most individuals frequently, if not continuously, make comparisons of themselves to others, and employees do this at work. In terms of equity theory and compensation, they would compare their ratio of pay to their inputs, to the ratio of pay to inputs for others that they work with. People want these ratios to be balanced. If the comparison ratios are out of balance, individuals are motivated to make changes to achieve balance. So consider an employee who believes the ratios are out of balance and the employee is **underpaid** relative to coworkers.

Why is internal equity important?

Equity Theory - Behavior is affected by comparisons to others



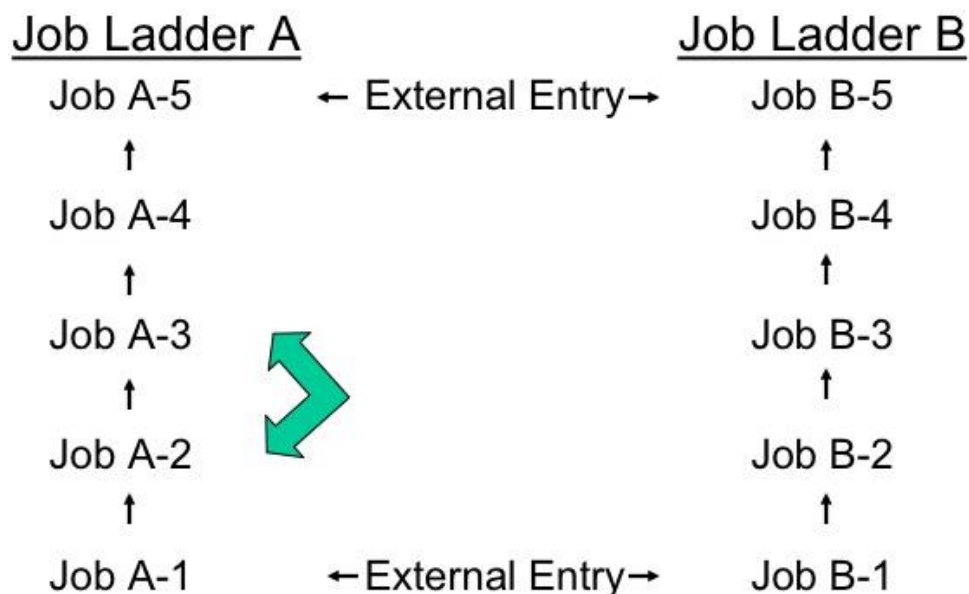
The possible actions to correct this imbalance would be focused on changing one or more of the components in these ratios.

1. Increase their own pay. They may complain and argue for higher pay, or they may leave to look for a new job with higher pay which is not good for the organization. Some may even steal from their employer. Employees caught stealing often try to justify their actions by arguing they are underpaid and the organization owes them something.
2. Decrease their own inputs. They could just goof-off more and put in less effort, or they may increase absenteeism or tardiness.
3. Decrease the others pay. They may argue others are overpaid for what they contribute to the organization.
4. Increase the others inputs. Again, this would often involve complaining and trying to get them to work harder.

All of these are undesirable for the organization and generally lead to a lot of complaining by employees. The organization wants the employees to feel fairly treated, to stay in the organization and keep focused on performing their jobs, rather than focused on correcting a perceived imbalance in their comparisons to other workers.

Establishing relative pay structures that are fair and equitable can be difficult. You may wonder why the organization doesn't just pay market rates for all the jobs. Problem solved, right? But it doesn't work that way. Consider the internal labor market job structure I discussed earlier.

Internal Equity



There are some jobs where the organization hires from the external market, and they would likely know what the market rates are for these jobs. However, many jobs are only filled from within the organization. Furthermore, some of these jobs may be unique to the organization, so there is no external market with established market rates of pay. These jobs are insulated from any external markets. So for example in Job Ladder A, the organization must determine what the fair and equitable relative pay should be between Jobs A-2 and A-3 as there are no market rates of pay for these jobs. The same is true for all the other jobs that are not linked to an external market.

The process of establishing fair rates of relative pay for jobs is called Job Evaluation. There are several methods for doing job evaluations, but I will discuss the point system as this is one of the most commonly used and one of the most reliable methods, that is providing consistent results across different job evaluators, and most valid method.

The point system of job evaluation is based on what are called compensable factors. These factors are characteristics of the jobs that the organization values and chooses to use as a basis

for pay. Common compensable factors might include skill requirements, effort levels, responsibility, or adverse work conditions. The first step for an organization to establish a point system is to choose the compensable factors it will use.

Second, levels must be established for each factor with clear definitions and examples of what each level means. This is important so the evaluators can reliably determine what level each job belongs at. Third the relative weighting of each factor is established. For example, skill requirements might be considered much more important than responsibility, so the point values for skill would be higher than for responsibility. Finally, with all this information a point scale is established for each level on each of the compensable factors. This will establish the point system to be used for job evaluation.

With the point system established, implementation requires the job evaluators to rate each job on each compensable factor, that is, to assign points to each job for each compensable factor. This requires, of course, that the organization has accurate and up-to-date job descriptions and job specifications for each of the jobs.

Job Evaluation of Three Jobs

	Compensable Factors				
JOB TITLE	SKILL	EFFORT	RESPONSIBILITY	WORKING CONDITIONS	TOTAL
Data entry clerk	20	40	20	30	110
Computer programmer	80	60	50	20	210
Systems analyst	110	70	70	20	270

Source: Steen et al. 2016 HRM 4th edition (p. 289).

This simple example shows the results for 3 jobs. In this example you can see that the skill factor is given much more weight than the other factors. Once all the evaluations are completed, the points are summed across the factors for each job to provide a point total for each job. These point totals establish the relative worth of the jobs to the organizations and are the basis for establishing rates of pay for each job.

KEY ADVANTAGES OF USING THE POINT SYSTEM

1. Once the system is established, it is fairly easy and fast to apply the system and evaluate all the jobs
2. It is suitable for any number of jobs, including very large organizations that may have hundreds of different jobs.
3. Maintenance and updating of the system is minimal. They are often stable for long periods of time, but it is critical that the job descriptions used during the evaluation process be updated regularly.

The key disadvantage of the point system is that it can be complicated, time consuming, and

expensive to develop the system. Large organizations may have HR professionals on staff who can do this. But often organizations rely on consulting companies for this. Many consulting organizations have established job evaluation systems that are designed to be used in a wide variety of organizations and a wide range of jobs. Some consultants have developed systems specific to certain industries or sectors. Often these established systems can be used in any one organization with some minor changes or adjustments to account for the unique values or characteristics of the organization.

So let's go back to equity theory and the comparisons employees make between their situation and that of other employees. If it is done correctly, job evaluation should establish a fair internal pay structure, and lead to employees perceiving it as fair and equitable. To further avoid employee concerns about perceived inequity, the organization should communicate to all employees how jobs are evaluated to ensure fair and equitable relative pay. If an employee still believes their job is undervalued, then the HR professionals can use the job evaluation system to explain to the employee how the pay for their job is established relative to other jobs in the organization.

How is job evaluation actually done? I have been discussing this in terms of an organization. Smaller organizations may use one job evaluation system for the entire organization. But many organizations, and especially large organizations, will have a separate job evaluation system for each "job cluster". A job cluster is a large group of jobs that are similar or related. For example, a large manufacturing organization may have a separate job evaluation system for each of the following job clusters:

1. Production jobs
2. Management jobs
3. Professional and technical jobs, such as accounting, finance, human resources, IT and legal professionals
4. Sales and distribution jobs
5. Customer service jobs

The main reason for having a different job evaluation system for each job cluster is that the most appropriate compensable factors may vary across the clusters. Organizations may have some compensable factors that are used across all the clusters, but some unique to each cluster.

Finally, once the job evaluation system is established, evaluation of the jobs is usually done by a committee. This committee will of course include the human resource professionals, but often employee representatives are included as well. Having employees included in the job evaluation process helps to ensure all the employees that the process is fair and their interests are being represented. In a unionized organization, the committee would include union representatives.