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Compensation Management

Person Focused Pay

Basic idea: "Pay the person for what they know and what they are capable of doing."

Person-focused pay

Person-focused pay is a compensation system in which employees are rewarded based on their knowledge, skills, competencies, or capabilities, rather than only on the job they currently perform.

Under traditional job-based pay, an employee is paid mainly according to the value of the job. In person-focused pay, the organization considers what the employee knows and can do.

Person-focused pay

Example

Suppose a garment factory employs a production worker who can operate only one type of machine.

Basic skill → Tk. 18,000/month

Learns to operate three machines → Tk. 21,000/month

Learns quality inspection → Tk. 24,000/month

Learns machine maintenance → Tk. 27,000/month

Here, the employee's salary increases because the employee has acquired additional skills.

This is different from simply receiving a higher salary because of seniority.

Two Major Forms of Person-Focused Pay

A. Pay-for-Knowledge

Employees receive higher pay when they acquire additional knowledge or skills that are useful to the organization.

B. Competency-Based Pay

Employees receive higher pay when they demonstrate competencies—the combination of knowledge, skills, abilities, behaviors, and personal attributes required for effective performance.

Pay-for-Knowledge

Pay-for-knowledge is a compensation system in which employees' pay increases as they acquire and demonstrate additional job-related knowledge and skills.

The emphasis is on what employees know and what they can do.

Pay-for-Knowledge

Example: Bank

Consider a bank employee.

Knowledge/Skill Level	Example Capability	Monthly Pay
Level 1	Basic banking operations	Tk. 25,000
Level 2	Loans and credit analysis	Tk. 29,000
Level 3	Foreign exchange	Tk. 34,000
Level 4	Risk management	Tk. 40,000

Develop a Pay-for-Knowledge Structure

Step 1: Identify Required Knowledge

Determine what knowledge employees need to perform organizational activities.

Example: A manufacturing company may identify:

Machine operation

Quality control

Workplace safety

Equipment maintenance

Production planning

Develop a Pay-for-Knowledge Structure

Step 2: Create Knowledge/Skill Blocks

Group related knowledge and skills into **skill blocks**.

For example:

Skill Block 1: Basic machine operation

Skill Block 2: Advanced machine operation

Skill Block 3: Quality inspection

Skill Block 4: Machine maintenance

Develop a Pay-for-Knowledge Structure

Step 3: Establish Skill Levels

Create progressive levels from basic to advanced.

Level 1 → Level 2 → Level 3 → Level 4

Develop a Pay-for-Knowledge Structure

Step 4: Determine Pay for Each Level

Assign a monetary value to each knowledge or skill level.

For example:

Level 1 = Tk. 20,000

Level 2 = Tk. 23,000

Level 3 = Tk. 27,000

Level 4 = Tk. 32,000

Develop a Pay-for-Knowledge Structure

Step 5: Establish Assessment Procedures

Employees should demonstrate that they actually possess the required knowledge.

Assessment may include:

- ☐ Written tests
- ☐ Practical demonstrations
- ☐ Certification
- ☐ Observation
- ☐ Simulation
- ☐ Supervisor assessment

Develop a Pay-for-Knowledge Structure

Step 6: Link Skill Acquisition to Pay

After successfully demonstrating the required knowledge, the employee moves to the corresponding pay level.

Competency-Based Pay

Competency-based pay rewards employees for developing and demonstrating competencies that contribute to organizational effectiveness.

A **competency** is a combination of:

Knowledge + Skills + Abilities + Behaviors

Competency-Based Pay

Example

A manager may need the following competencies:

- ☐ Leadership
- ☐ Communication
- ☐ Problem-solving
- ☐ Decision-making
- ☐ Team management
- ☐ Strategic thinking

Pay-for-Knowledge vs. Competency-Based Pay

Dimension	Pay-for-Knowledge	Competency-Based Pay
Main focus	Knowledge and skills	Broader competencies
Emphasis	What employees know/can do	How employees apply knowledge and skills
Common use	Technical and operational jobs	Professional and managerial jobs
Measurement	Tests, certifications, demonstrations	Assessment of knowledge, skills, behaviors and abilities
Example	Learning three machines	Developing leadership competency
Pay increase	Acquiring additional skills	Demonstrating higher-level competencies

Advantages of Person-Focused Pay

1. Encourages Employee Learning

Employees have a financial incentive to acquire new knowledge and skills.

2. Increases Workforce Flexibility

Employees can perform multiple tasks.

For example, a worker trained in five production processes can be moved between departments when necessary.

3. Supports Employee Development

It encourages employees to continuously improve their capabilities.

Advantages of Person-Focused Pay

4. Improves Organizational Capability

As employees acquire more skills, the organization develops a stronger human resource base.

5. Supports Technological Change

Employees are encouraged to learn new technologies and methods.

6. Can Improve Employee Motivation

Employees may feel that learning and development have a direct financial benefit.

Limitations of Person-Focused Pay

1. Higher Labor Costs

Organizations may have to pay more as employees acquire additional skills.

2. Difficult Assessment

It can be difficult to determine whether an employee genuinely possesses a particular competency.

3. Employees May Acquire Unnecessary Skills

Employees might learn skills simply to obtain higher pay even when the organization does not need those skills.

4. Administrative Complexity

Developing skill blocks, competency levels, assessments, and pay rates can be complicated.

5. Skill Obsolescence

Some knowledge may become outdated because of technological changes.