



# Literature Evaluation: The Focus on the Difference between Job-based Pay and Skill-based Pay Scheme

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## Abstract

**Purpose:** The present research is to explore and investigate the meaningful difference between job-based pay and skill-based pay in the current literature to shed light on the advantages and caveats of two compensation approach, providing direction for human resource practitioners looking to develop efficient and fair compensation plans. **Research design, data and methodology:** The methodology based on Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) was used for this research. The PRISMA technique is generally considered the gold standard since it guarantees openness, repeatability, and rigor. Studies comparing salaries based on work duties versus those based on individual skills published in English and accepted for publication in peer-reviewed journals are eligible for inclusion. **Results:** According to the comprehensive literature analysis, the present research provides clear comparison between Job-based pay and skilled-based pay, pointing out a similarity and four differences (1. Criteria for pay determination, 2. Flexibility, 2. Job Scope, and 4. Career progression. **Conclusions:** The result of the current research implies that human resource professionals would be well to learn the effects of various compensation structures on career advancement, and suggests for them that employees can take advantage of chances to advance in their careers based on right compensation schemes.

**Keywords :** Compensation Scheme, Job-Based Pay, Pay, Skill-Based Pay, Human Resource Management

**JEL Classification Code:** O15, J33, M10

## 1. Introduction

Organizations in today's highly competitive business climate are always looking for new ways to compensate their personnel. Skill-based pay and job-based pay system are two methods that have recently received much attention. The skill-based pay plan is a person-based system that rewards workers who have mastered a certain skill set with higher wages. Compensation based on a job's obligations, experience, and education, among other things, is called

"job-based pay." (Ahmad, 2015). The goal of the two compensation schemes is to increase productivity in the workplace by motivating and rewarding hard effort. However, they are not the same in pay scale, adaptability, work scope, or opportunities for advancement.

Institutions with standardized job functions often utilize a job-based system, in which workers' basic salaries are based on their credentials and the going market rate for the position (Richard & Kang, 2018). In contrast, workers who have acquired certain skills are rewarded monetarily for their efforts. Particularly popular in specialized fields like

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technology, healthcare, and arts and crafts. Workers are incentivized to consistently expand their skill sets via merit-based compensation instead of job-based pay, which provides a structured route to advancement based on job titles and organizational charts (Orakwe, 2021; Boxall et al., 2007).

Raising one's degree of expertise may lead to better job prospects and higher pay. A person's professional development is often heavily influenced by the breadth and depth of their skill set (Boxall et al., 2007). The current research compares and contrasts Skill-based pay and job-based pay system, focusing on how each approach affects intrinsic motivation, work satisfaction, and business results. Although much research hasn't been done on skill-based pay system, what there is implies that it may boost organizational efficiency, and most workers view it favorably (Kang & Lee, 2021).

Hybrid payment systems that adopt the best features of both methods should also be investigated. Professionals must grasp the variables in salary negotiation, degree of leeway, work responsibilities, and advancement opportunities (Baldwin, 2003). By considering workers' strengths, human resource managers can create compensation structures that are fair and competitive with the market.

Opportunities for skill development and financial incentives may be fostered in an atmosphere that promotes lifelong learning and professional development. This study does have some limitations, such as the fact that it only includes papers written in English and peer-reviewed by academics and does not include studies written in other languages or that do not directly compare skill-based pay and job-based pay system. Nonetheless, the analysis of the current study sheds light on the advantages and caveats of two compensation plans, providing direction for businesses looking to develop efficient compensation plans.

### 1.1. Background Information

When it comes to incentivizing workers to work toward organizational objectives, money is often at the top of the list. Financial compensation is used to motivate employees (Marsden, 2006) and to entice and keep the most qualified candidates (Morris et al., 2005). The projected positive connections between compensation and performance and the retention of top talent have been proven to be modest at best by studies of real pay (Nankervis et al., 2016). Pay satisfaction, defined as an individual's positive or negative feelings about their pay (Shields et al., 2015), has been proposed by researchers as a more reliable predictor of positive personal and organizational outcomes than actual pay.

Indeed, existing research has shown that pay satisfaction

decreases both turnover intention and actual turnover. Employees that are unhappy with their compensation tend to be less productive, tardy, absent, and dishonest, among other negative effects. Pay satisfaction at the individual level was shown to favorably correlate with academic achievement at the district level and negatively correlate with teacher turnover intentions by Hedge and Pulakos (2002).

It's clear that both financial contentment and discontentment have a significant role in shaping various outcomes. Existing research, however, is not without its flaws. The most immediate concern is with the construct's measurement. For instance, the multidimensionality of the notion of pay satisfaction and turnover intention has been largely ignored in the existing literature (Dierkes, 2003).

## 2. Literature Review

### 2.1. Aims of the Literature Review

The purpose of this research is to better comprehend the effects of skill-Based Pay and job-based pay system on worker pay and business results. The review looks at the many applications of two pay schemes in terms of both academic prior studies. In this overview, this research will look at how both compensation systems work, what makes them unique, how they're grounded in theory, and how they affect employee motivation, job satisfaction, and business outcomes. The limits and difficulties of various compensation models, such as moral hazard, adverse selection, and strategic conduct, are also discussed.

The review also identifies gaps in the literature and suggests areas for further research, such as the need for comparative studies between two compensation plans, exploration of different organizational contexts, and investigation of hybrid payment systems that combine elements of both models. The purpose of this literature study is twofold: first, to familiarize readers with main two compensation plans; second, to give useful information for companies that want to create flexible pay packages.

### 2.2. Skill-based Pay VS Job-based pay

Employees officially recognized as having acquired a specific skill level may be eligible for a pay increase under a scheme known as Skill-Based Pay. In this pay system, monetary bonuses are awarded only when workers have shown they deserve them by demonstrating proficiency (Cutler & Waine, 2005; Richard & Kang, 2018). Experts refer to skill-based pay as a "person-based system" since it emphasizes personal qualities above those required for a specific role. According to the prior study (Dolton et al.,

2003), traditional job-based compensation plans give employees the same amount of money every pay period, regardless of how well they execute their duties. There are several different kinds of skill-based pay systems. Giancola (2011) identifies the three distinct forms of knowledge: depth, breadth, and autonomy. According to the previous work (Guzak & Kang, 2014), the second consideration is whether the incentive is an additional sum on top of regular pay or a bonus. While these pay systems have a standard set of components, their contexts, goals, and methods of execution differ significantly from one culture to the next.

However, the job-based compensation scheme is usually connected to the job title and the seniority can be an important factor in deciding a worker's wage rate. Thus, this kind of pay plan is different from the skill-based pay system which is called 'Pay-for-Knowledge and focused on the pay rate of the current market. The monthly fixed income is designed for a job-based pay plan and it depends on worker's job type, professional degrees workers possess, and their working time (Years) (Van Yperen, 2003). That means that compensation rates for workers can be changed only if they are acquired additional skills. The prior research has also mentioned that skill-based pay is different from the job-based pay scheme, indicating that it is used for team compensation scheme in flat organizations (Armstrong & Taylor, 2017).

### 2.3. The Empirical Evidence Base for Skills-Based Pay

The prior studies regarding skill-based pay are scarcer. Our data comes mainly from the commercial sector since the author could only identify one empirical study on SBP's usage in the public sector (Zeuch, 2016). The majority of the articles here also focus on the industrial sector. The data suggests, however, that skill-based pay programs may help raise organizational productivity. Moreover, investigations of employees' perspectives on such compensation plans indicate that workers have generally favorable impressions of them.

While empirical study on the skill-based pay is still scarce, studies examining how skill-based pay systems affect company performance and other desired organizational outcomes have shown good effects. One such example is the research conducted by Kleijnen and Smits (2003), who looked at a skill-based-equipped component assembly facility. The facility was part of a big organization that manufactured car safety systems, and the authors found a similar plant within the same company that employed a more conventional time-based pay scheme as a point of comparison. After analyzing 34 months of data, Kleijnen and Smits (2003) concluded that the treatment facility's SBP system led to higher productivity, better quality results, and

cheaper labor costs per component compared to the comparative plant.

### 2.4. Research Gap

Even though a lot is written about job-based compensation and skill-based pay, much has yet to be done to compare and contrast how they're used in various workplaces. A dearth of research explicitly compares JBP and SBP and how they affect employee motivation, job satisfaction, and organizational performance, even though certain studies have studied the merits and drawbacks of each model separately (Macky & Wilson, 2013). In addition, the present research tends to narrow down on specific industries or occupations, such as manufacturing or healthcare, rather than look at how job-based pay and skill-based pay may be used more generally in other sectors, such as aviation and education.

Therefore, studies evaluating the efficacy and applicability of different payment methods in various organizational contexts are required. Furthermore, hybrid payment systems that combine job-based pay and skill-based pay aspects to maximize the strengths of each model have received less attention. Organizations looking to create novel and adaptable compensation schemes may benefit from investigating the viability and effects of such hybrid approaches.

**Table 1:** The Key Description of the Literature

Key Subject	Description
Aims of the Literature Review	The review identifies gaps in the literature and suggests areas for further research, such as the need for comparative studies between Job-based pay and skill-based pay plans.
Skill-based Pay VS Job-based pay	The skill-based pay is a "person-based system" since it emphasizes personal qualities above those required for a specific role. According to the prior study. However, the job-based compensation scheme is usually connected to the job title and the seniority can be an important factor in deciding a worker's wage rate.
The Empirical Evidence Base for Skills-Based Pay	While empirical study on the skill-based pay is still scarce, studies examining how skill-based pay systems affect company performance and other desired organizational outcomes have shown good effects.

### 3. Research Methodology

The methodology based on Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) was used. The PRISMA technique is generally considered the gold standard since it guarantees openness, repeatability, and rigor (Burton et al., 2011). The procedures that were used were as follows:

Questions for further study: The research question was established to direct the literature review. A potential study topic is "How similar or dissimilar are job- and skill-based pay?" Formulation of Search Strategy: A thorough search strategy was established to discover applicable studies. Among the most popular search phrases were job-based pay, skill-based pay, compensation systems, payment models, and similar topics (Boyett & Boyett, 2004). The search used several online resources, including PubMed, Google Scholar, and scholarly journals.

The present author devised inclusion and exclusion criteria to choose papers relevant to the study issue. Studies comparing salaries based on work duties versus those based on individual skills published in English and accepted for publication in peer-reviewed journals are eligible for inclusion. Not all studies were included because they did not match the inclusion requirements; for example, conference abstracts, journals written in languages other than English, and studies that did not directly compare the payment strategies (Choudhury et al., 2011).

The initial search results were screened based on titles and abstracts to identify potentially relevant studies. Then, the entire texts of the articles were evaluated for inclusion. Two or more independent reviewers undertook the screening and selection procedure to assure dependability and reduce bias (Brown & Heywood, 2019). Disagreements among the reviewers were discussed and settled by mutual agreement. Information was gathered by utilizing a standardized data extraction form to gather pertinent information from the chosen studies (Nguyen, et al., 2022; Woo, 2020).

By synthesizing and analyzing data, the present author determined how job-based vs. skill-based compensation compares and contrasts. Spotting recurring ideas, trends, and any gaps or contradictions as possible. Results Presentation: The results were presented in a logical and well-structured format that emphasized the main parallels and differences between job-based pay and skill-based pay. Clarity and comprehension may be improved using tables, graphs, and other visual aids.

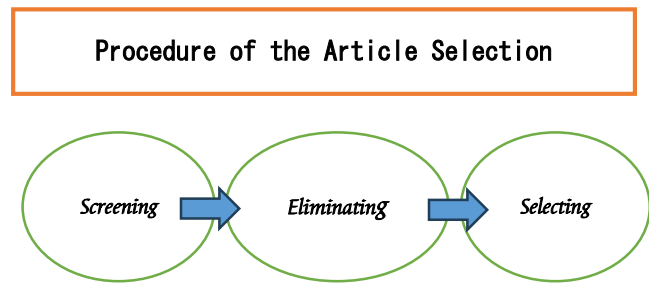


Figure 1: Screening Result of the Current Study

### 4. Research Results

#### 4.1. Comparison between Job-based Pay and Skilled-based Pay

Various payment plans exist in the business environment. However, they all are combinations or variants of job-based payment models derived from competencies of performance and knowledge. Thus, if one believes in possessing abilities and skills that extend beyond the existing job prescription, choosing an organization that compensates its employees based on skills may be wise. An example of job-based pay is single-rate pay for jobs with flat payment rates, like manufacturing jobs like machine operators. Such positions often have a short learning curve, limited performance variability, and are routine (Dierkes, 2003). An example of skill-based pay includes that of a medical doctor. A doctor will always be paid variably depending on the skill level and such that a resident doctor will earn less than an attending doctor, who also probably makes less than a doctor in specialist fields like neurosurgery (Papenuß & Keppeler, 2020).

#### 4.2. Similarity

Compensation: Both job-based and skill-based pay schemes aim to compensate workers monetarily for the value they provide to their employers (Kang & Lee, 2021). Rewarding Effectiveness: Both strategies aim to reward and motivate workers for their contributions to the company's success (Nankervis et al., 2016). Inspiration of Workers: Both methods can encourage workers to improve their performance on the job and expand their skill sets (Murphy, 2020).

#### 4.3. Differences

##### 4.3.1. Criteria for pay determination:

The job-based compensation method bases pay levels on factors unique to each job, such as duties, experience, and education (Gardner & Martinko, 1988). Compensation ranges and market rates for a specific job level or classification determine an employee's base compensation. According to the study (Gomez-Mejia et al., 2014), experience, level of education, and market value for the position in question all play a role in determining salary, whereas skill-based pay emphasizes personnel's existing abilities (Hedge & Pulakos, 2002). Employees get a salary commensurate with their experience and knowledge, with the possibility of a raise as they gain new skills and expertise. Using skill-based compensation is prevalent in fields where workers must have specific skills, such as the technology, healthcare, and crafts sectors.

#### 4.3.2. Flexibility:

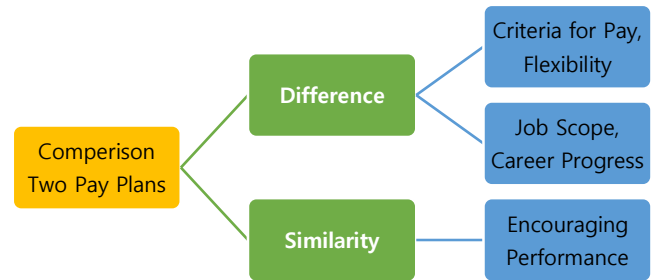
Job-based pay compensation is established by the role held, making this method more rigorous than others. It may make it more difficult for workers to bargain for remuneration reflecting their unique talents and experience (Kandula, 2001). Skill-based pay provides compensation based on demonstrated expertise and offers more leeway in how to allocate resources. It encourages workers to improve their abilities so that they may earn more money and progress in their careers (Kang & Lee, 2021).

#### 4.3.3. Job scope:

Job-based pay considers the individual's qualifications, experience, and education in addition to the duties and obligations of their position. It finds widespread use in institutions with fully defined and standardized job functions (Morris et al., 2005). As for Skill-based pay, employees, regardless of their official title, are compensated depending on their expertise and proficiency in certain areas (Kato, 2018). It works well in firms with fluid job descriptions and where individuals' skill sets may need to be adapted for various activities.

#### 4.3.4. Career progression

Job-based pay systems often provide a regulated path to promotion based on a person's job title and the company's organizational chart. Employees may anticipate more compensation and better job opportunities as they advance in the corporate ladder (Lockey et al., 2017). Skill-based pay is centered on paying workers based on their talents as a great way to motivate them to keep learning and improving. There are chances to advance in one's profession and earn more income due to improving one's skill set (Marsden, 2006).



**Figure 2:** The Summary of the Literature Review Resource

The depth and breadth of one's skill set is frequently a factor in one's professional advancement. A payment plan that is competency-based has been lauded for its ability to encourage and inspire employees to take charge of enhancing their skills and improving their work production to attain the pay rate their desire. Thus, skilled-based pay serves as a means of motivating the workforce and improving business productivity.

## 5. Implications of the Research

To create equitable and market-competitive pay structures, human resource professionals must have a firm grasp of the factors that go into salary calculation. Determining acceptable price ranges for various occupations requires extensive job appraisals and market research in job-based compensation (Morris et al., 2005). Human resource professionals should prioritize designing a skill-based compensation structure that compensates workers for learning and using new competencies. This strategy might include regular skill evaluations, training, and advancement opportunities. Human resource professionals may consider adopting a compensation plan that incorporates components of both job-based and skill-based pay (Shields et al., 2015).

The adaptability afforded by skill-based compensation is helpful for human resources professionals because it permits a more fluid distribution of available funds. Targeted training programs and incentives for continual improvement may be used to motivate workers to improve their skills. Human resource professionals should also develop a clear and widely disseminated structure outlining the requisite knowledge and abilities for various salary grades (You et al., 2007). Employees will be encouraged to take charge of their professional growth and financial success. However, it is crucial to maintain internal equality and market competitiveness when determining skill-based pay rates for employees at all levels of the business.



Job-based pay helps establish salaries in companies that clearly define roles and responsibilities. Human resource professionals should prioritize completing thorough job studies to assess the value of occupations and set fair compensation levels. However, skill-based compensation may be helpful in companies where roles and responsibilities are constantly evolving. Critical skills and competencies required for diverse activities and jobs within the firm should be identified and assessed with high priority by HR professionals. Skill-based pay is implemented by relating necessary talents to monetary rewards, facilitating versatility and adaptation.

Human resource professionals would be well to learn the effects of various compensation structures on career advancement. Human resource professionals implementing job-based compensation should design transparent promotion and progression structures according to job titles and the firm's system (Nankervis et al., 2016). They must establish open standards for determining an employee's merit increase or promotion. Human resource professionals implementing skill-based compensation should prioritize fostering an environment encouraging lifelong education and professional growth. Opportunities to learn new skills and financial rewards for mastery are benefits such programs may give workers. Human resources professionals also need to make sure that employees know about and can take advantage of chances to advance in their careers in a way that supports the organization's mission and values.

## 6. Limitations of the Research

The present research admits the need for empirical studies comparing skill-based pay and job-based pay system. The need for more research on skill-based pay constrains the depth of analysis and generalizability of the results in various organizational situations. The study underscores the need for further studies that explicitly compare and contrast job-based pay and skill-based pay system, despite some research comparing job-based pay and skill-based pay independently. A lack of such research prevents us from understanding their relative efficacy and effects on employee motivation, job satisfaction, and organizational success.

The literature search was undertaken in English. Therefore, research published in other languages should have been noticed. The assessment also did not consider studies published in non-peer-reviewed forms, such as conference proceedings or dissertations, which may have been just as valuable (Kandula, 2001). The review does not provide details about the specific evaluation criteria used or the quality ratings of the included studies, despite mentioning the use of quality assessment techniques like the

Newcastle-Ottawa Scale (NOS) and the Cochrane Risk of Bias tool (Hedge & Pulakos, 2002). The validity and trustworthiness of the results would improve with a more in-depth analysis of the studies' quality.

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