



The Wisdom of Base Pay Structures

By Susan Malanowski

According to a recent report by WorlDatWork on Salary Policies, 85% of organizations have a formal salary structure. In addition they found that market pricing far exceeds all other job classification methods in prevalence. The collection, analysis and application of market intelligence is an important component to creating and maintaining a competitive and affordable compensation program. It is also important to have a pay program that creates employee pay satisfaction. This paper describes the benefits of using a structure, the challenges of working with market data and alignment with the organizational culture.

Salary Structure Benefits

The purpose of a salary structure is to support the attraction and retention of talent to an organization. Organizations that have market based salary structures can communicate about the pay system in a manner that will sustain or increase employee satisfaction with pay, can balance internal equity and external competitiveness and enhance Human Resources and the organization's operational efficiencies.

When compared to the alternative of exclusively using market data to make pay decisions, salary structures can specifically provide the following benefits:

- a. All jobs have a “going rate” regardless of the ability to market price. This is done through a relative comparison and slotting to benchmarks.
- b. The administrative time and organizational resources required to maintain the structure is significantly less because only a representative number of jobs' (benchmarks) market data needs to be updated on a regular basis. In addition, a pure market data approach may lead to human resources spending time explaining and defending market rates.
- c. Ranges are more common and easier for managers and employees to understand rather than focusing on market data. Understanding the pay program can increase employee satisfaction with their pay.



- d. When the internal value of the job is different than the market, common sense can prevail versus trying to mine data to support what the organization feels is the relative internal value of the job.
- e. Salary structures better balance external and internal equity. This is done through the process of using benchmark market data to align the jobs and rates within the structure, and then using internal relative value to slot the non-benchmark jobs in the structure.

Market Data Challenges

Market data analysis is an art and not a science. Although it feels very factual, data is not always easy to find and apply due to the limited number of organizations participating and buying surveys, especially in certain industries. Market data is provided by third party survey vendors which need consistent and strong levels of participation by organizations in order for the data to accurately represent a variety of markets.

As a result, working with market data can lead to the following issues. When every job in the organization is market priced, these issues can be exacerbated.

- a. Market data is imperfect, for example two job levels are reported for the same function, and the higher level job market data comes in lower than the lower level job.
- b. Market data varies from year to year, sometimes going down because of changes in the sample/participants. We know that it "does not make sense", so it is difficult to determine how to use the data or explain it to employees.
- c. Not every position in an organization is a benchmark. When data must be collected for every job, the data often has to be adjusted for survey data that are not a strong match. Under a structure-based approach, these jobs can have market based ranges based on their relationship to an internal benchmark. This is a much more efficient alternative to time spent finding, analyzing and adjusting data.
- d. Even with strong methodologies, judgment and skill is involved in marketing pricing jobs. The intricacies of this can be hard to communicate to employees and managers without training. If you share data with employees, employees have a difficult time feeling that market data is credible when the information comes in lower than they are paid, even if their pay is within the market range of plus or minus 10% of the



- market data composite. In addition they will compare themselves to a job posting or someone else in their function at another organization. When that rate is higher than the market data, they consider their data point to be the most valid.
- e. There is a cost to obtaining, analyzing and reporting market data. This includes buying surveys, using a consultant or an internal resource to market price jobs. In an organization that does not have established job family levels or is regularly creating new jobs, the cost impact could be significant.
 - f. Management has a hard time understanding that not everyone should be paid at market. Market data does not reflect employee performance, potential, competencies, etc. Using ranges helps align performance, competencies and other organizational factors with target pay. For example, when it is appropriate for employees to be paid more or less than the market.

Not all base pay structures are created equal. There are significant differences in how they are designed and utilized and most importantly, the level of transparency to employees. An organization's base pay structure should be customized to meet manager needs and be consistent with an organization's culture.

Alignment with Culture

Sometimes the idea of a traditional salary structure can be inconsistent with an organization's culture. These are typically entrepreneurial organizations that provide autonomy but also expect a high degree of accountability from all employees. Employees live and breathe company values and those who don't soon leave the organization. The organization is successful in making all types of decisions based on articulated concepts and philosophies versus specific policies. These organizations tend to be more risk oriented and have strong data analytics capabilities.

What often works in these cases is providing a framework that is more philosophical and values based. For example, instead of HR telling managers that employees who are below market rate should receive an x% increase, the manager applies the concept that those below market should have higher increases than those above/at market. The manager may



make a consistent or different decision but he/she is accountable for the consequences - good or bad.

In these cases, market data may be a better approach but should be provided in a tool based format with analytical features. With these tools, HR can now focus on management training and individual coaching to assist those who are not as knowledgeable or comfortable with how to use the data to make decisions. It will be up to the manager to decide what to do if there is no market data, not the compensation specialist.

Summary

With the improvement in data and analytics, the tools organizations use to make appropriate pay decisions and improve employee satisfaction with pay will evolve. The speed of this evolution will be based on how the organization views employee pay – strategic or transactional.

There is wisdom in having base pay structures that employees are familiar and comfortable with, because they are prevalent from company to company. At the same time accessibility of market data via the web has created perceptions and awareness about external pay rates. Therefore organizations can best approach the design and management of structures strategically, in a way that is consistent with their organizational culture and values.