What Are You Paying For?

How To Ensure Return on Your Reward Investment

There has been an ongoing debate as to the best way to value work.

One thing is clear: Pay should be based on more than either matching market or using internally driven job evaluation. Rather, pay should be based on value—the total value delivered to the organization.

Valuing work properly enables organizations to not only price individual jobs effectively, but also provides insight into how jobs relate to overall organizational goals and objectives and how roles ultimately contribute to organizational success.

HayGroup®

WORKING PAPER

What Are You Paying For?

How To Ensure Return on Your Reward Investment

This paper was prepared by James R. Bowers and is based on a selection from *The Executive Handbook on Compensation: Linking Strategic Rewards to Business Performance* [New York: The Free Press, 2001].

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The Debate

All organizations value work, regardless of what they call the process relating to pay determination. There has been an ongoing debate, heightened in the past decade, regarding the best way to do it. The debate centers around the weight placed on internal and external factors, and whether work should be valued based on the "job," the "person," or a balance of the two (often referred to as the "role").

Return on reward investment is not about what others in the market pay; it's about the return you get on your investments in people and the results they achieve.

There is a second debate regarding how value is determined to support the pay decision. Should pay relate to results (i.e., *what* is expected to be done), to competencies (i.e., *how* the work is expected to be done), or some combination of the two? Finally, there is debate regarding the value criteria for determining base salary vs. variable pay. Ironically, these debates are often framed as either one approach or the other, as opposed to focusing on integrated and balanced approaches.

In this working paper, we will discuss the issues, review the pros and cons of the alternatives, and present an integrated model for valuing work that incorporates job content, market research, team and individual competence, performance measurement, performance management, and the pay for the resulting capability applied towards delivering value to the organization. The complete model includes consideration of all forms of remuneration (base salary, incentives, benefits, and perquisites) and the role that valuing work can play in helping management better establish clarity and accountability throughout their organizations. The integration of these factors is the process of valuing work.

It's All About Return on Investment

CEOs tell us that the fundamental question around reward involves the need to manage investments in people based on the value they create. Do you know whether you are getting an appropriate return on your reward investment? Using market research to drive what you pay—as opposed to providing you with a frame of reference—does not address the return issue. Return on reward investment is not about what others in the market pay; it's about the return you get on your investments in people and the results they achieve. The market is a point of reference, but should not be the mandate driving pay decisions.

Organizations do not make investment decisions without conducting a financial analysis first based on the important assumptions about the investment. So too should be the emphasis on measuring the value of a company's employees. In Hay's working paper *Hearts and Minds: Jack Morton's Acquisition of Caribiner,*[1] a member of Jack Morton's executive team had this to say about the deal:

> "The math piece is very important, but it's not that hard. The real art is evaluating the people. You'd have to be out of your mind to acquire a company without doing people due diligence. It would be malpractice."

Knowing the value of your workforce in general, and employees specifically, is significant as a course of business, not just in the midst of a merger or acquisition.

Knowing the value of your workforce in general, and employees specifically, is significant as a course of business, not just in the midst of a merger or acquisition. Job analysis and job evaluation are important steps in defining "what's in it for you," the employer. Only after this is defined can you decide how much you should be willing to pay. Market data provides the point of reference. It provides benchmark data. Your expectations for the job, coupled with incumbent performance, define the value.

Hay Group has always held the view that pay decisions should be based on expected return on your human capital investment with the market as a point of reference. The debate regarding whether to evaluate jobs or pay against the market is a false one. Virtually every company does both, and both are important. Some companies lead with job evaluation, some with market research, but the best decisions on competitive and appropriate pay opportunities balance internal value expected and received with the market price for the talent employed.

It's Not About Trends, Fads, and Conventional Wisdom

Until the past decade, organizations often classified themselves as either "job evaluators" or "market pricers." Ironically, most companies did both, regardless of the labels. There are a few organizations that do neither. Such organizations have a "let's make a deal" philosophy and are likely headed for trouble down the road.

[1] "Hearts and Minds: Jack Morton's Acquisition of Caribiner," Hay Group, November 2001, p. 5.

It is hard to pinpoint what sparked the quest for change in how to value work, but much of it began with management initiatives such as total quality management, reengineering, enterprise resource planning, change management, broadbanding, learning organization, six sigma, and the like. These initiatives are often explored, designed, and implemented to improve efficiency and effectiveness. The essence of many of these approaches was to change the way work is accomplished.

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Most research indicates that up to three-quarters of management change initiatives have not worked in delivering expected value relative to the investment.[2] This is not to say that the ideas are not good. Rather, it suggests implementation has been problematic. In recent research Hay conducted in conjunction with *Fortune's* World's Most Admired Companies,[3] it was found that the most admired organizations tend to develop and maintain a positive culture and, when change is necessary, they implement change better than the rest. Almost all organizations have sound strategies, but the ability to implement effectively is what differentiates the best from the rest.

In the preceding decades, most companies used job-based approaches to value work. This is because work was generally defined in terms of jobs. Further, jobs were usually structured in a hierarchical fashion, and usually around functions. Most smaller organizations used job-based market pricing, if using any formal approach at all. Larger organizations tended to use job evaluation plans. Developed in the early 1950s, the Hay Guide Chart®-Profile Method became the most commonly used job evaluation plan, a point factor/factor comparison plan that also linked job evaluation points to market rates. Job size, expressed in points, could be linked to compensation by industry, geography, function, or individual job. The power of the methodology was in its broad-based global usage. Organizations were provided with guidelines for how to value jobs with common characteristics. Pay could be analyzed in terms of base salary, annual incentives, long-term incentives, benefits, and perquisites.

[2] Bleakey, F.R. "The Best Laid Plans: Many Companies Try Management Fads Only to See Them Flop." *The Wall Street Journal,* July 6, 1993; p. A1.

[3] Chen, Christine Y. "The World's Most Admired Companies 2002." *Fortune,* March 4, 2002.

Work Valuing and Organizational Clarity

Organizational Clarity—a simple concept, yet so difficult to achieve. Organizational clarity is the first and most important step in developing organizational effectiveness. Organizational clarity relates to Mission, Vision, and Values; Strategy; Structure; and Process:

- **Mission, Vision, and Values.** These statements help define an organization's culture—the overarching qualities an organization strives to attain. These "fifty thousand-foot" statements should be more than hollow words placed on websites, in annual reports, and in frames next to elevators. They should be the guiding principles around the "what, who, and how" of an organization.
- **Strategy.** The determination of *what* is to be done, not necessarily how it is to be accomplished. Without a clear (and compelling) strategy, neither the tactics nor how work is "organized" can be determined effectively.
- **Structure.** We tend to think about structure in terms of how jobs relate to one another to form an organization. Structures must be clear in terms of reporting relationships and the interpretation of solid and dotted lines. Roles are created around jobs as a nucleus. Organizational structures and the incumbent roles developed around them are key determinants regarding the *who* in the organization's implementation strategy. Clear job accountabilities lead to results expectations for the job holders.
- **Process.** Processes relate to both management and work. Work processes define *how* the organization works. They define inter-accountabilities of jobs, which must be clear if organizations are to function efficiently and effectively. This is especially important in large, complex organizations. Processes for decision-making must be defined to avoid ambiguity, redundancy, and inefficiency.

All of the above impact job design and work value. Expectations are also balanced against individual capability and the market price of talent. But it all starts with clarity of goals, objectives, accountabilities, and the like. If the above are not clear, then commitment will be diffused and capability will be misdirected or squandered.

Work valuing methodologies, e.g., the Hay Method, define the important criteria around clarity of expectations. Hay work valuing methodology clarifies:

- Capability requirements in terms of technical, managerial, and people skills;
- Problem-solving requirements in terms of competencies relating to understanding the environment and meeting organizational challenges;
- Results-orientation and accountability in terms of freedom to act, scope, and impact; and
- Profile-nature of job in terms of its role in adding value to the organization.

Work valuing helps to decode organizational structure and work processes in the context of mission, vision, values, and strategy. If the organization does not have clarity, work cannot be valued. Correspondingly, if the organization has clarity, work valuing helps to further define and delineate accountability, which in turn positively impacts performance.

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While this approach for organizations leads with job evaluation, there is a strong complementary orientation around market pricing. In fact, even critics of the Hay Job Evaluation Methodology have recognized that a major advantage of market-calibrated job evaluation is its ability to facilitate making more accurate market comparisons to what other organizations are paying. Doing both enables the organization to recognize to what degree it is weighting internal value vs. external market influences on the price that is appropriate for a set of skills.

In the past, seniority or time in job may have lead to the difference in pay. Today it is more likely to be performance and overall value to the organization.

The Components of Value-Based Pay

Current trends show that internal equity or "fairness management," while differently defined than in the past, is still very important. Does an employee become more concerned that a similar position pays 10% more across town, or in the cubicle next door? Hay believes that the internal or fairness factor typically creates more concern within the organization than external factors. In the past, seniority or time in job may have lead to the difference in pay. Today it is more likely to be performance and overall value to the organization.

The constructs behind internal equity and fairness are, of course, defined by the organization. These constructs should not be based on old concepts such as seniority or size of one's budget or staff, but on value creation expectations for the work to be done. Value is a function of both *what* is achieved and *how* it is achieved. Doing more with less should be valued. Therefore, outcomes, and not inputs, should be highly valued. However, achieving success the right way creates the culture and environment for continued success, and is equally important.

Employees expect employers to provide fair pay, an expectation based more on internal value than on external market criteria. In fact, research from Hay and others indicates that employees often leave an organization because of internal equity and fairness-related issues, not external competitiveness. In many, if not a majority, of employee attitude surveys, internal fairness issues reign supreme—how employees believe they are treated, not just in terms of pay, but how their performance and contributions are perceived relative to their peers; how their careers are managed; and their working relationship with the manager. It is important to manage internal fairness within an organization—even in very competitive organizations and industries. Sound work valuing processes directly support an organization in managing these fairness issues.

Internal equity and fairness in reward systems are longstanding Hay premises that have never been abandoned. Our philosophy is to develop approaches that better marry reward systems with the predetermined value of work. We define work value as the combination of job content and individual capabilities, aligned with the organization's desired work culture and strategies.

Job Evaluation—A Key Component in the Work Value Equation

There are many job evaluation plans available, but the one most widely used and the only one calibrated to market pay values is the Hay Guide Chart®-Profile Method of Job Evaluation. The Hay methodology, like most job evaluation methodologies, uses factors that measure a job's content requirements for skill, effort, and responsibility. In the traditional Hay methodology, compensable factors are clustered as follows:[4]

1. **Know How**—the sum total of capabilities and competencies a job requires for a person to be effective;
2. **Problem Solving**—the requirement for and ability to use Know-How effectively to understand circumstances, analyze alternatives, and develop solutions that improve effectiveness; and
3. **Accountability**—the requirement for and ability to achieve desired results.

Work value is defined as the combination of job content and individual capabilities, aligned with the organization's desired work culture and strategies.

The above factors can and have been modified in specific client situations, but the pattern is usually around the three clusters, which relate to inputs, throughputs, and outputs of the position as defined (whether applied to a job, role, or individual focus). Working conditions are sometimes added and include subfactors such as physical environment, hazards, effort, and mental concentration.

There are a number of valid reasons for an organization to use job evaluation methodologies. The top ten commonly heard are:

[4] Bellak, Alvin O. "The Hay Guide Chart®-Profile Method of Job Evaluation," *Handbook of Wage and Salary Administration.* New York: McGraw-Hill, 1984.

1. Provides the ability to fairly and consistently reflect internal organization values;
2. Provides for better alignment with organization-based values;
3. Enables valuing unique positions where market data may not exist;
4. Achieves consistency across businesses and geographies;
5. Achieves acceptance through use of accepted compensable elements;
6. Provides better organization clarity and rationale regarding how roles are valued;
7. Provides understanding of the criteria that are important for personal development;
8. Facilitates cost management by ensuring increased cost is offset by increased value;
9. Provides a management tool for rational, objective decision-making; and
10. Ensures legal defensibility.

Job evaluation enables valuing unique positions where market data may not exist.

While there are critics of job evaluation, we find criticisms are usually based on lack of understanding. Criticisms are generally more about *how* organizations use job evaluation than the evaluation methodology itself. By analogy, "merit increases" have many critics, but almost no one argues against "pay for performance." Are these not really the same? Merit pay has a negative image because it has been ineffectively administered, not because it is based on flawed concepts. Used properly, merit pay is an effective way to manage individual value relative to job value. However, if the organization values seniority in the way it pays and does not effectively measure performance relative to expectations, then pay for performance becomes a slogan, not a reality.

Correspondingly, valuing work based on internal return considerations is also a good idea, but if a methodology designed to accomplish this objective is not used properly, or balanced with market practices to ensure appropriate competitiveness, it is likely to not work well in meeting organizational needs.

Market Pricing and its Place in the Work Value Equation

Support for market pricing often uses the following logic:

- Organizations have changed.

- Cultures have changed.
- Jobs are turning into "roles."
- Functions are turning into processes.
- Individual skills should be developed and rewarded.

Ironically, these changes increase the need for work valuing methodologies. If your organization is focused on its unique culture and strategy, then how can you rely on generic job-based market surveys to accurately reflect the value of the work your employees do?

If your organization is uniquely focused around its culture and strategy, then how can you rely on sterile and generic job-based market surveys to accurately reflect the value of the work your employees do?

If you have moved to roles, matrix management, process-based organization, or some other nonstandard model of how work gets done to best support your business strategy, then you probably struggle to find appropriate jobs through surveys to reflect the pay for the work you require individuals to perform. Related references can be found, but it is not likely that you will be able to definitively price the majority of your roles through job-based market surveys. Such surveys provide useful market research and should be used, but not blindly followed—unless your strategy is to be a follower, and not a leader.

The Role of Good Market Research

Market pricing is important, but it is only a part of the equation to value work. Jobs are not easy to price accurately. Different surveys portray different market rates for the same jobs. This is due to different participants, survey methodologies, and possibly even different analysts making the survey matches. A chain is only as strong as its weakest link. This chain begins with the process of accurately matching an organization's jobs to the survey job models. Many companies do not have current job descriptions and organization charts. In surveys, pressure is placed on the compensation analyst to make accurate matches without the information necessary to make sound decisions.

The task is made even more difficult without good job evaluation systems. As organizations change and jobs turn into roles, the jobs become more difficult to match. Those with expertise in job evaluation must understand how organizations work. This requires understanding of business strategy, organization structure, work processes, and functional expertise. Organizations with pure market pricing approaches find it difficult to accurately understand the organization, which makes market pricing extremely difficult.

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Even with good organizational understanding, most organizations claim they can only market price about half of their jobs using title match surveys with brief, generic job descriptions. Some can go as high as 75%, and some are limited to as low as 25%. As organizations strive to cut costs, surveys have fewer participants. This is because organizations no longer have the staff or budget to participate in multiple surveys (some rely on only one). If this is the case, consider the impact on other surveys in the market: they lose participation. However, using job evaluation approaches combined with statistics, all jobs can be accurately priced.

People: Expenses or Investments?

Organizations generally try to manage costs and ensure that they relate well to value. In many respects, compensation can be more appropriately viewed as an investment. In concept, people are (or should be) appreciating assets. From an accounting perspective, since organizations do not own their employees, they are not an asset, but an expense. While this is technically true, organizations that view employees as such rather than as assets are expressing totally different cultural views regarding their employees.

When dealing with pay decisions, organizations often, by design, price the resources they buy at or above the market average without ensuring they are getting what they pay for. Imagine a purchasing manager telling vendors, "Our philosophy is to pay the average of what other organizations are paying for the same products or services!" Even worse, imagine saying, "Our philosophy is to pay higher than the average" without specifying a level of product or service quality or performance that is commensurate with that price level.

This is, by analogy, what many organizations are doing when they say they want to pay at the median or the third quartile of the market. Maybe performance expectations are indeed higher, but how is this quantified without some form of job documentation and job evaluation for the work expected along with an assessment of the competencies required? What is the relevance of the median to the availability and quality of talent that is necessary for strategic success?

Conversely, how do the premium payers ensure they are getting the added value for added pay? A valid question is whether the premium pay is just a tactic to make recruitment and retention easier by simply throwing money at talent. Are high-paying organizations really getting a return on their increased investment?

Hay's research indicates that the higher-performing organizations generally pay salaries at or below market while lower-performing organizations pay salaries at or above market. Why is this? We speculate the reasons include the likelihood that in high-performing organizations people are promoted more readily and are in bigger jobs than their peers in lower-performing organizations. In addition, most employees want to work at higher-performing organizations, while few want to work for organizations that are not. Finally, top-performing organizations provide more value through short- and long-term incentives (because profitable growth enables them to), increasing the value of total remuneration relative to the lower-performing organizations that pay higher fixed costs in the form of base salary.

Job evaluation adds precision to market pricing through ensuring there is a correlation between market price and value to the organization.

Job evaluation adds precision to market pricing through ensuring there is a correlation between market price and value to the organization. Job evaluation enables you to decode your organizational structure and to incorporate all elements of job design to ensure you are making the most accurate job content matches to the market.

Market pricing when used without job evaluation has difficulty in dealing with matrix management or roles that are multi-functional in nature. Consider the following issues:

- When managing a matrix where two jobs are accountable for the same business (one regionally, one by line of business), are both jobs given full credit for their business accountability when making job matches?
- Do reporting relationships matter? Would a division head reporting to a group head be valued the same as one reporting directly to the CEO?

These questions can rarely be answered solely through title comparison-based market surveys. Yet, interestingly, organizations are looking for more sophisticated and precise pay data that they want to use with greater flexibility to make decisions. This leads to the issue of how to balance internal job value with external job value. Many organizations have turned to broadbanding to provide flexibility and balance.

Broadbanding is a concept that can work very well in addressing work value in flattened organizations, supporting culture change, and enabling career development. But it is not a panacea for simplifying pay decisions and usually requires more accurate market pricing aligned with organization value to establish proper pay rates. A critical point is that broadbanding works best where the pricing is based on the person in addition to the job. To do this requires an understanding of personal capabilities that correlates with job size and contribution expectations. This requires more than pure market pricing.

Broadbanding is not a panacea for simplifying pay decisions and usually requires more accurate market pricing aligned with organization value to establish proper pay rates.

Broadbanding without clarity regarding the criteria to move through and up bands creates the high potential for additional costs and frustrating ambiguity. Broadbanding requires more accurate job market pricing, not less; but market pricing is often made more difficult due to lack of organizational clarity. Work valuing methodologies are definitely not inconsistent with broadbanding. Work measurement becomes even more important in a broadband environment. In fact, it is critical to define work and clarify accountabilities so that market pricing can be done with greater accuracy.

Many job evaluation purists say that you must evaluate the job, not the person. This paradigm has definitely changed. With career ladders and job family modeling, the emphasis is on measuring the person relative to a pre-established job level or role requirement. Broadbanding takes this concept a step further and emphasizes the balance of building individual capability while meeting an organizational requirement. For this reason, broadbanding and work value methodologies are highly compatible—whether the value of work is job- or individually-based.

The Balance Between Job Evaluation and Market Pricing

There are organizations that lead with market pricing and ones that lead with job evaluation. Experience suggests that the best approaches are the ones that achieve a balance between the two, and not the ones that religiously cling to one at the expense of the other. Internal value is important in linking with an organization's culture and strategy as well as providing clarity regarding organization structure and accountability. Market is important to establish as an external reality check as well as a total pay value philosophy.

As shown in Figure 1, there are bound to be differences between job value determined through job evaluation vs. market pricing approaches. Which is more important? Organization culture has a strong bearing on the answer. Organizations that believe they achieve competitive advantage and success through their uniqueness may actually prefer internal over external. Increasingly, internal equity is being redefined. In the past, job evaluation determined equity in terms of position worth. Today, internal equity is a function of work families and performance contribution. The rules around internal equity are changing, but it is still a very important concept.

Pay should be based on value—the total value delivered to the organization.

Figure 1: Market Pricing and Work Measurement

Market Pricing		Work Comparison	
Strengths	Challenges		Strengths
Preserves competitiveness with other organizations	The market doesn't deal with the value of the work for *your* company.	Does not provide an accurate read on what competitors are paying	Expresses the organization's culture and values
Reflects economic issues, such as "supply and demand," faced by line management	Opportunistic surveys may not sample real competitive labor markets.	Internal comparisons may not reflect dynamics of the labor market.	Increases the accuracy and reliability of market pricing
Recognizes differences in pay levels and the mix of occupations	Direct title matches may not be for the same qualifications, activities, or results.	Broad role descriptions may be difficult to "match to external comparators."	Reflects the value of the role or assignment according to your organizational priorities
Tests the feasibility of compensation decisions that emphasize internal priorities	For volatile "hot occupations," lags in survey reporting may be misleading.	Internal evaluation does not provide objective "second opinion" on pay decisions.	Allocates compensation funds according to current contribution to the organization
	Systematic surveys may not be available or accessible.		Guides valuing of non-benchmark jobs or roles

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Valuing Work: An Integrated Model

Before determining the value of work, the essence of what we mean by "work" needs to be defined and clarified. Even in physics, work relates to an end result of applying energy and not the energy itself. Work is the term applied to productive activity and not to the activity itself. This is an important distinction. Michael Hammer describes work as being value-added, non-value added, and waste.[5] Shouldn't all work be value-added? Work that is valued should link with strategy and must have a purpose that either directly or indirectly adds value to the organization.

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The model proposed is based on value rather than cost, but there is obviously a relationship. Organizations should ensure that work has value that exceeds its cost. This is different from the premise that the value of work is its market rate. We have already established that the market rates are in a broad, imprecise range. The information organizations use to determine the market is more precise than what most individuals have access to, so market rates are not as significant a driving factor as one might think.

The value of work should be determined based on internal factors and priced relative to the market to determine the affordable rate. We make decisions based on price almost every day. We make these decisions when we buy groceries, decide on entertainment, and purchase household goods. We make major purchase decisions based on an often complex set of criteria. What you will pay for a product or service is a function of what you want, and the value you will derive from it. We do not decide to just pay a market average for a given product.

The Methodology for Valuing Work

Work value is not just a function of job content—it is also a function of individual capability and competence to achieve desired results. Therefore, both must be measured and integrated to produce a true internal value. The concept of Role is one that integrates Job (the content of what is expected to be done) with

5 Hammer, Michael. "Reengineering Work: Don't Automate, Obliterate." *Harvard Business Review,* 68(4), July 1990; pp. 104-112.

Person (the competency of the individual to get the job done). In simpler terms, the job relates to the "what" and the person relates to the "how" of role performance, and ultimately its value.

The methodology for valuing work should include both job content and competency factors. Job evaluation factors should be aligned with the organization's culture and strategy and should represent values that endure. Job evaluation should also be helpful as a diagnostic methodology for creating clarity—understanding organizational structure, work processes, accountabilities, and the value added by the job.

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Outdated constructs such as number of employees supervised or operating budgets managed should not typically be used (yet there are still evaluation plans in use that consider such factors directly and unabashedly). On the other hand, resource management and integration should be valued, both for the outcomes produced by the resources and the complexity of inputs required to achieve the added value.

Organizations pay base salaries for the capability to deliver on expectations. They typically pay incentives for actually delivering results.

The Importance of Culture

Culture is discussed but largely ignored in determining the value of work in most organizations. Culture is key to shaping people processes and values. Culture is to organization as personality is to individual. However, culture can be difficult to describe in clear and simple terms.

In *People, Performance, & Pay,*[6] Hay Group identified a culture model that reflects major forces in the marketplace. The Hay model is comprised of four cultural themes (see Figure 2):

1. **Functional.** Emphasis is on reliability delivery of products and services. All organizations have this focus, including structures that are functional and hierarchical in nature, regardless of how flat. This is often viewed as the culture of the past, but there are still strengths in this cultural orientation.

6 Flannery, Thomas; Hofrichter, David; and Platten, Paul. *People, Performance, and Pay.* New York: The Free Press, 1995; p.27.

2. **Process.** Emphasizes quality service to the customer. Emphasis on *how* as opposed to *what.* This culture is most often identified as the desired culture for the future. It emphasizes TQM-type values, including teamwork.

3. **Time-based.** Emphasis is on creating demand for specialized, value-added services and products. This cultural orientation values change, speed, and market dominance and is demanding and very results-oriented.

4. **Network.** Emphasis is on flexibility. Create value through alliances, networks, and value-added relationships of products and services. Many organizations have evidence of this culture, but it rarely dominates.

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Figure 2: Work Value and Culture

	Work Culture			
Work Value Focus	**Functional**	**Process**	**Time-Based**	**Network**
Measuring Work	Job	Role	Person	Deal
Competitiveness Basis	Market Driven	Benchmark Best Practice	Market Reference	Market Negotiated
Organization Focus	Hierarchy Vertical	Flat Horizontal	Fluid Project Team	Network Ad Hoc
Career Focus	Narrow Functional	Horizontal Competencies	Personalized Competencies	Personal Achievements
Work Value Ranges/Bands	Narrow Grades	Medium Bands	Broad Bands	Not Applicable

The nature of the cultural orientation drives the work value proposition. Job evaluation works best in functional cultures. Role evaluation works best in process-dominant cultures. Person evaluation works best in time-based and network cultures. While what is valued may differ, values measured are often similar. Weighting and descriptions of values may differ, but fundamental values are often remarkably similar. This is evident in statements of company values and beliefs. While values are often similar, the ways values are expressed differ.

In general, work measurement factors should include culturally aligned factors relating to the value of work inputs (knowledge, skills, competencies, and abilities required to accomplish the role objectives), throughputs (the behavioral and mental processes to apply know-how productively), and outputs (the value the position is expected to create).

Competency-based Work Measurement

Competencies are a component of work measurement. Hay Group defines competencies as individual characteristics or attributes that enable successful performance. The most powerful competencies are the ones that separate the average performer from the superior performers. These characteristics can be developed on a validated basis to ensure legality. The obvious competencies to consider in work measurement are content-based, but the most significant tend to be criteria- or construct-based that are related to individual motives and drives. The most powerful work measurement methodologies of the future will include them in role profiles that describe work and work behaviors.

The most powerful work measurement methodologies of the future will include competencies in role profiles that describe work and work behaviors.

Figure 3 shows how competencies can be related to job evaluation criteria.

Figure 3: Hay Job Evaluation and Competency Linkage

Know-How		Problem Solving		Accountability	
Job Evaluation	**Related Competency**	**Job Evaluation**	**Related Competency**	**Job Evaluation**	**Related Competency**
Technical Expertise	Technical Expertise Information Seeking Mentoring	Thinking Environment	Pattern Recognition Organization Awareness Dealing with Ambiguity	Freedom to Act	Initiative Bias for Action Tolerance for Ambiguity
Management Breadth	Team Leadership Directing Others Developing Others Organization Awareness	Thinking Challenge	Analytical Conceptual Creativity Innovativeness Strategic Thinking	Magnitude Impact	Organization Awareness Achievement Orientation Impact and Influence
Human Relations Skills	Interpersonal Sensitivity Persuasiveness Influence Custmr. Srv. Orientation Relationship Building Flexibility			Job Profile Line Staff Research	Person Profile Achievement Power Affiliation

Hay has substantial global experience in mapping culture, work measurement, and competencies to ensure there is synergy, resulting in a value-added process for the organization.

Measuring Performance

The value of work should also focus on performance measurement criteria. This may be limited to conventional financial quantification or can extend to the full set of Balanced Scorecard criteria. Establishing the value contribution of the role to the organization provides an economic justification for it. Not all positions contribute directly to profitability, but they may still be important to the strategy of the organization. Most organizations have strategies that include both profit and growth components. (Even not-for-profit organizations have objectives that sound remarkably like profit and growth.)

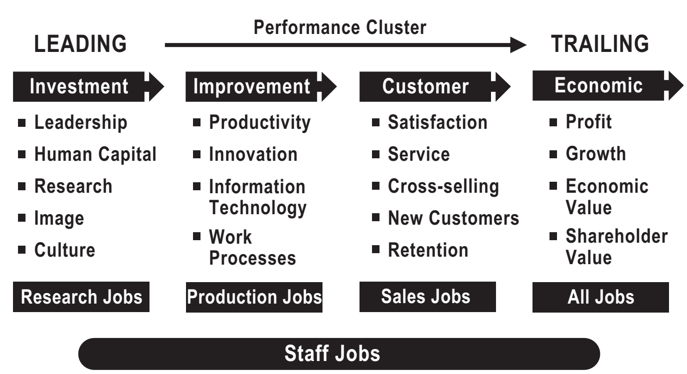
Hay methodology typically assesses the profile of a position. Profiles can be categorized into three groups:

- **Research Roles** provide ideas for products and services for future growth;
- **Line Roles** provide cost control and revenue generation focus; and
- **Staff Roles** provide expertise to facilitate organization profit and growth.

Establishing the value contribution of the role to the organization provides an economic justification for it.

Research positions are focused on innovation and speed to market. Line positions are accountable for managing production and sales functions. Staff positions include legal, human resources, accounting, and other support functions. While they do not directly generate profit and growth, failure to provide these services would negatively impact organizational performance. Successful performance of staff accountabilities will improve organizational effectiveness.

Figure 4: Pipeline of Value



The role profiles of positions can be mapped to the appropriate measures of role effectiveness, using balanced criteria. The value process is not dissimilar to a research pipeline, where the leading indicator of organizational effectiveness is the component dealing with investment. As related to people, this means investment in learning and growth of knowledge. Competent people create organization value through developing improved processes, products, and services (see Figure 4), which yield enhanced customer satisfaction, which in turn generates growth and profit.

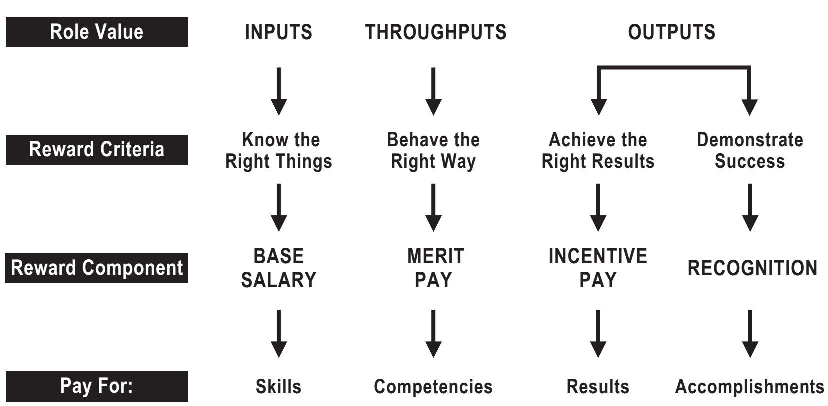
The last outcome of this value chain is economic value. The financial measures that track economic value are the ones most organizations use to assess their performance. Much research supports the premise that organizations that create maximum sustained value do so by managing the value chain described here. To ignore managing the value process is tantamount to simply saying that "value happens."

Rewards and Incentives

To this point, the method to value work includes work measurement (the *what* and the *how* of work processes), market measurement, and performance measurement related to role profiles. The final step is determining specific team or individual contributions. Pay-for-performance is a well-worn expression, but the rhetoric often speaks louder than the actions of most organizations. The performance appraisal is the ultimate form of work measurement in that it assesses what has been accomplished relative to objectives. There is considerable debate relating to whether organizations should pay for the *what,* the *how,* or both.

Competent people create organization value through developing improved processes, products, and services, which yield enhanced customer satisfaction, which in turn generates growth and profit.

Figure 5: Linking Work Value with Rewards



The approach that seems to make the most intuitive sense is to pay for skills and competencies through base salary. Results are better paid for through incentives, which should relate to role profiles (see Figure 5).

For example, research positions should best be paid long-term incentives because results of research work affect future revenues and growth. Research budgets actually have a negative impact on short-term profits. If value added by a position is significantly derived through "invest to grow" forms of work, then reward programs should be designed accordingly. Sales positions, conversely, are usually oriented toward new sales and maintenance of existing account relationships. Therefore, these measures should be rewarded. Short-term incentives focusing on revenue growth, account retention, and gross margin make more sense in determining the value of sales positions.

Performance management is the process that best-managed organizations use to integrate the other work value processes described to improving organizational performance.

Performance management is the process that best-managed organizations use to integrate the other work value processes described to improving organizational performance. Performance management consists of the complete process of selecting for success, clearly defining role value, establishing clear goals and objectives, developing appropriate performance measurement criteria, and effectively coaching and counseling for performance improvement. This involves the effective integration of performance management methodologies and processes.

Performance management cannot be divorced from pay determination if it is to have maximum value. Many organizations see performance management as a form with appropriate behavioral factors and space for specific objectives. It is much broader than that. It is a process, using sound methodologies, to define, measure, and manage performance improvement—on both a macro and micro basis. Performance management is the key to making the work value proposition actually work. Work measurement/job evaluation can provide a platform for defining incumbent specifications, competencies, and results expectations. Without it, a critical step is missing in the value equation.

Future Outlook

In our experience, many organizations have not been effective in optimizing the return on their reward investment. This is often because pay determination processes relating to the value of work are not aligned. What are the solutions?

1. **Combine Job Evaluation and Personal Competencies.** Jobs are evaluated without concern for real job contribution or market. Competencies are designed and used for development purposes, but are not connected to reward. In a number of organizations, management is not privy to competency feedback it pays for. It is important to realize synergies between job content and enabling competencies.

2. **Focus on Economic Value.** Jobs are often created to perform tasks instead of produce value. Economic assessment of adding new positions is seldom done with the same rigor as making an investment in equipment, yet the cost impact is often significantly greater. The cost of adding a new professional position to the organization may be in the millions, but the decision is often made based on a brief memo.

3. **Use Market as a Research Reference.** Organizations seem to focus more on maintaining market rates of pay rather than determining how to increase their return on investment in people. Compensation professionals should focus on the cost of human capital relative to organizational value added, and not the incremental cost that will be experienced in the market for static employees performing static jobs. Market pay data is research that should be helpful in making an informed decision. It is not a mandate that organizations should blindly follow.

4. **Pay for Performance (Really).** Current focus is on "merit budgets" and not on economic value delivered. If an individual really delivers, then pay should likely be above market. Organizations should focus on getting higher returns on reward investment, and not on market-driven incremental cost. Pay for performance includes total compensation relative to internal and external benchmarks. It is not just about the increase in pay.

Performance management is a process, using sound methodologies, to define, measure, and manage performance improvement—on both a macro and micro basis.

One idea for the future is for management to determine what percentage of the organization's cash flow will be devoted to human capital. To maximize return, this amount should either remain constant or decrease relative to total cash flow. Macro productivity measures are based on decreasing the cost of human capital relative to value-added.

Organizations tend to focus on the value of work too late in the process. When people do not add enough value, organizations have layoffs or reduce the workforce. These actions actually increase short-term costs, and produce only temporary savings. Usually, staff is reduced on some basis such as seniority instead of performance and value. Often the actions are driven more by legal considerations than by economic value. This is because organizations have not effectively determined the true value of work in a legally defensible way. Further, research has shown that organizations that lay off employees perform less well than those not resorting to layoffs.

Organizations seem to focus more on maintaining market rates of pay rather than determining how to increase their return on investment in people.

Should organizations explicitly value work or simply price it? To define central tendency of the market as a proxy for work value misses the point. So does using an outdated job evaluation methodology based on years of experience, number of people supervised, and the like. Such values do not serve the organization's interests, and worse, they are likely eroding value by creating added organizational costs without a return on the "investment."

People Due Diligence

Companies should get serious about the value of the work that is done. Do we really believe people are the organization's most important asset? That's what many CEOs have been quoted as saying in their annual reports. Interestingly, accounting standards treat employees as a cost, or worse, as a liability. People costs show up on the liability side of the balance sheet in terms of unfunded pension and retiree health liabilities. Employees are more likely valued in the investment marketplace. Public companies that trade at a multiple of book value are seen with market value that reflects the quality of its products, services, leadership, and workforce. Upon a sale or acquisition, this is called "goodwill." Most organizations have equal access to technology, capital markets, and people. The resource that is most likely to separate the best from the rest is the human resource. This being the case, it makes sense for organizations to actively manage this resource and the value created from it.

In summary, work value is a balanced process of time-tested methodologies and analytical tools. It is designed to produce more value, or return on reward investment. In essence, it values people before strategy, in that people create and implement strategy. The work value process is sequenced as follows:

1. **Strategy**—alignment of strategy with pipeline of value criteria to achieve growth and profit;
2. **Culture**—aligning culture and work value criteria to reinforce the current culture or support culture change;
3. **Work Structure—**determining the right structure to realize strategy within cultural considerations;
4. **Work Processes—**determining rules of engagement regarding teamwork and decision-making;
5. **Work Profiles—**documentation of job content, competencies, and performance expectations;
6. **Work Measurement**—measuring the internal value of work through a work measurement methodology;
7. **Performance Measurement**—developing performance measures that relate to strategy, process, and role;
8. **Market Measurement**—measuring market total remuneration;
9. **Pay Design—**designing competitive total remuneration to align with value created; and
10. **Performance Managemen**t—delivering pay-for-performance and value created.

Valuing work is more than pricing it in the market to find out what others pay. Work value places people in a more prominent position of contributing to strategy formulation and implementation, which demonstrates that people really are an organization's most important asset.

It makes sense for organizations to actively manage their human resources and the value created from it.

About Hay Group

Hay Group is a professional services firm that helps organizations worldwide get the most from their people by creating clarity, capability, and commitment. Founded in 1943 in Philadelphia, today we work from 71 offices in 35 countries.

Our areas of expertise include:

- Compensation, benefits, and performance management
- Executive remuneration and corporate governance
- Organizational effectiveness, role clarity, and work design
- Managerial and executive assessment, selection, and development
- Employee and customer attitudes and behavior

We pride ourselves on being an expertise-driven firm. All our work is supported by proven methodologies and global knowledge databases. And, we have 60 years of specific, documented evidence that people, not strategies, drive long-term competitive advantage.

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