

Mazur Volodymyr
PhD in Economics, Associate Professor
of the Department of International
Business and Tourism
Ternopil National Economic University

GRADING METHOD – MOTIVATIONAL MANAGEMENT INSTRUMENT IN MODERN ECONOMIC CONDITIONS

In the conditions of increasing market competition, Ukrainian companies progressively pay attention to issues of staff motivation either financial or nonfinancial one.

Under the conditions of the development of an enterprise and existence of different forms of property, worker's income is not defined by the size of guaranteed payroll budget but it depends on results of enterprise activity. Choosing some payment an employer has a possibility to manage intensity and quality of labor of employees, that is the results of enterprise activity.

The forms of the payroll budget used nowadays at national enterprises are old. The majority of them do not take into the consideration the specifics of enterprise activity in market economy and the responsibility and results of employees.

Judging the experience of foreign companies stimulating their employees, the solution of this problem is in development and implementation of alternative system of salaries – the system of grades.

Research objective.

To investigate the advantages of use of grading system and define the common algorithm of the development of grading system in modern national enterprises is the aim of our work. We will try to generalize and develop in future theoretical and methodological base in staff motivation using effective grading system using as the example of American company “Kodak”.

Review of recent investigations and papers. Дослідженню проблем організації оплати праці та системи грейдів визначення її сутності в умовах формування ринкових відносин приділяли увагу такі вчені економісти, як The following scholars as O.G. Melnyk, O.A. Grishnova, A.M. Kolot and M.V. Semykina paid

their attention to the issues of organization of payroll budget and grading system, the definition of its essence in the conditions of forming of market relations but such economists as O.O. Bidyuk, S. Tsymbalyuk, V.P. Chemekov, V.M. Danyuk and O.O. Chernushkina and others paid attention to grading.

O.O. Bidyuk analyzed “The Prospects of Grading System Introduction into Enterprises of Ukraine”.

“Preconditions and Advantages of Grading System Introduction on National Enterprises” has been investigated by Doctor of Economics, Professor at National University “Lviv Polytechnic ” O.H. Melnyk.

V.P. Chemekov stated that using grading comparison of internal importance of the position for the enterprise with its importance in the market can be supported. That is why, the technology of grading does not only make the distribution of powers for an enterprise, establishment of grades and their tariffication but also the regulation between grades and tariffs according to market level of remuneration of labor.

V.M. Danyuk and O.O. Chernushkina emphasize that among tasks for grading, systematization of positions, standardization of remuneration of labor and, as a result, better motivation of employees. Grading system introduction supports achievement of business aims of an enterprise, realization of its strategic guidelines, attraction and keeping necessary employees, getting maximum benefits from investments into human capital [2].

The system of grades developed by Edward Hay appeared 50 years ago in the USA by order of national structures. The aim of it was to take into account the level of responsibility, the unique experience, knowledge and skills, the results of the activity of each worker at an enterprise.

The system of Grades or positions means corporate grading chart. It gives the possibility to build positional hierarchy based on flexible level of salary. Grading is creating hierarchy of grades, which is universal for company staff.

If a company is very big, development of such system is not necessary. In such case, to fix the level of compensation for both sides is simple and conflicts connected with salary are solved in separate order. Another situation when there are such problems at big enterprises. Enterprises have big losses because of not effective

management of payroll budget and productivity of workers' labor can decrease because of nontransparent system of compensation.

There are some methods of solving the given problem (scholars provide near ten competitive methods) but grading in modern European conditions is the most popular [3].

In the USA, the most companies use another method – “market pricing”. It provides study the medium level of salary for the given position on the market, on the base of which the payroll is done inside the company. In Ukraine, it is impossible because of absence of the corresponding information and a big quantity of “black” compensations for workers.

An enterprise should be ready for such changes and management should be sure in grading, which allows optimizing costs for the staff.

First, it is necessary to understand the aims of an enterprise introducing grades, because everything depends on its concrete problems. The aim of introduction of grading system of positions is creating the base for taking effective managerial decisions concerning salaries of workers. Further, on the base of the worker's position according to some grade is defined its employee benefits. Besides, on the base of an employee's salary is defined the size of bonus payments in many cases. Thus, having created the effective system of grades, an enterprise gets the instrument of influence on three components of costs for staff: salaries, employee benefits and bonuses [4].

The main advantage of the system from the point of view of an employee is transparency of prospects. An employee always understands what he should do, how and when to increase his salary. The system of grades allows employees to receive the conception about possible change of the level of income in different career transfers. The given system helps the management to take decision in indexation of salary and defining of the allowable size of bonus on new positions; HR-service (personnel selection) – to simplify administration of corporate system of financial stimulation.

Therefore, the method of Hay (grades) is to evaluate work of each position on the base of three main factors, which are considered the most essential.

To the first group belong knowledge and experience necessary for work. Specialists distinguish three elements in this group: practical procedures, special methods and ways, professional knowledge;

management know-how (skills to plan, organize, manage and evaluate); skills in the sphere of communication (skills to work with people, contact with them and manage their activity).

To the second group belong skills necessary for problems solving. It includes two main elements: ability to think analytically, ability to be creative.

To the third group belongs the level of responsibility. It includes the frames in which an employee can take his own decisions, in general the frames of his activity, the level of influence on the activity of an enterprise.

The methodology is the following: a position “gets” from experts some quantity of points in each factor, which is considered important and actual for an enterprise. Done in such way many-factors evaluation reflects the relative importance of some position. Positions are referred to some grade correspondingly to the evaluation, which guarantee getting some salary or employee benefits [5].

That is to say, employees are at the same positions, e.g. project managers can receive different salary. Depending on their grade it is logically than an employee receives bigger salary if he has a bigger experience, worked on himself, he has a wide range of clients, his teamwork is effective and he can manage five or six projects simultaneously. This system also works in the following way: workers with the same grade (and salary) can occupy different positions, e.g. to be an expert and a head of the department. In this situation, it can be that employee is on the higher grade than a manager is and he can receive higher salary. It means that he is a unique specialist, and he is highly evaluated by an enterprise [6].

In practice of staff management the use of the term “grading” is traced for two different approaches:

- The first approach: position or work grading when positions are divided and ranged according to “grades” independently on which worker occupies the position. The grade of the position depends on value and importance of this position for a company;
- The second approach: grade of employees, when employees are graded and evaluated personally. In this case, totally the value of done work is taken into account and the value of a worker, which depends on the level of his qualification, experience,

skills and the level of the development of his professional competences.

We can say that each employee in such company is unique to some extent, and functions and tasks done by him can be considered as a separate position. Therefore, as we can see, employees grading foresees positions grading and evaluation of employees.

However, it is necessary to admit that during positions grading we can not avoid evaluation of employees. That is why, if we do not fix clear, objective and understandable for employees criteria, definition of their personal salaries at enterprise, aims of optimization and their motivational power will not be realized [7].

To run payroll calculations at an enterprise, it is necessary to estimate potential value of an employee for a company, which depends on his qualification, experience and the level of his professional competency. That is why, the system of evaluation of staff is logical and necessary continuation of grading system. Staff evaluation depends on possibilities and peculiarities of a company. It can be either a simple formal evaluation of the level of education of professional term of service or full evaluation of according to professional competencies of employees [8].

Realizing its organizational structure of a company should be analyzed in details and all key positions should be emphasized. Each position is evaluated according to some parameters, besides professional skills it can be such characteristics as the level of responsibility, unique experience, knowledge, skills, result of activity, loyalty to a company, leader's qualities, the value of work, etc. For each parameter, its scale is developed on the base of which all positions are evaluated. Joining positions into groups on the base of received points creates the only linear scale of evaluation of employees according to which positions of different departments can be compared.

It is one of the most complicated and responsible stages during creating grades, because it will be necessary to do complex analysis taking into account a big quantity of interconnected factors. In such way ranging of all positions are done, that is unique segmentation of staff in a company is formed. Many specialists suggest the use of the system of grades is justified only at big enterprises. Grading needs essential costs not only for development, but also, for support, it is

very difficult to support the actuality of the system during some time and organize its effective functioning with real return during a long period.

Especially it is typically for companies with quick development and to develop grading system is unprofitable. The system of grades introduction into big companies can increase significantly the effectiveness of management of wages fund. The more employees are at a company, the more benefits are from introduction of such system [9].

The most famous instruments of grading are methods “Hay Group” and “Watson Wyatt”. The first one is a universal, “free from industrial component” and the second one is oriented on defining grades in management, besides it foresees the evaluation of managerial and ordinary positions. There are methods, which big corporations create for their own needs. Therefore, the company “Kodak” uses enough compact method allowing ranging all positions according to criteria as important and clear for it. Thus, positions tested by “Hay Group” method in any place of the world and in any company can be compared and activity evaluated by the method of “Kodak” can be compared only within this corporation.

“Hay Group” method

The method is famous under the title of “Hay Guide Hart Profile Method”. While evaluating according to this method, the content of each activity according to each factor is analyzed and numeral evaluation is received. This method foresees the evaluation of complexity of activity according to three essential factors:

- Knowledge and skills;
- Problem solution;
- Responsibility.

Each of them is divided into eight elements. For each element wide descriptions of each level is composed, which are guide for experts and support the sequence of use. The description of the level gives the possibility to define the measure of complexity of the given element and express it in numerical meaning. This method foresees the use of additional tables according to which the quantity of points is calculated. Measure scales were developed according to geometrical progression. All activities are divided on axis of factors. The role of

“the system of coordinates” is fulfilled by the lines and columns, which are defined in the evaluation of the position profile [10].

Each table management is defined by the factor in terms of two (for problem solution) or three (for technology and accountability) of elements. Lines and columns of table guide create the description of requirements for activity. Cross of the corresponding description of a line and a column according to three measuring evaluating work gives mark in points.

Employee, who evaluates, is offered to choose the corresponding meaning from three variants one of which is medium and minimum and maximum decline in 15%, which is observed in all lines and columns of method. In opinion of modelers of Hay method, researchers define minimal threshold of audibility as “thin adjustment”. Choosing the meaning of the factor, putting signs “+” in case of choice between the given and further level, and “-” in case of choice between the given and preceding level. To simplify the work with the method, you can choose intermediate method – development of a person who will put questions and who will be suitable to work.

Different correlation of factors is correspondent to different works. For instance, the part of technology in profile decreases in motion from left angle of the table to the right one in the bottom of the table, that is, in left upper corner are placed scientific and analytical lessons concentrated on scientific activity (e.g. a scholar) and in right bottom corner are placed tasks for the activity done with high accuracy and responsibility (e.g. a driver). On the base of continuous investigations, developers of this method emphasized the centers of the table, which reflect improbable combination of parameters of one factor.

Hay method in the conditions of market economy is one of the most important. It is used in more than 8000 companies including half of 50 biggest world companies [11]. In the conditions of globalization of economy, the given method is used and can be recommended for Ukrainian companies. Nevertheless, the use of Hay method in Ukraine is suitable only in such cases, when to define the complexity of activity or qualification of employees, there is no possibility to use professional handbooks acting on the territory of Ukraine.

“Watson Wyatt” method

This method was developed on the base of some other principles than Hay method [12]. If the last one suggests evaluation positions in

points allowing ranking them according to the received scales, then “Watson Wyatt” system, on the contrary, at first refers positions to some category and then within its frames “weighs” their functionals according to factors for the accurate definition of grade. The system clearly shows any position in “Grade Map”, what includes 25 grades, besides its global character is defined by that it builds either the unique hierarchy companies or positions independently to each sphere of activity they belong and on which markets they work. “Weight” of a position is defined by the way of correlation of internal descriptions with described seven main factors according to their levels.

Evaluation position process occurs in three stages:

- Company’s grade is defined;
- Category is defined;
- Position grade in category is defined.

The value of the method for users is possibility to compare the level of payment orienting not on the titles of positions but on their “weight” (grade), profile and functional.

Method of a company “Kodak”

The method of evaluation positions and company grading “Kodak” was developed on the method of weight of factors: each work belongs to some gradation of factors with fixed weight and evaluation position. The weight of factors is a result of investigations and many measures [4].

Four factors are used in the company, each of the factor has maximum meaning:

- Requirements to knowledge – 500;
- Responsibility – 270;
- Work conditions – 270;
- Relations with workmates – 120.

The sums of the weight of factors of any position are located on the scale in length until 1000 points. To calculate the meaning of each factor there is a specific table.

The factor “Requirements to knowledge” includes parameters “Previous requirements” (gradation from 1 to 8) and “Complexity of knowledge” (gradation A-D). Thus, the table “Requirements to knowledge” is of size 48, in each centre there is a “weight” already. The position being in concrete centre obtains some meaning (“weight”) with step of 50 points.

Parameter “Previous requirements” reflects, mainly, time in months and years, which are necessary for mastering the work at a concrete position. “Complexity of knowledge” parameter is similar to “Depth of knowledge” parameter of the factor “Knowledge and skills” in Hay method.

The factor “Responsibility” is linear and has three gradations of positions division, each of them is subdivided into three but without description of criteria of such division with step in 30 points. The factor “Work conditions” is a table of size 4:4 including parameters “Harmful work conditions” (A-D) and “Physical efforts” (1-3). The step of change “scales” is 30. The factor “Relations with workmates” is analogical to parameter “Level of communications” of Hay method and has four gradations [13].

It is typical that in each factor is a centre not appropriating “weight”, marked as basic. Positions having minimum grades, e.g. cleaner, driver, packer of records, operator of chemical unit and etc. are located in it.

Thus, having defined the centre in which is evaluated position or simple having found the searched work in a corresponding centre, its “weight” is defined in each factor and after summing the total “weight” of the position is defined. This method indicates the sum of points correspondent to grade.

In opinion of some analytics, grading is suitable to enterprises with staff not less than 500 persons, but different variants depending on aims and realization of the scheme are possible. Besides, in this system of payment is the range of advantages, the meaning of which considerably increases with the growth of staff deficit [14].

The main advantage of the system from the point of view of an employee is transparency of prospects. The quantity of grades may vary from 5–7 to 20. The definite size of salary is correspondent to each grade or “salary brackets”, which may be revised but the system of grades remains unchangeable.

The aims of grading:

- 1) systematization of denomination of all positions at a company;
- 2) establishment of clear limits of value of all positions of a company;
- 3) creating simple, understandable, clear and fair instrument to do payroll;

- 4) development of the system of work evaluation of company staff;
- 5) creating the base for planning the development of company employees;
- 6) introduction of a new approach to the cycle of recruitment, rotation and firing of company staff.

The main advantage of grading is transforming nonmaterial indication (the value of a worker's activity) into financial equivalent.

On the base of grading corporate, policy of compensation and benefits allowing optimizing the costs for personnel using not formal salary fund cut but owing to improving organizational structure and staff list is developed. Therefore, the system of grades allows simplifying administration of corporate system of financial stimulation and defining the size of reward for new positions and influencing on the base of composite costs on personnel [2].

Among tasks put before grading, systematization of positions, and standardization of payment and, as result, better motivation of employees. Introduction of the system of grades supports achieving business aims of a company, realizing its strategic guidelines, recruitment and keeping necessary employees, getting maximum return from investments into human capital.

Development and introduction of fair and corresponding for a company and employees the system of payment is an important factor of increase the level of working motivation of the personnel and increase of effectiveness and competitiveness of a company in general. Besides, having introduced such system, a company excludes the possibility of subjective attitude to payment, potential favoritism and blackmail of employees in order to increase their salary [15].

Conclusions. Grading evaluation method of positions and building the system of benefits, which the most influenced corporations of the world use in 80% is an optimal alternative for tariff approach, used nowadays at the most Ukrainian enterprises. The use of the system of double grading in Ukrainian conditions puts in doubt transparency and fairness of grading method that is why, its use is not expedient nowadays. At the same time, Ukrainian companies can adapt classical grading systems to their own needs and requirements, besides, following the main principles of evaluation positions.

Therefore, having investigated the peculiarities of the system of grades, having evaluated its positive and negative sides, widening of

the sphere of the use of the given instruments at national enterprises is suggested to be widened. The given system can be established either at big or at small enterprises of all types of activity and it allows supporting the objective evaluation positions (work) and fairness of employee's benefits, what is one of the main requirements to the system of payment in market conditions.

In the West, the systems of grades were introduced and used successfully at all enterprises, such as Kodak, Pepsi, IBM, BMW and others. In Ukraine, some principles of the given system are used by "Intertype", the First Ukrainian International Bank, at open joint-stock company "Azovstal" and others.

According to experts' assessments, grading becomes popular in Ukraine as a measure of payment because of information protection of national market. The system of grades is enough logical and open for realization in any company.

Therefore, grading is a diverse phenomenon. Introducing and using the system of grades each modern enterprise can not only improve the system of motivation but also improve the system of staff management in general. The use of this method gives the possibility for employers to reward their employees fairly and individually taking into consideration their skills, execution of tasks and observance of official obligations, etc. Grading gives the possibility to have a clear system of position salary understandable for employees. An employee will be more devoted to his work and a company if he is well informed.

Judging by everything, grading should be suggested as modern technology of the motivation system in view of financial component. The prospects of further investigations and development of grading are development, and adaptation of the system of grades for the most Ukrainian enterprises, whose aim is to meet the requirements of the world company management.

We suggest that introduction of the modern system of grades at enterprises will allow supporting the objective evaluation positions and effective personnel work and, thus, fair benefits for employees what is one of the main requirement of the payment system in market conditions and it will optimize wages fund.

References

1. *The system of grades: to each his own* // “Agrobusiness today” [Electronic resource]. – Access mode: <http://www.agrobusiness.com.ua/kermo-kerivnyka/1604-systema-greidivkozhnomu-svoie.html>
2. Bidyuk O.O. *The system of grades as an innovative form of payment* // National University State Taxation Service of Ukraine. – [Electronic resource]. Access mode: http://www.rusnauka.com/8_DNI_2009/Economics/43228.doc.htm
3. Bezzub L.O. *Personnel motivation using the introduction of the system of grades.* – [Electronic resource]. – Access mode: http://archive.nbuv.gov.ua/portal/soc_gum/Uproz/2012_15/u1215bez
4. *Problems of payment for work and employment in the estimation by citizens of Ukraine and experts.* – Razumkov’s center. National security and defence. – № 7, 2010. – P. 90-104. – [Electronic resource]. – Access mode: http://www.razumkov.org.ua/ukr/files/category_journal/NSD118_ukr_3
5. Shakhno A.Yu. *Grading system as a modern form of payment for work at an enterprise* // Innovative economy. – 2013. – №6. – P. 187–194.
6. Weekly “Contracts”. – [Electronic resource]. – Access mode: http://www.management.com.ua/notes/salary_upgrade.html
7. Povshednyy A. *The experience of introduction of the system of grades / Personnel management.* – Ukraine. - №10 (229). 2012. – P. 26–28.
8. Tsymbalyuk S. *Projecting of the main salary: comparative analysis of traditional tariff procedures and grading* // Ukraine: working aspects. – 2011. – №7. – P. 9–16.
9. Khramov V.O. *The base principles of personnel management: Textbook* // V.O. Khramov, A.P. Bovtruk. — K. : Interregional Academy of Personnel Management, 2011. – 112 p. – P.36-41.
10. Savochkin D. *Forming of grading net of a company / Personnel management.* – Ukraine. – №10 (229). 2012. – P. 29–31.
11. Lozovskyy O. *Introduction of grading system at national enterprises* / O. Lozovskyy, O. Taran, V. Taran. – [Electronic resource]. – Access mode: [ena.lp.edu.ua:8080/bitstream/ntb/2972/.../103 p.](http://ena.lp.edu.ua:8080/bitstream/ntb/2972/.../103_p)

12. *Building of the system of grades using one's own resources.* – [Electronic resource]. – Access mode: <http://pravoukraine.org.ua/blogs/hr/rekryting/4429pobudova-sistemi-grejdivsvojmimi-silami>. - Date of appealing: October/15/2015

13. *Financial report of private joint-stock company "Kryvbasvybukhprom".* – [Electronic resource]. – Access mode: <http://smida.gov.ua/>

14. *Tsymbalyuk S.O. Project of the main salary at Ukrainian enterprises: analysis of income.* – [Electronic resource]. – Access mode: http://www.business-inform.net/pdf/2013/12_0/223_229.pdf

15. *Hrytsak Natalka. The system of grades: user instruction [Text] / Natalka Hrytsak // Agrobusiness today.* – 2013. – May, № 10. – P.52–54.

16. *Hay Job Evaluation, Foundations and Applications. Hay Group Working Paper / Hay Job Evaluation /* – [Electronic resource]. – Access mode: <http://www.haygroup.com>.