Job evaluation and market pricing

Understand the fundamentals of job evaluation and market pricing, as well as how to choose and implement the right scheme for your organisation

Introduction

Job evaluation and market pricing help HR teams gather data, internally and externally, on the roles in their organisation and equivalent jobs in other employers or sectors. Interpreting this data effectively is key in ensuring pay structures are both fair and competitive. Job evaluation and market pricing exercises need reviewing regularly to make sure they continue to meet changing business needs, jobs and work.

This factsheet introduces the fundamentals of job evaluation and market pricing. It provides guidance on choosing the right type of job evaluation scheme (analytical or non-analytical) and gives examples of the sorts of factors often assessed. It suggests issues for organisations to consider when implementing their chosen job evaluation scheme. It also outlines the different approaches to market pricing and offers information on the various sources of pay data.

What are job evaluation and market pricing?

Job evaluation and market pricing assess the role, not the person doing it, and should be based on a fair, transparent system that is effectively communicated and understood by employees.

Job evaluation

Acas defines job evaluation as ‘a method of determining on a systematic basis the relative importance of a number of different jobs’. It's useful because job titles can be misleading, either unclear or unspecific, and in large organisations it’s impossible for people professionals to know each job in detail.
Job evaluation is typically used when:

- Determining pay grades in pay structures.
- Ensuring a fair and equal pay system in an organisation.
- Comparing pay rates against the internal or external job market.

**Market pricing**

Market pricing is a way of collecting data on the pay rates for similar jobs in other organisations to establish their market rate and track movements in those rates. The aim is to set the employer’s own pay rates at an appropriate level to recruit and retain the staff it needs.

Although the concept of a market rate for a job is common, there’s no such thing as an accurate single rate of pay for a job or role, and rates may vary within the same occupation and in the same location.

It’s important for employers to consider how to interpret the data collected and where the organisation wants to position its salary and total remuneration levels in relation to the market.

**Internal and external approaches**

Job evaluation can be used as a way of matching jobs to enable market pricing to take place (although other approaches exist to compare jobs). However, there are tensions between job evaluation and market pricing approaches.

Job evaluation has an internal focus as it ranks jobs and their relative importance within an organisation, whereas market pricing has an external focus as it aims to compare organisation pay rates with those in the wider labour market.

Employers need to resolve such tensions if they wish to ensure that pay rates remain both internally equitable and externally competitive. For example, where a job commands higher earnings in the external market than justified by an internal job evaluation exercise, one approach is to use temporary market supplements to top up earnings for that role.

**Choosing and implementing job evaluation schemes**

Employers operate job evaluation schemes for a range of reasons, including the development of clear and orderly pay and grading structures and to help counter equal
pay claims, as well to assist with market pricing where required.

A single job evaluation may be implemented to cover the whole workforce or employers may operate different schemes for varying groups of employees. The former approach is often favoured as this is likely to help counter any potential equal pay issues.

Types of job evaluation

There are two main types of job evaluation: analytical schemes, where jobs are broken down into their core components, and non-analytical schemes, where jobs are viewed as a whole. The use of analytical schemes is more popular because of the capacity to help provide a defence against equal pay claims.

Analytical schemes

These offer greater objectivity in assessment as the jobs are broken down in detail. Examples of analytical schemes include ‘points rating’ and ‘factor comparison’ approaches.

- Points rating - the key elements of each job, which are known as ‘factors’, are identified by the organisation and then broken down into components which may also be weighted. Each factor is assessed separately, and points are allocated according to the level needed for the job. The more demanding the job, the higher the points value. Examples of factors commonly assessed include:
  - knowledge and skills
  - people management
  - communication and networking
  - decision-making
  - working environment
  - impact and influence
  - financial responsibility.

Our Reward management survey shows some of the more common factors used by employers to help them determine which jobs go within their pay grades.

- Factor comparison is also based on an assessment of factors, though no points are allocated. This method is used less commonly than ‘points rating’ systems as the latter approach enables many jobs to be ranked at a time.

Non-analytical schemes

These are less objective than analytical schemes, but are often simpler, cheaper and
Methods include job ranking, paired comparisons and job classification.

- **Job ranking** puts jobs in an organisation in order of their importance, or the level of difficulty involved in performing them or their value to the organisation.

- **Paired comparisons** compares each job in turn with another in an organisation. This takes longer than job ranking as each job is considered separately.

- **Job classification** also known as **job grading**. Before classification, an agreed number of grades are determined, usually between four and eight, based on tasks performed, skills, competencies, experience, initiative and responsibility. Clear distinctions are made between grades. The jobs in the organisation are then allocated to the pre-determined grades.

**Developing job evaluation schemes**

Whether adopting an analytical or a non-analytical approach, organisations have three main options over scheme design and development:

- A scheme may be developed in-house.
- A consultancy’s off-the-shelf package may be purchased.
- A consultancy may tailor its package to suit the organisation’s needs.

The system selected will depend on the size of the organisation and the aim of the job evaluation exercise. The Korn Ferry Hay Group Guide Chart–Profile method a widely-used scheme, but the following large consultancies also offer off-the-shelf or tailor-made schemes:

- Aon Hewitt
- Mercer
- PricewaterhouseCoopers
- SHL
- Willis Towers Watson.

Many smaller independent consultancies also offer job evaluation services.

Schemes which operate in the UK public sector, often developed by consultancies, include:

- **JEGS** (Civil Service Job Evaluation and Grading Scheme)
- **GLPC** (Greater London Provincial Council)
- **HERA** (Higher Education Role Analysis)
- National Joint Council (NJC) for Local Government Services
- Agenda for Change job evaluation scheme (NHS).
Other factors to consider

Job evaluation can be a complex and time-consuming task and many organisations draw on the expertise of external organisations to help. The key issues to consider include:

- The process is often as important as the results.
- Because jobs and work change, job evaluation is an ongoing process.
- An appeals procedure should be established before the evaluation begins.
- Clear, detailed and up-to-date job descriptions must be available or created.
- The more complex the scheme, the more detailed the job description needed.
- Accurate records of decisions must be kept.
- The results must be checked to see if there are any pay anomalies.
- Effective communications are essential, as employees may have concerns over their future job grading and pay.
- Individuals making decisions on job roles must be impartial and trained to use the chosen system.

Approaches to market pricing

Market pricing exercises involve the use of some form of job matching to enable pay rates in the organisation to be compared with equivalent jobs in other employers, with a view to setting appropriate rates to attract and keep staff. A range of options for comparing jobs exists from basic analysis using job titles or job descriptions through to the use of job evaluation schemes.

Employers must also decide what type of reward they wish to compare, for example, basic salary, total earnings (including bonuses, location allowances, and so on) or the wider package (including such elements as pension provision, private medical insurance, and so on).

Gathering pay data

Giving jobs a ‘price’ is a separate exercise to the job matching process, requiring the gathering of appropriate pay and benefits data.

Sources of pay data can also vary from specifically collected survey information to more general commercial data. Data sources are not mutually exclusive. For example:

- National survey data might help set and maintain pay structures and rates for management grades.
- Locally collected data might be useful to set rates for secretarial, clerical and process staff.
• Occupation-specific data can help inform pay decisions for groups such as marketing staff or accountants.

Market pricing exercises may assume that comparable pay data exists that is easily obtainable and accurate. This is not always the case. For instance, some jobs may be so specialised that few, or even no, external comparators exist, and assumptions have to be made about ‘comparable’ job content, which may compromise data accuracy.

**Choosing a pay policy**

Because employees have varying skills, attributes and abilities, and employers themselves vary in terms of their cultures, performance and ability to pay, there is often a range of pay rates in the market, even for the same jobs. Therefore, people professional must help their organisations decide where it wants to position itself in the labour market to achieve its business and staffing objectives.

For example, pay policies might be positioned to pay at the median level for the sector, occupation or locality. Others might use market data to feed into reference points in pay ranges, with rates for individual employees set according to factors such as performance - see our [performance-related pay factsheet](#) for more.

**Organisational practice**

There's very little published information on organisations’ market pricing practices. In general, private sector companies tend to benchmark against their own industries, and against companies of similar size (internationally as necessary). They also often ‘age’ pay databases up to a common date by applying a multiplier based on annualised salary movements, although such approaches are not invariably accurate. Some companies match generic jobs to a management consultancy database.

**Sources of pay data**

For the purposes of job pricing, there are four main sources of pay data:

• **Published data** from pay surveys and similar organisations can give some indication of going rates. The degree to which this data is useful is limited because of problems in comparing like with like, but they can help with periodic reality checks on levels and movements, and are particularly valuable sources of data on specific occupations or localities.

• **Pay clubs** of employer groups that regularly exchange information on pay levels. These generally only allow participants access to the data.
Special surveys funded by individual organisations from specialist pay consultancies but access is usually limited to the contractor and participants.

Consultants’ pay databases containing data collected on a systematic or ad hoc basis which they relate to the results of their job evaluation schemes to compare pay rates across organisations on a common basis: this ability is one of the attractions of job evaluation for many organisations. To be viable it is important that the factors measure common job/role characteristics and can enable comparisons to be made across different jobs/roles and organisations; the data is based on an adequate sample; and the job analyses are carried out systematically and conscientiously.

The main providers of publicly-available UK pay settlement data are:

- CIPD’s Labour Market Outlook pay predictions.
- Croner Salary Surveys – sector, function and regional surveys.
- Incomes Data Research - pay review data.
- Labour Research Department (LRD) pay surveys – collective pay agreements.
- XpertHR – private and public sector pay reviews.
- MakeUK (formerly EEF – the manufacturers’ organisation) – manufacturing pay settlements.

A wide range of official UK data on pay rates (including detailed breakdowns by factors such as occupation and region) and earnings trends – for example, the Annual Survey of Hours and Earnings (ASHE) – is also available from UK National Statistics.

Further reading

Books and reports

The Business Resource Centre at our offices in Wimbledon has copies of salary surveys and pay data reports from a range of sources available to our members for reference.


Visit the CIPD and Kogan Page Bookshop to see all our priced publications currently in print.
Journal articles


CIPD members can use our online journals to find articles from over 300 journal titles relevant to HR.

Members and *People Management* subscribers can see articles on the *People Management* website.

This factsheet was last updated by Charles Cotton.