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| **Chapter 6 - e-Compensation—The Potential to Transform Practice?****The Brave New World of eHR: Human Resources in the Digital Age**by  [Hal G. Gueutal](https://library-books24x7-com.ezproxy2.apus.edu/SearchResults.aspx?qdom=author&scol=%7ball%7d&qstr=Hal%20G.%20Gueutal) and [Dianna L. Stone (eds)](https://library-books24x7-com.ezproxy2.apus.edu/SearchResults.aspx?qdom=author&scol=%7ball%7d&qstr=Dianna%20L.%20Stone%20(eds))[Jossey-Bass](https://library-books24x7-com.ezproxy2.apus.edu/books.aspx?imprintid=172) © 2005 *Citation*Recommend?  |

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**Objective One: Internal Equity**

Researchers have shown that employees’ perceptions of fairness affect their work-related attitudes, such as job satisfaction and organizational commitment, and their behaviors, such as turnover and productivity (see Dulebohn, 1997; Rynes & Gerhart, 2001). Consequently, an important consideration to organizations is that the pay differentials between jobs should accurately reflect differences between positions in terms of their requirements, responsibilities, and complexities. An organization’s pay structure should logically convey that jobs with greater requirements and responsibilities are paid more.

Organizations achieve internal equity through performing job analyses and job evaluations. Job analysis is a systematic process of collecting information about jobs: identifying and describing what knowledge, skills, abilities, and other characteristics are required to do a job. Drawing on the output of job analyses, job evaluation is a formal procedure for hierarchically ordering a set of jobs or positions with respect to their value or worth, usually for the purpose of setting pay rates. The outcome of job evaluation is a rating of a job’s worth (*not* rating the incumbent), and ultimately provides a rationale for paying jobs differently inside the organization.

While there are several job evaluation methods, the most widely used approach in larger companies is the point method. This approach evaluates jobs based on a set of compensable factors that represent what the organization wants to pay for. A compensable factor is an element of skill, ability, responsibility, or competency that can be described at various levels. For each compensable factor, a scale is devised representing increasing levels of worth. Each level is assigned a given number of points. The range of possible points is constant across all jobs. Each job is rated on each factor separately and is assigned point values. After rating all jobs, the end result is a job structure or hierarchy, which ranks all the organization’s jobs based on their total point values (that is, summation of point values received for each compensable factor level).

**e-Compensation Tools for Establishing Internal Equity**

The job evaluation process is associated with bureaucracy, hierarchy, and over-attention to internal structure to the detriment of flexibility and market competitiveness. But while external competitiveness garners greater attention when labor markets are tight and competition for talent fierce, achieving internal equity can be critical to successfully managing mergers, acquisitions, and reorganizations. Keeping existing employees productive and maintaining morale is best achieved by managing internal equity and meshing disparate compensation systems in a systematic and equitable way. Consequently, despite declining popularity, job evaluation is essential to deriving and maintaining pay structures that promote fairness and reduce perceptions of inequity.

Thompson and Hull (2003), executives of Link HR Systems, believe that intranet/Internet-based technology will transform the job evaluation process and restore its earlier popularity. The range of products that use the Internet and web access to enhance either job analysis or job evaluation illustrate how e-compensation tools can transform designing and maintaining internal equity policies from a bureaucratic hassle to an effective automated competitive practice. The Internet and web access make best practices more accessible and available and can also streamline existing internal equity practices.

**Increasing Accessibility**

Internet technologies level the playing ground by making available expert information to a much broader audience. For example, HR managers can electronically access advanced job analysis techniques developed by well-regarded experts such as Personnel Systems and Technology Corporation’s (PSCT) web-based job analysis tools. Subscribers to PSCT do not need sophisticated hardware or to be HR specialists in job analysis or job evaluation ([www.pstc.com](http://www.pstc.com/%22%20%5Ct%20%22_top)). For example, subscribers can access PSCT’s flagship job analysis instrument, the Common Metric Questionnaire (CMQ), a web-based questionnaire designed and validated by I/O researchers to accurately describe both managerial and nonmanagerial occupations ([www.cmqonline.com](http://www.cmqonline.com/%22%20%5Ct%20%22_top)). PSCT also offers web hosting and reporting services to administer online tests and surveys, custom web-programming, and test design.

Knowledgepoint (Shair, 2001) ([www.knowledgepoint.com](http://www.knowledgepoint.com/%22%20%5Ct%20%22_top)), a subsidiary of CCH, offers another job analysis product accessed over the web. The advantage of Knowledgepoint is that it pro-\_vides low-cost access to an extensive job description library, along with search capabilities. Knowledgepoint’s web-accessed software and database illustrate how e-compensation makes sophisticated “knowledge management” databases available to even smaller companies, potentially reducing competitive advantages larger organizations have.

A caveat to these marketed online compensation tools, however, is that it is hard to determine the value of the information before you pay. For example, while William M. Mercer Inc.’s description of its eIPE job evaluation tool provides screen shots, descriptions, and demos to convey in more detail what you are purchasing in advance, it still costs money to acquire ([www.imercer.com](http://www.imercer.com/%22%20%5Ct%20%22_top)). Job evaluation tools and information are easily available on the web, but are not necessarily low cost.

Not all job evaluation tools on the web carry hefty price tags. With patient searching, if you have time, at the other end of the spectrum, organizations can find free web-based services such as HR-Guide’s job evaluation tool. This interactive web-based tool found at [www.hr-software.net/cgi/JobEvaluation.cgi](http://www.hr-software.net/cgi/JobEvaluation.cgi%22%20%5Ct%20%22_top) provides an online point-method job evaluation instrument. Using this tool, an HR specialist can specify the number and type of compensable factors; the number of levels within each factor; and the points associated with the factors. Completely free, customizable, and simple to use, this tool is a quintessential example of the value of sharing resources and knowledge on the web.

**Increasing Availability of Job Analysis and Job Evaluation Tools**

Web-based compensation software increases the accessibility of information, making it available 24/7 using corporate networks, servers, PCs, and handheld devices. Managers and employees have access to key information to make completing a job analysis or job evaluation project relatively easy. Furthermore, best practices in both these activities are built into the software. For example, JPS Management Consulting ([www.jpsmanagement.com](http://www.jpsmanagement.com/%22%20%5Ct%20%22_top)) provides web-enabled standardized questionnaires that collect information from a constituent manager or job incumbent. Because the system is web-enabled, HR specialists can electronically distribute them to target employees or managers via the corporate intranet. Intranet technology, therefore, enables the responsibility for job evaluation to be decentralized to the desktop of the hiring manager, if desired.

**Streamlining the Process**

With online JPS Management Consulting Questionnaires, once the manager completes the online survey, the data is automatically collected and summarized. A standardized job description is automatically generated, converted to job evaluation format, and given a job evaluation point score. Because production, distribution, collation, and analysis are all automated and electronically distributed, the HR specialist is freed from multiple time-consuming and transactional tasks to spend more time on careful design and on developing practices that leverage the job evaluation information.

**Challenges to Achieving Web-Enabled Internal Equity**

Web-enabled technologies can increase the amount of information available to decision makers and speed up the process of developing and distributing this information. There are several factors, however, that can hamper companies from fully realizing the potential of web-enabled internal equity tools. First, most of these tools are not generally integrated across software packages. While there are a growing number of software programs in the market that support the design and maintenance of internal equity policies and practices, relatively few are currently both integrated and web-enabled. A survey of compensation administration software conducted by Advanced Personnel Systems in 2003 reveals that, of the thirteen web-based products with software supporting internal equity practices, only three companies also integrated external equity, individual equity, or administration practices (Advanced Personnel Systems, 2003).

InfoTech Works Inc. provides one of the few integrated web-based compensation software solutions that automates and integrates internal equity and external equity software applications and can be used stand-alone, over an intranet, or over the web on an outsourced basis. The job evaluation module automates any point-factor plan, including Hay or modified Hay point plans. Its job evaluation software comes bundled with market pricing modules, a salary range/bands module, and salary budgeting and records management modules. The job evaluation data are then used to create grades or bands and to interface with the other modules.

A second challenge facing organizations in implementing these e-compensation tools is that these tools are only as good as the data they access. This means there must be organizational commitment to gather, manage, and maintain accurate and relevant data. Organizations often assume IT tools will save money through reduced headcount, but many find that database software still requires employees’ time to collect and manage more data. Third, proper training is required to ensure user acceptance and competent use of the technology. Companies frequently skimp on this aspect of software implementation to their detriment. Fourth, some users find data entry tends to be slower and less flexible using web applications than client-server-based software, particularly with nonlinear processes (that is, moving around to various screens without losing data). Faster servers and networks, however, are alleviating this early criticism.

Finally, while web-based software tools increase access to and distribution of information, the quality and efficiency with which decisions are made still remain ultimately with the manager. Thus, web-based technology makes information accessible and available and can streamline the whole process, but it is still ultimately a tool to be used by, not to replace, a HR specialist.