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Market Pricing Versus Job Evaluation: Why Not Both?

Fall is in the air. The windswept blue sky, the sudden rains, and the cold frosty nights pale in comparison to fall's real attraction: the warm, varied colors sprinkled across every lawn in the neighborhood.

No, not those colors. We're talking here about the lawn signs. Miles and miles of signs, urging you to choose one candidate or cause over another. Did you think the campaign season was over? We beg your patience while we present just one more debate. There is another issue we'd like you to weigh in on:

Is it better to use job evaluation or market pricing when determining employee compensation?

Most compensation professionals and consultants come down firmly on the side of either job evaluation or market pricing. But the decision is not that cut-and-dried, says Christine Tande, of Tandehill Human Capital (www.tandehill.com).

"People often see the two approaches as competitors, rather than as compatible tools," she says. Instead, Tande believes a hybrid approach is the most effective, one that calls upon the strengths and shores up the weaknesses of each approach individually. She believes so strongly in this combination approach that she calls it her soap-box issue. She's spent the last decade or so educating her clients (and anyone else who would listen) about it.

"My approach is that both are tools and we need to put them in their proper places," Tande says. "Both approaches provide information and important data points, assuming they are of good quality. Without each other, each approach provides somewhat limited value."

The case for job evaluation

Market pricing is using external sources to assign value to your own company's jobs. Job evaluation, on the other hand, is a systemic approach to analyze and value them within your own organization. "Job evaluation gives you the common language to talk about the jobs in your organization, and to create the job hierarchy," Tande says. "For example, how do you compare an HR generalist job with an accountant, a technology person, or a sales job? The common language that a job evaluation methodology gives you translates all the different jobs to some kind of a point factor, number, or grade. The jobs are all different, but from an internal value standpoint, those jobs might all be the same value."

There are many job evaluation methodologies used, Tande continues, but the Hay Guide Chart is top of mind for most people. "It's the one mentioned in the textbooks," she says. "It's the one that I would argue most of the existing methodologies have grown out of.

"The main difference between these methodologies is the degree of precision they offer. The greater the degree of precision, the more complex they are. And that's a typical criticism of job evaluation. Many people have had experience with a more complex model that became too much to administer over time, and it kind of fell apart because the exceptions became the rule.

"When I started working in comp about 18 years ago, there was a lot of noise among consultants that job evaluation had run its course. It was too complex, they said, we need something simpler."

But is market pricing the answer?

At the same time, technological sophistication meant that more and more surveys became available to more and more people. HR departments purchase them, and individuals wondering about their own jobs can easily access survey information free online. "A lot of companies said that was all they needed," says Tande. "They felt they could just buy a package to price their jobs for them." But free and cheap are not always the best value, and the job you're trying to price may not have a counterpart on even the most expensive lists, anyway.

"The rule of thumb I like to use," says Tande, "and it will vary from company to company but I think it's fairly accurate, is that for 80 to 90% of the jobs in your company, the internal value and the external value will be the same. So the value your firm places on, for example, an accountant is going to be the same as it is in your area's labor market. But for some jobs, it doesn't match and that's where you need to use a combination of approaches.

"The most typical example of this, in the last 10-plus years is in IT jobs. If you're a high tech company, you place a high internal value on technology jobs. If you're a non-tech firm, one where technology is primarily infrastructure or a staff role, it won't necessarily be valued on the same level as your product people, your sales people, and so on. But because of supply and demand in the marketplace, external value might be pretty high.

"In other organizations, the external value might be lower than internal value. For instance, I work a lot in health care. If you use most job evaluation methodologies, the internal value of a social worker in a hospital setting is higher than your standard nursing staff. A social worker in a hospital typically has to have a master's degree, and a staff nurse only needs a 2-year degree.

"So the social worker has a higher internal value, or at the very least the same value, as the nurse. Yet if you go into the marketplace, market data in most areas is going to show significantly less value for the social worker."

Jobs becoming harder to define

Tande also points out that "mission-critical" jobs can be difficult to define – and therefore to value. Sometimes jobs can be mission-critical temporarily, demanding a higher pay range while the critical mission proceeds. "Let's say, for example, that you have been audited," says Tande. "It turns out that there are all kinds of errors in your accounting. Now you have to fix them.

You're not an accounting firm, so traditionally your accounting jobs wouldn't be particularly important or hard to fill.

"But for the next 3 years you have a lot of clean up to do, so you don't get in any more trouble than you already are. For that period of time these jobs are very important, and you need the best people you can find. That makes the internal value higher.

"It is important, then, to be able to evaluate your jobs both internally and externally," she continues, "because even though most jobs have the same value (under each method), typically it's the most important jobs or those that are the most difficult to recruit for that are not equal using each of these methods. Then you end up either overpaying or underpaying, or you end up managing by exception because you kind of have to guess. So bringing the pieces together is important."

The economy and the increasing complexities of business are bringing this issue to the fore, Tande says. "Standard job descriptions, while still covering most of the work done in an organization, don't cover some key jobs that you can easily throw into a market pricing model. More and more, jobs are a little bit of this and a little bit of that. So make sure you have a good blend of all these different tools, and use them consistently.

"You can use both to perform checks on each other. Without each other, both tools provide somewhat limited value." By combining these approaches, you take advantage of the best, most up-to-date processes available, and have a better understanding of the value of your company's jobs.