CHAPTER-4

COMPENSATION MANAGEMENT
(An Indispensable Aspect of Human Resource Management Leading to Industrial Harmony)
(A) **Introduction:**

Any amount of planning and motivating would be unfruitful, if the people are not properly compensated for their efforts. This may, perhaps, be the reason why compensation (wages; allowances and bonus) has been the cause of between 40-62 percent of industrial dispute in India from 1961 till to day. Demand of state of employees for parity in wages with central Govt. employees, is one of the example of barrier in Industrial Harmony, (Parity within the state and with Central Govt.).

Even after the independence of India, no national wage policy, which is applicable to all states, is enforced with computation. The National wage policy declared by Central Govt is applicable with reference to 'capacity to pay' by states. It has empowered the state government to discriminate the wages according to its own available resources and consequently giving birth to employees grievances.

No wonder, a good compensation is an indispensable aspect of human resource management leading to industrial harmony.

Wage fixation in Public sectors are not commensurate with Private sector or Vice- Versa. Some of the Public Sector
Organisations are yielding higher wages to its employees. Where others are on the verge of closure and providing only minimum wages to its employees. Multi National Corporations/ Companies have much higher wages than National Industries.

**Compensation:**

Compensation is the recompense, reward, wage or salary given by an organization to a person; persons or group of persons in return to a work done, service rendered or a contribution made towards the accomplishment of goals. Compensation can be given in monetary or non-monetary terms or as a special rewards for a specific type of accomplishment, achievement on contribution. Wage; D.A. Bonus and other allowances are example of monetary compensation, while good accommodation, children's education, transport facilities, subsidised ration of essential commodities etc; come under non monetary compensation. In short, wages paid to blue collar workers or salaries paid to white collar employees can be classified as compensation. It is a responsibility of priority for a human resource manager to formulate policies and strategies to establish as remuneration system acceptable equitable and adequate for every employee to satisfy his or her needs. A good compensation package or a well accepted take home remuneration package is a good motivator

A company which does not pay remuneration adequate enough to meet the needs of its people can not claim for good harmony within the industry.
(B) Three Parts of compensation:

1. Base compensation for the job.
2. Incentive compensation.

1. Base Compensation:

Base compensation is the basic pay fixed to various categories of jobs, posts or positions. Scales of pay are fixed for different posts in every on the job; job content, job importance, job skills etc. Most often base compensation is paid in monetary terms and the base compensation is considered as monetary compensation. In the process of fixing base compensation some important factors are generally taken into consideration.

1. Job-content.
2. Bargaining power of the Trade Union.
3. Demand supply interplay of the specific category of jobs or positions.
5. Firm’s ability to pay.
6. Productivity, profitability and the firm’s financial positions.
7. Standard of living or cost of living.
8. Legal provision.

**Equity Principle in compensation Plan:**

Equity focuses on justice, every employee must get justice from his employer. The compensation that an employer gives to his employees must be in accordance with what every employee deserves. Obviously, equity does not mean equality, though all those who do the same work with the same efficiency deserve the same compensation.

**Equity are affected by two factors:**

A. The ratio of compensation to one's input of effort, education, training, endurance or adverse working conditions etc.

B. The comparison of this ratio with the perceived ratios of significant other people with whom direct contact is made.

Equity usually exists when a person perceives that the ratio of outcomes to inputs is in equilibrium, both internally with respect to self and in relation to others.

2. **Incentive Compensation:**

A good incentive system motivates people to put in their best efforts to perform well.
(C) Steps in Incentive Plan:

ORGANISATIONAL GOALS OBJECTIVES

HIGHER PERFORMANCE STANDARDS FOR INDIVIDUAL / GROUP

HRD PROGRAMME

FINANCE ALLOCATION

TRADE UNION

SPECIFIC INCENTIVE SCHEME

SPECIFIC COMMITTEE

HIGHEST INCENTIVE TAKER MUST BE PUBLICLY HONOURED

CONSIDERING FOR FURTHER PROMOTION

FOLLOWUP

Figure
(D) Incentive Plans/Methods of wage Payment:

The various plans are designated as incentive to workers to produce more and are paid bonus or premium for additional work. This additional payment may be called incentive plan/wages or bonus. Such incentive wage payment systems or plans, which provide for additional payment for the better performance of workers over and above the standard performance, may be called incentive wage payment system or plans. Almost all such incentive plans provide for minimum guaranteed or hourly basis.

**Essential features of incentive plans:**

1. Acceptability (Management, workers & Trade Union)
2. Simplicity.
3. Scientifically set standards- work device, time & motion study etc.
4. Direct effort reward relationship.
5. Stability
7. Minimum guaranteed wages.
8. Conducive to workers health and welfare.
10. Follow up.

Reasons of opposing incentive Plan:

1. Opposition from indirect labour.
2. Arbitrary standards.
3. Inefficient workers.
4. Barriers in speeding work.

Types of Incentive Plans;

There are two types of incentive plans.

1. Personal incentive Plans.
2. Group incentive Plans.

1. **Personal Incentive Plans:**

This may be either time based or production based.

In time based plans workers are rewarded for better performance on the basis of time saved in completing a minimum standard of work in standard time (Halsey & Rowan Plans).

Under production based plans a worker is allotted a standard work to be completed in standard time and bonus is paid only if he completes the standard work within given time otherwise no bonus is paid to him. (Taylor’s and Gnatts plan)
2. **Group Incentive Plans:**

The whole group of workers are included. Each member of the work group is rewarded on the basis of performance of the group either equally or in specified proportions.

**Personal/Individual Incentive Plans:**

1. **A. Halsey Premium Plan:**

Under this system/plan the workers is paid a percentage of the time saved over the standard rate per piece. A standard time is fixed for each job or operation. If a worker completes the job with in standard time or more than standard time he is paid standard rate.

But if the job is completed in less than the standard time fixed for the job he is given, wages for the actual hours taken plus bonus equal to (normally) one half the wage of time saved. However, in practice the bonus rate, various from 33.3% share of the employer.

\[
\text{EARNING} = \text{TIME TAKEN} \times \text{RATE} + \% \text{ OF STANDARD TIME}
\]

\[
= (TXR + 50\% \times (ST) \times R) \times \text{Time taken} \times \text{rate eg.}
\]

<table>
<thead>
<tr>
<th>Time allowed for the job</th>
<th>= 12 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken</td>
<td>= 9 hours</td>
</tr>
<tr>
<td>Rate per hour</td>
<td>= Rs. 12/-</td>
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</tbody>
</table>

**Solution:**

<table>
<thead>
<tr>
<th>Standard time or (S)</th>
<th>= 12 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time Taken (T)</td>
<td>= 9 hours</td>
</tr>
</tbody>
</table>
Rate (R) = Rs. 2/- per hour.

Total Earning = TXR + 50% (S-T) \times R
= 18 \times \frac{1}{2} \times 6
= 18 + 3
= Rs. 21/-

Effective Rate of Earning pH.

= \frac{\text{Total Earning}}{\text{Time Taken}}
= \frac{21}{9} = 2.33 = 2.33 \text{ P.H.}

(If percentage of bonus to be given to workers is unknown it should be taken as 50%).

1.A.I. Halsey Weir Premium Plan:

Under this plan; other thing being the same as Halsey plan; the rate of premium usually applied is 33 1/3: 66 2/3 sharing plan basis.

Solution:

TXR + 33 \frac{1}{3} \% \cdot (S-T) \times R
= 9 \times 2 + 33 \frac{1}{3} \% \cdot (3) \times 2
= 18 + 2 = \text{Rs. 20}
2. **Rowan System:**

This system is similar to Halsey plan. The only difference the two systems is in calculating the premium. In this system the worker is guaranteed at ordinary rate of wages and bonus is paid in respect to time saved. The bonus hours are calculated as the proportion of the time saved fears to the standard time allowed.

Example:

Formula \( = \frac{S-T}{S} \times T \times R \) and the total

Earnings \( = T \times r + s - \frac{T}{S} \times T \times R \)

\( T \) = Time Taken (Actual Time)

\( S \) = Standard time (Time allowed)

\( R \) = Rate per hour,

Time allowed = 10 hours

Time Taken = 8 hours.

Rate (hourly) = Rs. 50

Bonus \( = \frac{S-T}{S} \times T \times R \)

\( = 10 - \frac{8}{10} \times 8 \times 5 \text{ or } 2/10 \times 4 \)

\( = 8/10 = \text{Rs. 8 or 80 paise} \)

Earning \( = T \times R = 8 \times 0.50 = \text{Rs 4.00} \)

63
Total Earning = Rs. 4.0 + Rs. 0.80 = 4.80/ +

Rate per hour (Premium rate) = 4.80/8 = Rs. 0.60/= per hour

For 10 hours = Rs. 6/= (If workers works for tow hours after completion of Join in 8 hours.)

**Taylor's differential piece rate system:**

This system was originated by F W Taylor, the father of scientific management. It is based on the assumption that the degree of efficiency varies from worker to worker and hence the workers must be paid according to their degree of efficiency.

Under this system there is no guarantee of minimum wages, standard of time and standard of work is determined on the basis of time study. A dual system of piece work rate is used one lower rate applicable to poorer or newer worker whose production is below standard and another higher rate is applicable for more efficient and experienced workers whose production is above the standard.

**Merits:**

1. Penalise inefficient worker and rewards efficient worker.

2. System is scientific and based on proper work study and standardization of jobs.

3. Easy to understand and simple to operation.
Demerits:

1. Against the labour unity and solidarity.
2. No guarantee for minimum wage.

Application:

The efficiency of a worker may be determined as a percentage either-

1. Of the time allowed for a job to the actual time taken or.
2. Of actual output to the standard output, within a specified time.

Example:

A- Standard time allowed for a job - 9 hours.
   Actual Time taken for the job - 12 hours.

B- Standard output - 5 units per hour.
   Actual output - 6 units per hour.

Efficiency:

(i) $\frac{9}{12} \times 100 = 75\%$

(ii) $\frac{6}{5} \times 100 = 120\%$

From the following particulars calculate earning of worker
Standard time per piece 10 minutes
Normal rate per hour Rs. 0.60/=

In a 8 hour day
A. Produced - 45 units
B. Produced - 55 units

Solution:
Standard Production per hour = $\frac{60}{10} = 6$ units
Standard Production Per day = $8 \times 6 = 48$ units
Piece Rate = $\frac{60}{6} = Rs. 10.00$

Efficiency:
A = $\frac{45}{48} \times 100 = 93.75\%$ (Less than 100%)
B = $\frac{55}{48} \times 100 = 114.58\%$ (more than 100%)

Payment (Earnings):
A = Low piece rate 80\% of Rs. 10 = Rs. 8.00
B = High piece rate 120\% of Rs. 10 = Rs. 12.00
A's Earnings = $45 \times 0.08 = Rs. 3.60$
B's Earnings = $55 \times 0.10 = Rs. 5.50$

Gantt's Task System:
In order to moderate the tailors plan, Mr. H.L. Gantt evolved a
new system of wage payment. Under this system, wages on time basis are guaranteed. A standard of performance is also ascertained if a worker fails in completing the standard work in standard time, he is paid only minimum wages and no bonus but if he attains the standard; he will get minimum wages plus a fixed percentage of bonus decided before hand at the fixed percentage of the time taken.

The rate of bonus usually is 20% to 50% of the time allowed and not the time saved. If a worker completes the job in lesser time, he is paid a higher piece rate for the whole production.

**Merits:**

1. Easy and simple.

2. Stronger incentive to efficient worker but also guarantees minimum wages to inefficient worker.

**Demerits:**

1. Like Taylor's system, creates disunity, weakens trade unions.

2. If the minimum wage is too high worker will not bother for improving performance.

**Example:**

Total Wages for the week

A = 32 units of time rate of Rs. 5 per hour
= 40 hours or Rs. 2.00 (per unit cost Rs. 6.25)
B = 37 units of time rate or Rs. 5 per hour.
= 40 hours or Rs. 200 (5.41 per unit)
C = 42 units × Rs. 5 plus 20% bonus of total
= output with higher piece rate.
= 210 + 42 or 42 X 6 - Rs. 252.00

3. Supplementary Compensation:

Supplementary compensation is an additional Compensation package given to the employee annually, so that the employee would be motivated to renew his commitment to work. Additional annual wage, employee profit sharing (present day bonus), production sharing plans, employees equity participation as an additional bonus etc.

In India 8.33 percent of the annual wages are paid as statutory annual bonus. But the companies who have plan to pay more can do as per their plan. An annual gift scheme in cash or kind, an annual get together, or some other valuable device can be chosen to motivate the employees.

(E) Wage Administration:

In recent times, wage administration has become an important concern of every actuating manager because wage matters have become important issues for industrial conflicts, disputes and struggles.

Good payment get better employees who stick for longer time.
On the other hand turnover of exactions and people would be greater when their remuneration is understood to be less than what is prevalent in the industry, identical firms and in the same locality.

A good wage system must be-

1. The system of wage should be fair to all.

2. A minimum wage should be assured to all workers.

3. The system should be acceptable and adoptable by workers.

4. It should have features of simplicity, certainty and flexibility.

5. It should provide adequate incentives to workers.

6. It should have conformity with various labour laws and regulations.

7. It should be fair and practically applicable.

There are various types of wages. In practice piece rate, time rate, living wage, fair wage minimum wage etc. are prominent among the various approaches to wage payment.

A. Piece Rate:

Fixed wage paid for completing a given amount of work can be called piece rate. The time under this system/method in not of essence. It is assumed that the worker will not take more than the
average time to complete a job. The earning of worker depends upon the speed of his work and his own individual. Skill and efficiency, wages differ from worker to worker depending upon quantum of output.

**Example:**

\[
\text{Wages/ earning} \rightarrow \\
= \text{No. of units produced} \times \text{Rate per unit / piece}.
\]

**B. Time Rate:**

The definite wages for a given period of time like one hour, two hours, weekly or monthly can be called time wages. The minimum wage rate, the need based minimum wages, fair wage, living wage etc. Fixed by Govt or the wage board or through the collective bargaining mechanism, are on time based principles.

**Example:**

\[
\text{Wage} = \text{Hours worked} \times \text{Rate per hours} \\
or = \text{Days worked} \times \text{Rate per day}.
\]

**C. Fair Wage:**

Fair wage is fixed between the minimum wage and living wage. The committee on Fair wage, in their report as early as 1949 concluded, "while the lower limit of the fair wage must obviously be the minimum wage, the upper limit is equally set by what may
broadly be called the capacity of industry to pay." According to the committee, fair wage may depend on the following factors:

(i) The productivity of Labour.

(ii) The prevailing rates of wages in the same or similar occupations in the neighboring location.

(iii) The level of national income and its distribution.

(iv) The place of the industry in the economy of the country.

D (a) **Need based minimum wage - (NBMW):**

The 15th session of the Indian Labour Conference held in 1957 at Nainital decided to accept "NEED" as the criterion for the determination of minimum wage for industrial workers. The resolution adopted at the conference (ILO Tripatite-management, workers and Govt.) has included five main principles for determination of the need-based minimum wage.

(i) Supported by a single worker the standard working class family should consist of three adults.

(ii) Minimum food requirements should be calculated on the basis of a daily intake of 2700 calories per adult (recommended by Dr. Aykroyd).

(iii) Clothing requirements should be estimated at a per capita consumption of 18 yards per annum.
(iv) Housing needs should be calculated on the basis of house rents charged by the Govt. for houses that it provides to its employees under the subsidised industrial housing scheme for low income group.

(v) Expenses on light, fuel and miscellaneous items etc. should approximate 20 per unit of the total minimum wage.(The recommendations could not find favour in first and second pay commission. However, it was considered in the third pay commission to some extent.)

(b) **Minimum Wage:**

As the name suggests minimum wage, represents the level of wages below which wages are not allowed to drop. It implies the minimum payment of wages to a worker, which is just sufficient to cover the base physical needs of the workers and his family and also to maintain his efficiency. Thus, minimum wages should ensure a reasonable minimum standard of living from stand point of health, efficiency and well being of a worker.

The Minimum Wages Act, 1948, has not defined minimum wages. But the Act empowers the State and the Central Govt. to fix minimum wages rate payable to the workers of specified industries, viz woolen market making, shawl weaving, establishment of doll, rice or flour mills, tobacco including bidi workers, plantations, oil mills employment under any local authority, road construction or building operations, stone breaking or crushing, mica works lac
manufacturing public motor transport, leather manufacturing and agriculture.

The courts and industries generally follow the definition given by the fair wages committee 1948. The fair wage committee has defined the minimum wages as under:

"........................ a minimum wage must provide not merely for base substance of life but for the preservation of the efficiency of the worker. For this purpose the minimum wage must also provide for some measures of education, medical requirements and amenities."

The content of minimum wage varies from time to time and place to place. The state Govt. take the following three factors into account before fixing minimum wages.

(i) The need of the workers.

(ii) The capacity of industry to pay.

(iii) The job contents of different categories of work.

Statutory minimum wage is the wage, which is fixed by the statute and it, may be higher than the base subsistence or minimum wage.

E Living Wage:

The concept of living wage is also enriched in the Constitution of India. The objective of the International Labour Organization laid down in the preamble to its constitution provide, among other things,
for an adequate living wage and recognition of the principle of equal remuneration for equal work.

The living wage concept has received further attention ever since the preparatory Asian Regional Conference of 120, held in New Delhi in 1947, adopted a resolution in respect of wage policy. The resolution held that every effort should be made to improve wage standards in industries and occupations in Asian Countries, with a view to achieve a living wage for every worker. In its pursuance, Govt of India in 1948 has emphasised the two concept of minimum wage and living wage. According to the report (1949), a living wage should enable the male wage earner to provide for himself and his family not merely the base essentials of food; clothing and shelter, but a measure of frugal comfort including the education for the children, protection against health, requirements of essential social needs, and a measure of insurance against the more important misfortunes including old age.

(Living wage is a desirable rate of wage adequate enough to maintain the worker and his family for the present and future minimum wage is the lowest rate of wage inevitable for the worker especially sweated labour, to make both ends meat.)

F National Minimum Wage:

A national minimum wage was suggested by Boothalingram panel in May 1978. The proposal of a target national minimum of Rs. 150 to be attained about seven years (in 1978, prices) need not to be taken seriously now. The panel, felt that this figure itself was not
attainable, hence it begins with, a national minimum wage below which no regular employment will be permitted is to be fixed at four rupees per day of eight hours, unskilled work for an adult or Rs. 150 is reached and thereafter revision can be made every three years. Statutory minimum wages may be brought up to this level wherever it is lower.

India is one of the ten industrialized nations in the world, large scale employment has become the order of the day, Consequently, a national wage policy may be necessary.

G. Wage Determination:

The unit employer or manager who is involved in wage determination, may keep his work's welfare in his mind. This may promote a cordial relationship in his organization.

As far as an individual company is concerned, wage administration includes wage determination, job evaluation and wage payment performance evaluation date may also be taken into account in wage administration. However, on many occasions it may not be practicable.
Wage Influencing Variables

Stage 1

Individual workmen → Collectively decide on the wages for the job → Employer → Results in the wage structure in a particular plant

Stage 2

Collective Bargaining → Local Areas Going rates → Tribunal Courts → Employees wages and components

→ Govt. Laws Wage board → Philosophy of management towards wages → Internal pricing through job evaluation → Intermixture of these variables in a particular organizational context

Stage 1 self contained model where external influence is marginal.

Stage 2 Depicting the interplay of external and internal influence.

Job evaluation is generally used in relation with the determination of wages.
H. Job Evaluation:

Job evaluation is the process of establishing the value of jobs in a job hierarchy. Job values may be determined by negotiation or fixed on the basis of broad assumptions about market rates and internal relations. Job evaluation is a comparative process which enables to compare jobs by using common criteria to define the relationship of one job to another.

Job description and job specification are required as a part of job evaluation as it provide necessary data concerning the factors to be measured. Job analysis is closely linked with job specification and description.

Job description:

A primary output or result of job analysis is a job description. A complete category of information.

1. Job mission and location.

2. The work performed.

3. The content in which the action take place.

It should be as brief, factual and precise as possible.
Coverage/ Headings:

1. Job title
2. Reporting to
3. Reporting to him
4. Overall responsibility.

Job specification:

Job specification is a product of Job analysis and a refined form of job description may experience, special attitude, etc. (Job description is related with job while job specification is concerned with employee).

Job Analysis:

Job analysis is the process of collecting information regarding the operation and responsibilities of a specific job and studying it in detail leading to job description and job -specification. It defines the activities involved in job requirements, machines, tools and materials to be used; time taken by employees to meet the job evaluation.

It helps in the functions like procurement of people, training them, wage fixation, etc. It uses the methods of observation, interview and questionnaire.

(I) Methods of Job Evaluation:

Several techniques are available for job evaluation:
1. **Ranking method.**

2. **Job classification.**

3. **Point - Rating.**

4. **Factor comparision.**

1. **Ranking Method:**

   This is the oldest and simplest method of job evaluation. The aim should be to judge each job as a whole and determine its relative place in a hierarchy by comparing one job with another. This can be done by arranging order of importance.

   **Facts of Job:**

   Decisions, complexity, knowledge, and skills, physical effort required to carry out the job.

   **Procedure:**

   1. Analysed and describe the jobs bringing out those aspects which are to be used for purpose of comparison.

   2. Identify key and bench mark jobs - the most and least important, a job midway between the two extreme, and another at the higher or lower intermediate points.

   3. Rank the other jobs around the benchmark jobs until all jobs are placed in their rank order of importance.
4. Divide the ranked jobs into grade by grading jobs together with common features such as similar duties, skills or ranking requirements.

It is advisable to use the statistical-technique of paired comparison. A matrix can be fluid showing the score for each job against all the other jobs being ranked.

2. **Job classification:**

This method involves the establishment of job classes or grades. The system was evolved as an improvement over the ranking method. In this system job descriptions and job specifications are widely used.

1. Select representative sample of benchmark jobs covering all the occupations to be included in the scheme.

2. Analyse the jobs and prepare job descriptions.

3. Decide on the number of grades required. (This will depend on the range of responsibility or skills in the job covered by the scheme). For manual workers it is not likely to be move than six to eight, and the clerical staff in most firms can be grouped into four or six grades the number of managerial grades will vary according to the size of firms and the level of salaries at the top.

4. Define each group in terms of discernible differences in
skill and responsibility.

5. Slot each benchmark job into a grade with reference to the job and grade description.

6. Grade the other jobs and grade descriptions.

Alternatively, one may start a job clarification exercise from a predetermined grading scheme. In this case, it is necessary to prepare job description and place the jobs into the grade.

The main problem with job classification system is that one can not deal with complex jobs which will not fit nearly into one grade. They are less useful for more senior jobs where the descriptions are so generalized that they did not provide much help in evaluating borderline cases.

3. **Point Rating:**

The point rating scheme is based on Analysis of separately defined characteristic or factors which are assumed to be common to all the jobs. One has to further assume that differences in the extent to which the characteristics are found in the jobs will measure differences between the letters of the job. When selecting the factors in the point scheme, one should ensure that they are considered the most important in determining their relative degree of difficulty of responsibility.

Steps in points rating scheme-
1. Select a representative sample of benchmark jobs.

2. Decide on the factor to be used in Analysing and evaluating the jobs. The aim should be to restrict the number to number then eight or so. The use of too many factors.

3. Prepare a preliminary definition of each factor and divide it into degree of level each of which is also defined. It is useful to restrict the number of levels to five to six.

4. Analyse each benchmark job in terms of the factors and decide on the degree to which each factor is present by the reference to the preliminary definitions of the factor degrees.

5. Decide on the weight to be attached to the factor (total points value).

6. Redefine the factor definition and points score in the light of the result of step 4 and step 5 to produce the final scheme.

The golden rule in choosing a scheme is to go for the simplest approach first and reject it only if the complexity of the situation on to the need to impress everyone demands a more complicated method. All job evaluation is largely subjective when it comes to making final judgments.

<table>
<thead>
<tr>
<th>Job</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>T.Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>-</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>£2</td>
<td>3</td>
</tr>
</tbody>
</table>
In this example job A is compared with job B to E. It is considered to be less important than job B and C and received no points in both case, equally important to job D and received one point and more important than job E and received two points. The total score is three. The same procedure is adopted for jobs B to E. The lighter the score the lighter the rank.

The main disadvantage of ranking method is that there are no definite standards of judgment and there is no way of measuring the differences between jobs.

4. Factors Comparison System:

(An application of the person to person system of merit rating of job- evaluation) it is process of comparing the important job factors and according to Flippo, "It is a refinement of simple ranking in that comparisions are accomplished job to using money values today most firms convert the dollar amounts into points to avoid adjusting the scales to charging price and wage levels." Seven important steps are followed:-

1. Select job factors
2. Select key jobs
3. Determine correct rate of key jobs
4. Rank key jobs under each job factors.
5. Allocate the correct rate of each key job among the job factors.
6. Evaluate all other jobs in terms of these factors yardsticks.
7. Design, adjust and operate the wage structure.