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**Paying the Person:
A Better Approach to
Management?**

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Abstract

Reviews problems with job based management systems. Focuses particularly on the impact of job evaluation systems. Points out how person based management systems fit better with involvement approaches to management. Identifies the steps and issues involved in establishing a skill or knowledge based pay system.

PAYING THE PERSON: A BETTER APPROACH TO MANAGEMENT?

Job evaluation is a well-established, well-developed approach to determining the pay of individuals in bureaucratic organizations. It has served a number of organizations well over the decades that it has enjoyed popularity. There is little question that it is the most commonly used approach to setting pay in large American organizations. There is a real question, however, whether it is the best approach to determining pay in today's business environment.

The most important test that any management practice has to meet is the value added test. That is, it has to answer the question of whether its adoption adds to the effectiveness of the organization. Other papers in this issue discuss the advantages of job evaluation so they need not be reviewed here. One point does need to be made here, however, because it is central to my arguments. The advantages that are claimed for job evaluation tend to be present only when it fits the basic approach that an organization takes to organizing and managing employees. It fits a traditional bureaucratic approach to management which relies heavily on control through job descriptions and hierarchical levels of management. It is a product of the industrialization and the development of scientific management which occurred during the early 1900's in the United States.

Even when job evaluation is used in conjunction with a traditional top-down approach to management, it has a number of problems (Lawler, 1986). These have been extensively discussed elsewhere so they warrant only brief mention here (Lawler, 1990). Some criticisms focus primarily on the fact that job evaluation technology measures the size of the job in order to determine job worth. These criticisms include the fact that the concept of job worth can be hard to communicate, and that individuals find the value system which underlies job worth difficult to accept because they tend to think of themselves as having value not the work they do. This can lead to an internal culture in which individuals feel unappreciated and not valued as human beings.

The focus on job worth also may put in place the wrong incentives for learning and development, since it tends to reward the learning of only those skills which lead to higher level jobs. Horizontal learning is not rewarded nor is developing greater expertise in a specialty. Finally, it may simply price individuals incorrectly in the labor market if in fact their skills happen to be out of alignment with the job that they are doing at the moment. This can result in costly turnover since the most skilled will leave, and it can make it difficult to recruit skill individuals from the outside.

Job evaluation also leads to internal bureaucracies. These are necessary to develop job description, score the jobs and constantly update and keep current the job evaluation system in the organization. Further, once job descriptions are put into place there can be a tendency for individuals to try to add to their

responsibilities and duties so that their job will be larger and more important. Finally, job evaluation systems tend to lead to a focus on internal equity. Internal equity becomes a focus because individuals are told that their job is measured relative to others and a common metric (usually points) is used to evaluate the worth of all jobs in the organization. This allows individuals to compare the size of their job and its pay rate with the size and pay rate of other individuals in the organization.

Job Based Alternatives to Job Evaluation

Some of the disadvantages of job evaluation can be dealt with by simply taking whole jobs to the market and pricing them accordingly. Often, this alternative is much less expensive to manage because it requires less bureaucratic time and effort to develop and maintain. It also can more clearly focus the attention of individuals on the external labor market and how it pays particular jobs. Since no common score is developed, there is no focus created on how one job in the organization compares with others. Because of this individuals are less likely to focus on what other individuals in the organization are paid, and more likely to focus externally on what their kind of job gets paid in the external market.

Taking whole jobs to the market and pricing them by comparing them to other jobs is a lower form of technology than is represented by a sophisticated point factor job evaluation system. Most organizations move from whole job market pricing systems to point factor job evaluations as they become larger and more sophisticated. Usually this is seen as a sign of growth and maturity. It may well be a sign of growth and maturity, but there is a real question whether it is a value added move on the part of the organization. It may be one of many reasons why large bureaucratic organizations lose their sense of excitement and purpose and develop a focus on maintaining an internal bureaucracy.

In many respects an external orientation is healthy. As organizations find themselves in increasingly competitive business environments, the key issue is not internal equity, it is external equity and competitive benchmarking. Organizations often get in trouble because their pay is out of line with that of their competitors and because they lose touch with how effectively they are competing in the market place.

Although taking whole jobs to the market avoids some of the problems with the point factor job evaluation systems, it stays within the same paradigm. That is, it assumes that the best thing to measure in order to determine the pay of an individual is the market value of the job that the individual holds. In this sense it stays within the traditional bureaucratic paradigm of how work should be organized and conceptualized. It assumes that jobs are the best building block for an organization and that individual behavior and organizational effectiveness can best be managed through a focus on jobs as the fundamental building block of the organization and its human resource management systems (Ash, Levine and Strunk, 1983). The alternative paradigm is to focus on individuals and to build an organization's management system on them.

New Approaches to Organizing Work

It is hardly necessary to document all the changes which have occurred in the business environment during the last several decades. Without question, the business environment is more competitive, more global, more dynamic and, as a result, organizations need to be more flexible, more innovative and more cost effective. In the United States, many traditional types of manufacturing work are disappearing because of the labor costs that are involved. Increasingly, the work force is doing knowledge, service and white collar work.

The literature is full of debates about how to make organizations more productive, more flexible, more dynamic, more responsive to the external environment and more horizontal (See for example, Peters and Waterman, 1982, O'Toole, 1985, Grayson and O'Dell, 1988). Meanwhile organizations are operating with fewer levels of management, different types of supervisory relationships and, in many cases, they have tried to push power and responsibility to lower levels in the organization (Lawler, Ledford, Mohrman, 1989). These changes raise questions about the appropriateness of a job based approach to management. In a job based approach it is assumed that there are specifiable regular duties that an individual performs and that these can be captured in a job description. For this system to be valid there has to be a certain integrity and, indeed, stability to the tasks that individuals are asked to perform. To the degree that there is little stability in what they do, the whole idea of using jobs as a basic building block and control device in an organization can be challenged. Rather than thinking of individuals as having jobs, it may be more effective to think of them as having areas of responsibility, team memberships and assigned tasks.

In order to keep this discussion from deteriorating into a semantic argument about what is a job, I need to make a critical point. My intention here is not to argue that individuals will cease to have jobs in the popular sense of the word, that is an ongoing relationship between an organization which hires them and pays them to do work. In this popular sense of what a job is individuals will continue to have jobs. However, they may not have jobs in the bureaucratic sense of a set of responsibilities and duties that can be reasonably captured in a job description and evaluated for the purposes of pay.

The alternative paradigm to using jobs as the basic building block of an organization is to focus on individuals. The focus on individuals in many respects fits better with the argument that organization's basic assets are its human assets and the capabilities and competencies which those human assets have.

There is a certain inefficiency in focusing on individuals, however. One of the advantages of focusing on jobs is that it is possible to have many jobs which are identical. In a sense it is a wonderful mass production technology for organizing, managing, and, yes, paying for work. When the focus is on individuals, individuals differences need to be taken into account; people differ and require individual attention.

On the other hand, if individuals are the basic, value-adding component of the organization, they are the key to organizational effectiveness. Focusing on jobs rather than on individuals may sacrifice

effectiveness in order to obtain efficiency. Precisely because there are individual differences, any system which tries to deal with a large number of individuals in a similar way simply because they are doing similar work must be sub optimal from an effectiveness point of view. Most people, will end up being treated wrongly whether it is in the area of pay or skill development. This can have negative repercussions for an organization that depends heavily on its human resources. The dangers of focusing on jobs as the basic building block are particularly apparent when the issue is determining how much individuals will be paid. It is people that have market value not jobs. Jobs are simply a bureaucratic structure that can be used to estimate the market value of individuals. Jobs do not quit organizations and jobs are not hired by other organizations. Individuals leave because, given their skills, they can earn higher pay elsewhere. The key compensation issue from a human resources management perspective concerns what an individual is worth, not what a job is worth.

It is precisely because organizations pay individuals based on the jobs they hold, that individuals often try to obtain larger and larger jobs. This may result in their learning "correct" additional skills and developing in ways that is optimal for organizational effectiveness, however, it may not. An organization may need individuals to learn skills that are not rewarded by the job evaluation system because they are not skills that will lead to an individual being promoted to a more highly evaluated job.

In traditional hierarchical structures it makes a great deal of sense to motivate a large number of individuals to get to the top of the organization. These structures depend on the best and the brightest ending up in the senior management positions because they provide the overall direction and focus for the organization. Quite a different mentality needs to exist in a flatter, more team oriented approach to organizing. For their effectiveness, these approaches depend upon individuals being willing and able to develop horizontal skills and being able to exercise vertical and self-management skills even though they may not be in a hierarchical position in the organization (Lawler, 1986). In a traditional job evaluation system, this is not rewarded. Indeed, it may even lead to a lower job evaluation score. All too often this causes individuals to avoid learning horizontal skills even though learning them might be quite desirable from an organizational effectiveness point of view.

Overall, then the argument against job based pay does not rest primarily on its validity as a pay system. Rather, it rests on the view that more dynamic, less bureaucratic organizational models are needed and that these approaches require a focus on individuals and what they can do in order for the organization to be effective. In short, management systems which focus on individuals and what they can do call for pay systems that focus on individuals and what they can do while management systems which focus on jobs require job based pay systems.

Skill Based Pay

There are a number of approaches to paying individuals. In traditional bureaucracies some pay is usually based upon performance and seniority. These, of course, are characteristics of the individual, and to

the extent that they influence pay, the organization is paying for individual characteristics rather than for job characteristics. Skill-based pay is simply another type of pay system which focuses on the individual and the worth of that individual. It differs from job based pay in that the characteristics of the person are the starting point for the pay system - not a factor which is taken into account downstream to make small adjustments in the pay of an individual once job worth has been determined.

The idea of paying individuals for the skills and knowledge that they have is growing in popularity (O'Dell, 1987). It is growing in popularity precisely because more and more organizations are adopting flat, team-based approaches to organizing (Lawler, Mohrman and Ledford, 1989). In many respects skill based pay is not a new idea because research and development organizations have paid individuals for skills and knowledge for decades. For example, most technical ladders in organizations and most faculty pay structures in Universities are based on this concept. What is new is the idea of paying individuals throughout an organization based upon the skills and knowledge that they bring to the organization.

Skill-based pay is not a substitute for a carefully thought out approach to organizing and managing the work to be done. Indeed, it perhaps places greater demands in this area than does a traditional approach to work design. If an organization does not work out the skills it needs, and how many individuals it needs to have each skill, it can end up with a tremendously bloated payroll simply because it is substantially overskilled. The challenge from an organization design point of view is to figure out what the right mix of skills is in order for the organization to be optimally effective.

One way of looking at skill-based pay is that it uses the money which would be spent anyway to reward employees for promotions and greater seniority to motivate skill acquisition. Typically, when individuals get "larger jobs" or "get promoted" they automatically are given a pay increase. When skill-based pay is in place money is not automatically given out, it is saved until the individual actually demonstrates that the skill exists to do the work. Thus, as with a job-based pay system, money is spent, but it is spent only when it can be justified in terms of an individual performing in a more effective manner.

Organization Design Considerations

A focus on the individual is highly consistent with a management approach and the organizational situation in which it is individuals that are the primary value added component of the organization. Where they are a key asset of the organization it simply is logical to focus on them and what they are worth. It also makes sense to focus on them growing and developing so that they can add more value to the product or service. If because of the management style, there are few opportunities for them to add more value to the product or service then encouraging them to add skills and abilities, is not necessarily going to increase organizational effectiveness, it may only increase costs. Some kinds of products and services require repetitive, low value added, human labor. Where this is true, a focus on individual worth and skill may not be productive. Indeed, it may simply add cost to the organization rather than value to the product or service.

In many dynamic organizations individuals need to be constantly assigned and reassigned to particular projects and particular tasks. They also need to be able to do a considerable amount of horizontal integration and self-management in order for the organization to operate effectively without extensive overhead and management costs. Many consulting firms and professional firms need to operate in this manner. To be successful they need to have in their portfolio individuals with a wide range of skill sets. Some individuals need to have depth skills in certain areas, while others need to have multiple skills.

The management challenge at any point in time is to match the individuals with the projects that need to be performed at a particular point in time. Given the dynamic nature of projects, making this fit often requires that a number of individuals have multiple skills because it is impossible to predict exactly what mix of skills the organization will need at any point in time. At any point, individuals may not directly use all of their skills but nevertheless, having these skills is a critical asset for the organization. Not only does it make them flexible in terms of future projects, often they are better at managing and doing a particular project because they have skills that allow them to put the task they are performing into a larger perspective. This in turn, may increase their ability to self-manage when they are doing a particular project. In addition, individuals may not have all of their time assigned to any one particular project. They may be on several projects during a particular period of time, projects which either use the same skills or somewhat different skills.

In a very dynamic environment organizations often need to operate as a giant matrix of individuals in which skills are matched to a constantly changing mix of projects that utilize these skills. In this approach to organizing the job of management is one of managing the skill development of individuals and managing the assignment of individuals to particular project teams. Finally, it also needs to manage the performance of teams or individuals by setting goals, deadlines and performance levels.

The self-managing work teams that have grown up in many manufacturing plants are an example of where skill-based pay fits particularly well (Lawler, 1986). In these situations individuals need to learn a number of skills in order to create a self-managing work team that can operate without large amounts of supervision and external control. They differ somewhat from a typical project team in that their task is often a long-term task rather than one that has a pre-determined life expectancy. As such, the particular skills that they need are perhaps more predictable and the teams are more easily managed. They too, however, can end up as rather dynamic entities needing to dissolve because of a particular product ending its lifecycle or a particular customer no longer needing a service.

Establishing a System

Setting up a skill-based pay system is not an easy task. It can be as labor intensive and cumbersome as setting up a job based plan. Indeed, it may be even more cumbersome and require more administration because it lacks some of the efficiencies of a job based system. In essence, each individual has to be treated and recognized as an individual. Thus, some of the volume efficiencies, which are inherent in a job based

system that treats large numbers of individuals the same because they hold the same job, are lost. The trade-off here however is a potentially positive one if an organization ends up with a more flexible, highly skilled work force.

Skill-based pay systems need to start with a core principle or value. A typical one says that the organization will pay individuals for those skills that they are willing and able to perform as long as the organization needs those skills. It is up to the organization to determine what skills it needs and to determine whether an individual has a particular skill. The typical steps in specifying a skill-based pay system for an organization are as follows (See also Lawler, 1990);

1. The organization needs to identify the skills it needs in order to operate effectively. This is usually done by identifying the tasks that need to be performed in order for the organization to operate.
2. The organization needs to identify the optimal skill profiles for all individuals in the organization. It is at this point that the organization needs to specify not just what skills it needs, but how many individuals it needs with each skill. The answer to this question can only be developed once the organization has good sense of how it intends to operate. If for example it intends to operate with self-managing work teams that are constantly facing new and different challenges, it may need to place a great emphasis upon cross-training and flexibility. On the other hand, if it is operating in a relatively stable environment, but needs extremely high levels of expertise in certain functions, it may wish to emphasize skill profiles that are highly depth oriented, in order to encourage individuals to become more and more expert in a particular function.
3. Organizations need to determine a price for each skill and skill set. Pricing can be difficult in a skill-based pay system. The market certainly can be of aid here, but often it is an imprecise guide because job based systems are the dominant approach to setting pay rates and thus, it can be difficult to find what the market is willing to pay for the unique and unusual skill sets which individuals develop in skilled based systems.
4. An organization needs to develop access rules which specify what sequence and at what rate individuals can learn new skills. This is a critical component of any skill-based system because in a skill-based system the major way individuals gain additional pay is through learning additional skills, thus they naturally are quite concerned with what they need to do in order to acquire additional skills.

The answer to what rules an organization should establish rests in their approach to managing and organizing. If the organization wants a team environment where cross-training is particularly critical, then the organization may want to put a strong emphasis on individuals learning additional horizontal skills. Not only should individuals be told that they can learn additional skills in a very short period of time, it may make sense to require them to learn these skills in order for them to maintain their employment. If an organization wants to operate with a very flat structure then an emphasis on the vertical skilling of lower level employees is needed. If the organization simply wants to be sure it encourages some individuals to develop high levels of expertise then a technological ladder approach in which a few individuals are rewarded for being experts may be appropriate.

5. The organization needs to develop tests or ways of determining whether an individual has acquired a skill. In some cases, this can be the most difficult part of a skill-based system, but is particularly critical if the system is to be legally defensible. Typically, the best approach is a work sample test in which an individual performs the task that is relevant to the skill and is certified based upon how well they do the work sample.
6. The organization needs to develop policies and practices with respect to situations where individuals no longer will be paid for certain skills. This can occur because of changes in technology or product make it obsolete. It can also occur because individuals move from one work area to another; thereby, eliminating the need for them to have a particular kind of skill. Usually this is dealt with by a grace period during which individuals are paid for the old skills until they have a chance to learn new skills.

Overall, effectively paying individuals for the skills they have requires a considerable amount of thought and system development. If this "pre-work" is not done they system can end up as a "give away" in which employees are paid in a chaotic manner for virtually any skills that they may possess or worse yet they get increases simply because they have acquired more seniority and therefore, "must have learned something". In a well-developed skill-based pay system, on the other hand, pay can be targeted at rewarding individuals for developing the skills which the organization needs in order to operate effectively. When this is done, the result can be an approach to pay which fits well with the overall needs of an organization for employees to perform in a particular manner.

One last point needs to be made. Skill-based pay is an emerging technology. Many of the details of how to make it operate are not well developed at this point in time. Thus, the organization which undertakes it has to expect to encounter greater start up costs than those associated with job based pay.

Conclusion: Skilled Based Pay

Skill-based pay is best viewed as a management tool that potentially adds more value to an organization than job based pay. Skill-based pay systems specifically target skill development and encourage individuals to determine those skills which the organization has ascertained are critical to its operating effectively. As such, the potential exists for a competitive advantage over an organization which focuses on jobs and what they are worth. Job based systems inherently must price some individuals wrong and motivate individuals to learn the wrong skills. Skill-based pay is particularly likely to provide a competitive advantage in organizations that depend on individuals to add value to the product and where an organization wants to operate in a flexible, non-bureaucratic approach to management.

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