Job Price Compensable Factors and Parameters: The Framework of the Job Evaluation System

*Shaira Ismail,* Senior Lecturer, Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Pulau Pinang, Malaysia  
*Azlin Shafinaz Arshad,* Senior Lecturer, Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Selangor, Malaysia  
*Nurul Hayani Abd Rahman,* Senior Lecturer, Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Kedah, Malaysia  
*Nani Ilyana Shafie,* Senior Lecturer, Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Selangor, Malaysia

*Corresponding author’s email address: sheeraz@uitm.edu.my*

**ARTICLE DETAILS**

**ABSTRACT**

**Purpose:** In this article, job evaluation methods are examined to analyze how organizations construct their compensation systems. This review is to explore the “gaps” in the evaluation process of organizational jobs or positions, and to compile all the compensable factors considered in developing the reasonable and equitable remuneration system to satisfy employers’ and employees’ needs to address the pay problems, pay equity or pay inefficiency.

**Design/Methodology/Approach:** The review of the job pricing methods is to develop a fair and justifiable compensation system by taking into consideration the internal and external compensable factors. Job evaluation is used interchangeably with the job pricing and it is the method used to build the orderly, versatile and practical compensation system. But because the system is unable to appropriately detect the internal and external compensatory elements, measurement error exists in job evaluations.

**Findings:** The SKAOs possessed by job holders and the duties and responsibilities of the jobs are categorized as the internal factors. The external factors namely; The economic growth rate, geographical or location factors, the government rulings on the wage system and policy and procedures, job market competition rate and more. These factors are significantly having a significant impact on these compensable factors.

**Implications/Originality/Value:** For determining the "right wage" or "correct pricing" for particular jobs, compensable criteria are crucial.

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Introduction and Issues
Most organizations establish a pay system which is compatible with the size of its workforce and their financial capabilities. The equitable and fair job evaluation system takes into consideration a range of jobs in accordance to its hierarchies and pay levels by considering a set of job tasks such as skill, knowledge, abilities, competencies, duties and responsibilities, working conditions, complexity of works, working experience, etc. It was argued by El-Hajji (2011) argued that job pricing is not solely based on perspectives related to salary administration. The job evaluation system should be based on certain determinants such as: (1) an orderly and well-organized and logical settings; (2) a judicious perspective; (3) provides an evidence to support or prove the justification; (4) the concluding aspect of the jobs; (5) a comparative point of view; (6) a consistency stage of decision making; (7) a structural phase of evaluation; (8) a societal, economic, and effectual framework; and (9) considers some legislative trends, complied with the government’s policy and procedure, as well as the governmental bonding, an inclination towards a particular character or type of behavior of the trade unions.

Fairness and equity of pay refers to achieving a right balance between employees’ ‘input’ and ‘output’ (Molander & Winterton, 1994). The key issues here are concerning the “underpaid and overpaid” salary. According to Gupta and Jenkins Jr. (1991a, 1991b), they stressed out the traditional factor point method's consistency with the external market is often poor. The practice of totally adopting external labour market salary information as to design a firm internal salary would inevitably face some difficulties: (1) Firm is not able to practice effective budget control; (2) There is no total transparency of salary data (Dufetel, 1991).

Logic, fairness, equity, and objectivity are frequently used in the job evaluation process. Pay differentials should, according to logic, be determined by a set of norms and criteria. When discussing the pay gaps between men and women, objectivity refers to fair and equal treatment, which includes allocating points or weights for compensable or job-related characteristics. Assessment and adjustment are the two halves of the equity concept. Curtis & Curtis, 1995; Quible, 2001; Torrington et al., 2002) and provide an opportunity for employees to appeal against the management decision in relations to pay pertaining to unfair decisions based upon their point of views (Kinicki & Williams, 2006).

The government rulings or ordinances and statutes have an impact on the organizational pay system. According to a recent article from Malaysia, the National Salary Consultative Council Act 2011’s rise in the country's monthly minimum wage by 25 percent. Thus, it has increased the minimum pay from 1,200 ringgit (US$273) to 1,500 ringgit (US$341), effective May 1, 2022, has elicited both favourable and negative responses. Every two years, the minimum wage is reviewed by the government. The most recent date examined was February 1st, 2020. In the private sector, businesses with at least five employees are subject to minimum wage regulation. The Human Resources Minister Datuk Seri M. Saravanan set January 1, 2023 as the date of enforcement for businesses with fewer than five employees. Without taking into account the amount of people employed, the Malaysia Standard Classification of Occupations (MASCO) authority also enforces the minimum pay of RM1,500.00 (US$341) for all businesses.

It was then an issue highlighted in the Malay Mail dated 15th April 2021, “lower earnings for Malaysian fresh graduates was a long-standing issue due to the lack of skills and job price in the country and not entirely caused by the Covid-19 pandemic”. The economic analysts have rejected the government’s claim that the economic worst conditions are due to the pandemic, which caused the increased percentage of graduates getting lower pay. In contrast to earlier years, in 2019, with a range of pay between RM2,001 and RM2,500 at 18.7% as compared to the year of 2020 with an earning highest at 22.3% (Ida & Keertan, 2021)

There are frequent discussions on the geographical perspectives in impacting earnings and salaries differences amongst Malaysians related to the high cost of living. Wherever the cost of living is higher, employees are typically paid highly. The spatial pricing index (SPI) is able to explain discrepancies of
the cost of living in different locations, however, there is no data to justify the claim at the state level. Thus, the SPI measures variations in a reference basket of items' prices across various locations at one point of time is used to address the issue. As to justify the issue, the SPI information is used with the Poverty Line Income (PLI) reference basket generated by the World Bank. Under this basket, all the basic items (needs) consumed by the poorest group are considered which represent 1% the total population (Tham & Kevin, 2022).

The Federation of Malaysian Manufacturers (FMM) claims that, the raise of Malaysia's minimum wage to RM1500 (US$344) would lead to a negative impact on remuneration costs and jeopardize the industry recovery for 2022 (Charles, 2022).

The wage disputes generally relate to the jobs or positions at the entry level. The conflict is to determine the most preferable and agreeable amount of the minimum wage for the entry. Unfortunately, some employers are taking advantage and manipulating the “fair” wage level or job price to offer to the job seekers and do not take into account the compensable factors. These compensable factors of the job incumbents are relatively offered different levels of the SKAOSs. It was highlighted in the Malay Mail dated 01 Jun 2022, utilized the data provided by the Human Resource Ministry, which highlight on the disparity between the qualification levels and job compatibility issues. It has increased to a high level of the unemployment rates (Zarrah, 2022).

Data by the Department of Statistic has highlighted on the increased unemployment rates by 30.1% caused by the pandemic amongst the job seekers under the category of tertiary education from a total of 181,200 to 235,700 in 2020. It has contracted the Malaysian economic condition by 5.65% and contributed to poor earnings amongst the graduates. In addition, employers do not consider the graduate education level by offering low salaries at the entry level. It has further jeopardized the government's intentions to maintain an acceptable pay corresponding with the current economic conditions which include those who are undergoing the apprenticeship program. But yet, this issue is still not rectified. It has noted that, lacking of certain skills and knowledges, as well as low work experience and industry-relevant skills contribute to the lower pays amongst the graduates. It is crucial for the government to have new rulings to ensure that graduates get higher pay and to increase the minimum wage to overcoming the employer’s refusal to offer an employment for recent graduates and to recruit the suitable positions compatible with their educational level. Additionally, the government has to offer graduates more incentives to find employment (Mohd Shahidan, 2021).

In order to explore the pay systems, the best way is to review the job evaluation methods applied by the organizations. There are components considered by the organizations to fix the value of the jobs.

**Job Evaluation Methods**

The purpose of the job evaluation is to compare all the jobs in the organization to determine its placed within the pay ranges or grades to make decisions about the relative pay and status of the jobs (Cushway, 2003). The main objectives of the job pricing methods are to generate a fair wage system to systematically structure the salary level and assess the job tasks and its complexity. It is further to set up the jobs weightage and construct its level. Generally, there are many types of job pricing method. It is categorized into two components, numerical and non-numerical approach with a logical consideration of assessment. The acceptable method should be fundamentally systematically and logically executed. The most popular is based on the point factor approach, which clearly defines the job factors and its level of jobs and simultaneously assigns scores to each level. The job are ranked in accordance to its total scores. This approach is considered as a fair method (Stredwick, 2005). As for the non-analytical approach, it compares and grades the jobs. Then rank them based on their values or weightage and importance level. The assessments done do not consider the internal and external factors to determine the actual values of each job.
The most effective and efficient job evaluation method to execute is based on its suitability with the principal consideration to choose especially in terms of the sizes of the organizations (Guest, 1989). Today’s job evaluation methods are divided into two main components. They are quantitative and non-quantitative methods. The quantitative methods assign scores to the job factors, whereas the non-quantitative methods do not consider the numerical scores. These approaches are classified as the old method.

The traditional approach to job appraisal involves ranking all positions within a company according to their value and importance. It is a really straightforward and hassle-free strategy that works well for small businesses. The other approach is points rating, in which points are assigned for elements determined to have job-specific traits. Factors include, for instance, the need for judgement and decision-making skills, as well as educational and professional experience levels, efforts, and working conditions. The categorization approach is another tool for evaluating jobs. According to this viewpoint, grade and pay scales are established before jobs are ranked and classified in accordance with their job descriptions. The last but not least is the factor comparison method. Under this method, the jobs are ranked by its monetary value based on factors that are; mental perspectives, physical abilities; skills acquired and working environments set-up at the workplace.

The new methods of job evaluation have been produced lately. Amongst others is Paterson System, which is applied in the private sector as well as public organizations. It is sometimes referred to as the “Decision Ban”. It is a flexible system considers all types of jobs from the non-managerial and managerial levels, that is, from the lower level to the higher-level positions respectively. The Paterson System is a constructed pay level with certain determinants known as the “Decision Band”. Professor Paterson in 1997 claimed on the importance of “decision-making” as it has an impact on each employee at any level of the remuneration system in the organizations. Professor Paterson concluded that, there are six “decision bands” exist in the pay evaluation system. Paterson examined the complexity, degree of decision-making, coordination/supervision, skills and authority, variety of job activities, precision and level of work pressure, and physical effort required to complete the tasks when comparing jobs to one another. In conclusion, Patterson rated jobs using a wide banding system that assigns grades from A to F, a sub-banding system that identifies the upper and lower levels of the bands, and a sub-grading system that further divides the bands.

The job evaluation is crucial to the expansion of an organization. The study revealed a strong link between job evaluation programmes, employee motivation, and performance. Because of this, it has also demonstrated that there are statistically significant mean differences between the public and private sectors with regard to employee motivation, job assessment techniques, and performance indicators. It is essential to frequently monitor performance and maintain records in order to ensure that performance problems are rectified and improved. As a tool to improve employee performance, the results of the work assessment should also be shared with the individual on a regular basis. The goal of job evaluation is to assess an organization's performance over time. It assesses the employees' capacities for making wise decisions as highlighted by Thirupathi Naik Bhukya and Sreeramulu (2021). By identifying people's strong managerial potential, it provides a foundation for enhancing organizational development, productivity, and employee performance (Abiodun, 1999).

Another goal of job evaluation is to rate all of the positions in a company by comparing them to one another. In order to place the occupations within the various pay ranges or grades, this ranking order would be broken into groups of jobs belonging to the same size category. This approach can be used in both large and small organizations. Decisions are made based on the relative compensation and status specified by the organisations, and comparisons of occupations are exclusively based on those judgments (Cushway, 2003). Therefore, from this vantage point, tasks are typically assessed. The issue
is how crucially analytically demanding the tasks are and how the organizations carry out the process.

The review of job evaluation techniques may offer part of the information required on the determinants made up of compensable internal and external elements. These compensable characteristics may limit the job appraisal process in evaluating the appropriate value of a given work since they are either controllable or uncontrollable.

**Contentions of the Job Evaluation Methods**

The issue of unfair and inequitable pay is one of the most contentious ones in business today because it is related to social, political, economic, and environmental aspects. Amongst the job evaluation techniques, the most frequently used is the factor-point system. In this system, points are correlated to each job factor. Higher points are allotted to each of the variables, the higher the degree of compensable factors. Each aspect is given a weighting in order to indicate how important it is to the employer in determining its value.

In order to understand the compensation system, an analysis of the job evaluation methods needs to comprehensively explored. It starts with the point rating technique. The point method is chosen by most organizations. It is considered as the fair and quantifiable method which can be applied to any size of establishments. Before it can be used in any significant establishment, the point rating is thought of as a rather complicated technique and typically requires extensive preparation works that include an analysis and discussion. The stages involved in the point rating approach involve activities in obtaining a job description, defining the compensable factors and the degree level of each factor, weighting of job factors, establishing score for factor levels, and constructing a grade structure.

The addressing of the job incumbents SKAOs, internal and external compensable factors are crucial to generate a comprehensive and realistic job pricing system in order to overcome the subjectivity involved in pricing the multiple jobs. The factor-point system considers the value of jobs in organizations and do not take into account the market rate or any other external factors that have an impact on the wage system. The pitfall of the system is the absence of objectivity in determining factor point and weights. The assessment factor, factor level, factor point, and its weight are the four parts of the factor point approach. Firstly, some evaluation criteria are created, then each factor is divided into different levels, thirdly, allocate each level a certain number of points, and lastly, an assessment function is carried out to get its final score, which corresponds to a particular salary. Based on the process, it is based on a linear assessment function by selecting different evaluation factors, its level, point and weight.

The factor point method has failed to provide objective reasons in determining the four components, and create doubt on the objectivity of the method and its result. This occurs because a job can be analyzed from different perspectives. The second shortcoming of the traditional factor point method is not considering the fluctuation level of supply and demand in the external labour market. Lawler (1986) highlighted that, one of the eight angles of traditional factor point method totally concentrates on the internal labour market and ignoring the external labour market. It was strongly supported by Kerr and Fisher (1950), who pointed out that the traditional factor point method ignores the influence of external labour market salary levels where employees’ grievances could easily be incurred.

Nevertheless, many organizations rely solely on ‘market pricing’ to determine its pay and internal relativities. According to Dessler (2000), more than 20 percent of employers based on market rates rather than designing the pay system through job evaluation techniques. Henderson (1989) claimed that the job pricing technique based on competition rate is highly practiced by most organizations in the organizational job evaluation system. Large organizations give a serious consideration to job evaluation as compared to the small one. Thus, the job evaluation should be comfortable, versatile, adjustable and workable to address the changes in the market conditions and any other external factors (Tidd et al., 2001).
Thus, there are inconsistencies on how organizations determine the job price. And, it requires some reviews of the current applications in terms of methods, classification of jobs, compensable factors and external factors considered by the organizations.

**Compensable factors**

The compensable factors are the most important criteria in assessing the job worth, according to the aforementioned research evaluations. Das and Garcia-Diaz (2001) came to the conclusion that the most compensable factors are essential for employees since they serve as the foundation for evaluating and pricing each job. In order to establish fair, equal, and realistic remuneration system, the organization would take into account and employ these variables. Additionally, the organization values “point factors” or “compensable factors” in order to implement its pay strategy and achieve the goals of its pay policy. The Classification and Compensation Unit, Division of Human Resources, West Virginia University's supporting study (2017) defined "Point factors" as essentially "compensable factors." Particularly these compensable factors are graded into its degree level and weightage to determine the reliable and equitable pay system. These compensable factors are skills, job tasks, effort, or physical demand required in performing the specified jobs.

The pay evaluation system takes into account a variety of compensable factors. They are work history, educational background, work environment, handling of important data or information, errors or mistakes made on the job, types of supervision, degree of difficulty of duties and responsibilities, and effort and skills required to carry out job tasks. Only the top six significant compensable factors—job duties and responsibilities, work setting, skills and work experiences, competencies, and supervision were taken into account by the West Virginia University study.

The length of service is also a significant compensable factor. It is a typical compensable element where it has been recently put under new scrutiny by the forward-thinking businesses. Employees are paid for their loyalty and not for their contributions to the organization's goals. Even at the sacrifice of productivity, there is much to be said about encouraging loyalty within the organization.

Employee’s competencies are regarded as one of the compensable factors in constructing the relevant pay system. Rewarding employees for achieving educational milestones and developing new abilities may promote personal growth among staff members as well as professional development. Through the advancement of knowledge and job performance level, employees' productivity achievement, job effectiveness, self-satisfaction, and loyalty level might be improved. It is a good idea to increase an employee's pay when they complete training and development programs provided by the employer or earn educational certificates because this could result in more valued contributions and help the organization perform successfully.

It is highlighted in the previous research, the level of knowledge gained, skills and abilities acquired and competencies possessed (KSAOs) by the job holders are crucial to perform the job tasks effectively and efficiently (Rodriguez et al., 2002; Schippmann et al., 2000). The KSAOs are usually integrated with the business strategic planning and organizational goals (Martone, 2003; Rodriguez et al., 2002). The KSAOs are specified in terms of observable job behaviours and linked to the work or objectives. Tasks are the starting point of a typical job analysis, and KSAOs are used to assess the job's value.

Surveys carried out in many fields and businesses in numerous nations revealed the significance of job evaluation among British organizations. It has recorded that 168 of organizations practice the job evaluation system in their operations, which indicated by 78.8% of respondents (Thakur & Gill, 1976) amongst the large firms with more than 10,000 of employees Lupton and Bowey (1983) as compared to smaller establishments with less than 250 workers. Other supporting studies reveal that two-thirds of the American labour force is evaluated under the job evaluation programs (Thakur and Gill, 1976).
Based on literature reviews, it is surprising to note that only a few studies were done to investigate the employees' preferable criteria for remuneration systems specifically in the Asian perspectives and Malaysian contexts. Mamman and Fadel (2006) conducted a study to look into the preferences of employees for the pay system. The years of services and education achievement were two crucial factors constituted significantly different across these countries, due to the consequences of the cultural dissimilarities. The other factors in the aspect of age level, education achievement, job position, and industry sector shown a significant correlation with the pay system preferred by all respondents. Thus, it reveals that, the respondents favour various pay determinants in constitute their pay irrespective of the cultural background. The results showed that the respondents preferred different variables as salary determinants. Because of the cultural differences, two important factors; the number of years of service and educational achievement were notably varied between these nations. The other aspects, age, educational attainment, employment position, and industry sector have a strong relationship with the pay structure chose by the respondents. Thus, it becomes clear that respondents, regardless of their cultural background, choose different pay factors when determining their salary. This review proposed a design of a Job Evaluation System with a consideration of internal and external compensable factors to develop a fair and equitable job pricing system as per the depicted figure below.

Figure 1: A schematic representation of some internal and external compensable variables (setting parameters) for the development of a realistic and equitable of the Job Evaluation System

Based on the above Figure 1, the internal and external compensable factors have a capacity either to increase or decrease the values of the job values, weightage, levels and scores. On the other hand, the setting parameters limit the value or weightage of the compensable factors and they are categorized as the external compensable factors. This review proposed a design of a Job Evaluation System with a consideration of internal and external compensable factors to develop a fair and equitable job pricing
System. The job evaluation is a systematic and well-defined process in determining the pay system for all types of jobs and significantly related to the above compensable factors.

The compensable factors provide a rational basis to price the jobs by considering the scopes of jobs, its complexities and importance in an organization and organizational factors in the form of financial capabilities, pay policy, etc. The compensable factors provide the underpinning points to fix wages or salaries systematically by determining the pay structure according to the setting parameters, the external compensable factors such as the government interventions on salary structure and economic conditions, the job incumbent’s SKAOs and others. These compensable factors have the capacity either to decrease or increase the value and weightage of the jobs. In this review, a list of compensable factors is constructed as the variables in pricing the jobs; how competitive is the job as compared to the other jobs, the job itself and the job incumbent factors; the SKAOs possessed by an individual employee and taking into account the impact of the external compensable factors which have the ability to decrease the job value, weightage, levels and score. These compensable factors have either positive and negative impact on the “actual value” of the job.

Some of the possible consequences of job pricing in relations to the external compensable factors or setting parameters are shown below:

For an example: Supply of demand of labours
When the supply of labours increases, there is a possibility to decrease the price of the job (-)
When the demand of labour increases, there is a possibility to increase the price of the job (+)

When the organization experiences a low profit, there is a possibility to reduce the price of the job (for the entry level or employment strategies for other available posts)
When the economy is down, the price of a job decreases

Those applicants who have a working experience @ 10 years, the price of the job increases and those who has no experience will get a lower starting salary

Thus, the weightage, level and the score are determined by the internal and external compensable factors. In this case, each job will be priced accordingly.

Conclusion
The actions of comparing, grading and valuing of jobs within a company are known as the job evaluation approach. In this arrangement, jobs are placed in according to its importance and relative values in the organizational hierarchy. Their values or worth, are computed in order to determine its “price”. In this perspective, the relative and inherent value or merit of various occupations within an organization is compared systematically. As a result, job evaluation is a process of comparison amongst jobs in each organization. In order to reach an understanding about occupations and compensation within the company among managers and employees, job evaluation is also used to create a pay structure. Employees are affected differently by job evaluations when it comes to performance outcomes that are in line with corporate objectives. It serves as the foundation for decisions about management duties and employee career advancement. It is a strategy or technique for facilitating job distribution linked to rewards in order to guarantee that employees are paid fairly and significantly connected to the compensation system.

The job evaluation could result in a positive working relationship between the employer and employees. The job evaluation approach may be able to end salary disparities, support an unbiased pay system, and foster improved communication between the parties. The job evaluation can lower the expenses associated with hiring and selection, boost staff retention, and eventually lower labour turnover rates. The job evaluation helps the company choose the candidate who is most suited for a given job or position. By reviewing the components of the job evaluation system, it provides some of
the compensable factors considered to put values for each job. These compensable factors are the fundamental points to price the jobs.

A key component of human resource management is job evaluation. In particular, the development of a compensation system and the human resource planning process both employ the outcomes of the job evaluation. Overall, the job evaluation itself is a valuation of the jobs in order to determine the relative values amongst the different jobs. This process involves deciding on the relative size of jobs in accordance to its complexities and significance of assigned tasks in relation to its compensable factors with its degree of criterion or weightage.

The objective of the equitable and fair job price system is to balance internal equity and external competitiveness while coordinating the HR strategy with the business plan. Additionally, job evaluation aims to maximize flexibility within the context of company-wide strategic planning without compromising its significance. As it can manage "underpaid" and "overpaid" of pay in assuring the organizational sustainability, particularly during difficult economic situations like the Covid-19 pandemics or even during the regular economic condition, it minimizes and stabilizes the organizational financial resources. Additionally, job pricing includes a compensation structure that is well-received by management and employees, simple to explain, and well-aligned with the performance management procedure.

These reviews produce comprehensive and competitive pay guidelines in determining the values of jobs and thus developing a fair pay system for all kinds of jobs by considering the compensable factors.

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