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Bringing it All Inside: Job Evaluation and Market Pricing at JCPenney

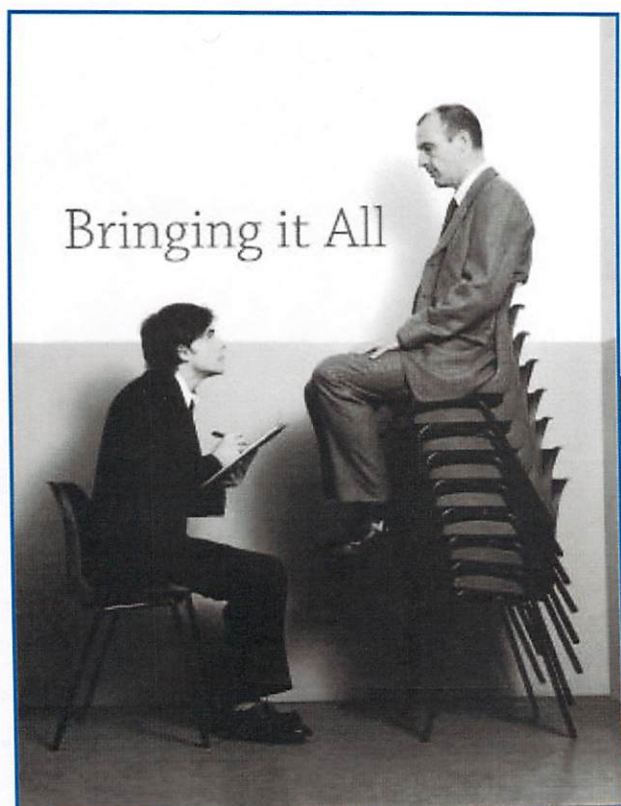
Donna R Graebner, Kevin A Seawear. *Workspan*. Scottsdale: Aug 2004. Vol. 47, Iss. 8; pg. 30, 5 pgs

Abstract (Summary)

The compensation team at JCPenney was given a big project when senior management said it wanted a complete overhaul of the company's 20-year-old pay program to be completed in less than a year. JCPenney concluded that a complete change in its business model and work culture was needed to bring the company back to profitable growth and make it succeed in the very competitive and demanding retail environment. In JCPenney's new HR environment, the focus is on hiring the right person for the right job. The company's performance management tool has been revised and performance ratings are now aligned with business results and objectives. Management judgment determines the distribution of merit dollars, and the company has established a common review date. A new Web-based career process has been introduced and JCPenney has implemented market-based pay ranges. Perhaps most significantly, though, pay is determined by job accountabilities and results - not effort and tenure.

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Imagine that the executive vice president of HR calls a meeting with the compensation team to announce some good news and some bad news regarding a meeting he just had with the executive committee. The good news is, senior management is very interested in compensation and views it as a critical tool to create and drive the changes the organization needs. The bad news is, senior management wants a complete overhaul of the current compensation program, which has been in place for more than 20 years. Oh and, by the way, the changes need to be completed by the start of the new fiscal year.

At more than 100 years old, JCPenney had gone through a very difficult period and the challenges were very real for the compensation team. This highly visible project needed to be done quickly and correctly.

One of the first conclusions the team reached was that outside experts were needed to guide the project and help the team gain a better understanding of retail market practices and how to make such a massive change to its current program in a short time period. As part of this initiative, JCPenney concluded that a complete change in its business model and work culture was needed to bring the company back to profitable growth and make it succeed in the very competitive and demanding retail environment.

The Previous Business Model

The original business model was built on a decentralized merchandise process using an antiquated procurement system. Store environments were inconsistent and lacked a clear retailing message, resulting in several years of disappointing financial results.

At the core of the original HR environment was a paternalistic culture that encouraged internal promotions that were driven by tenure, not real job change. The pay structure had 29 pay grades, while performance reviews rewarded tenure and effort as opposed to results and additional accountabilities. The merit matrix promoted an entitlement culture.

The bottom line was, the old ways of doing business were not working.

Overhauling the Compensation Program: Steps and Issues

To successfully implement a new compensation program, JCPenney took a few initial key steps:

- * Partnered with the Hay Group to develop a comprehensive project plan

- * Met with senior managers and department HR leadership to secure input and buy-in
- * Worked with line management and HR leadership to identify and understand benchmark jobs
- * Reviewed market surveys and determined which were relevant
- * Matched benchmark jobs to selected surveys by title and job content
- * Grouped jobs based on their relative impact on the company (career banding) in an effort to reduce the number of titles while maintaining logical career paths
- * Slotted remaining jobs around the benchmark jobs
- * Implemented and communicated the new program.

The Challenges of Market Pricing

JCPenney learned early in the project that its jobs were often very different than those outlined in the salary surveys. Not only was the industry somewhat unique with entire job families that existed only in retail organizations, but as one of the largest U.S. retailers, its organizational design and subsequent job design had many unique characteristics. Also, the business was going through a state of change that made matching pure titles from surveys very difficult to nearly impossible. Getting good market data clearly was going to be a challenge.

Initially, the project team thought a good way to get accurate and relevant market data would be to regress survey data by revenue. But the team found that this not only distorted the market findings, it also failed to consider how jobs were designed at JCPenney or how they compared to other jobs in the retail marketplace. Further, this method would not help them explain what changes in job content drove pay increases in the market.

Consider several examples of the job titled "Buyer":

- * High-end department store haute couture buyer with sales volume of \$10 million
- * Regional department store women's dresses buyer with sales volume of \$15 million
- * Specialty youth-oriented fashion retailer women's pants buyer with sales volume of \$100 million
- * Discount store cold remedies buyer with sales volume of \$500 million.

Which job likely pays the most in the market? If the analysis was based purely on volume, the cold remedies buyer is the obvious choice. Or, perhaps the analysis is based on merchandise type and the job to pick is the women's pants buyer.

But, because of job content, the haute couture buyer is actually the highest paid position. It is a much "bigger," more demanding and riskier job than the others. Comparatively, the cold remedies buyer is low-risk and more of a replenishment job than a buying job.

End Results

For the new approach to work, the compensation team needed to establish a job value based on the "going rate" for jobs. This was accomplished by matching positions to survey models - while taking into account relative job content to determine a set number of common market values. Internal equity (through job evaluation) was used only for nonbenchmark positions.

The next step was to develop career bands to facilitate the communication of market pricing. Jobs were grouped based on their relative impact to the company, which helped define organizational boundaries, levels and careers. The key was to link to established career paths and ensure that a flexible approach existed for organizing jobs (current and future) and rewarding employees - all with an increased focus on external competitiveness. (See Figure 1.)

Salary Band	Low Benchmark	Typical Job Title (e.g.)	Band Summary
Professional			<p>Typically comprised of intermediate-level managers, project managers, and executive professional positions that are not functional or departmental supervisors.</p> <p>Exercises the responsibility of professional positions with the evaluation of the results of assigned duties.</p> <p>Applies advanced analytical, technical, and/or managerial expertise to solve complex, but focused, related business problems.</p> <p>Identifies and analyzes policy, operational, and personnel issues to meet professional objectives.</p> <p>Provides input into departmental functional decisions to long-range plans.</p> <p>May manage a team of employees, or professional-level associates with a cross-section.</p> <p>Plans or directs work typically requires a university degree and eight to fifteen years' related experience.</p>
Senior Specialist			<p>Typically comprised of entry-level specialists, experienced professional positions or the less experienced, which require broad, applied knowledge and experience in contribution to the achievement of organizational functional and departmental objectives.</p> <p>Prepares and/or executes office projects within a defined scope.</p> <p>Applies advanced analytical and technical expertise to solve or develop complex or comprehensive problems.</p> <p>WORKS independently to conduct complex, applied or professional or technical assignments.</p> <p>Provides input into departmental decisions to long-range plans.</p> <p>May supervise or manage an assigned team of employees or entry-level professional associates.</p> <p>Jobs at this band typically require a university degree and six to eight years' professional experience.</p>

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FIGURE 1: CAREER BAND CRITERIA - EXAMPLE

Pay Decisions: Remember the Administration

One of the many challenges in implementing a new salary structure particularly a salary band or even just minimizing the number of grades in the current salary structure - is pay administration. How will pay be delivered and communicated in the new environment?

At JCPenney, two points around pay administration were communicated repeatedly throughout the project planning and implementation:

- * General compensation information and the idea that the new program was about tools, not rules
- * Managers' accountability for making good decisions about how to allocate company resources (i.e., pay) by considering the market data, business issue and needs, individual capability and performance - always keeping in mind that pay decisions had to be made within the confines of approved budgets and in partnership with line management and HR.

As always, senior leadership support was critical to ensure that managers understood and applied the new concepts.

Program Implementation

Clearly such a major change required significant and meaningful communication throughout the process. With senior leadership support, the compensation team took the following steps:

- * Educated and partnered with the HR team
- * Met with executive committee members to get buy-in
- * Posted project updates on the company HR homepage
- * Distributed a newsletter to all management associates outlining the changes
- * Held department meetings one week before changes were implemented
- * Prepared meeting leader scripts to ensure message consistency
- * Created a video discussing the benefits of the new program
- * Developed and distributed Q&A materials
- * Wrote personal letters communicating associates' job band and market pay range.

Lessons Learned

Market data is much more than the average of annual pay rates for a particular survey job title. Job evaluation, when combined with market pricing, can be used to obtain more accurate and relevant market data because it:

- * Contributes to a more thorough understanding of job design factors and how it affects market value
- * Provides a common language to talk with HR and line executives about the value of work (e.g., what makes jobs "bigger" or "smaller")

* Creates a consistent and repeatable methodology to obtain market data for those jobs where no market data exists.

Compensation can be used to drive needed cultural change, as well as support business objectives. But to successfully manage the change required for such a major initiative, top management support is critical.

In JCPenney's new HR environment, the focus is on hiring the right person for the right job. The company's performance management tool has been revised and performance ratings are now aligned with business results and objectives. Management judgment (and budget) determines the distribution of merit dollars, and the company has established a common review date. A new Web-based career process has been introduced and JCPenney has implemented market-based pay ranges. Perhaps most significantly, though, pay is determined by job accountabilities and results - not effort and tenure.

[Sidebar]

QUICK LOOK

- * The compensation team at JCPenney was given a big project when senior management said it wanted a complete overhaul of the company's 20-year-old pay program to be completed in less than a year.
- * A complete change in the company's business model and work culture was needed to bring the company back to profitable growth and make it succeed in the very competitive and demanding retail environment.
- * In JCPenney's new HR environment, the focus is on hiring the right person for the right job.

[Sidebar]

JCPenney concluded that a complete change in its business model and work culture was needed.

[Footnote]

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