PAY STRUCTURES:
BACKBONE OF RECRUITMENT STRATEGY

Remuneration management has been confounded by enormous growth in the complexity of roles, jobs, technical skills and knowledge, and internal and external pressures on remuneration. Taken together with technological change and rapidly changing employee expectations, a complicated series of pay points has been the result, with a landscape of different job, career or technical streams each having its own remuneration structure.

Pay Structures

There are several broad patterns that have emerged (Langley 2008).

- Individual rates.

Whether a single hourly rate, or a senior executive's annual salary, or perhaps a limited range of rates negotiated with the individual, the key point here is that there is tight linking of rate to job, or even to individual person—implying a very high number of different rates. The high maintenance cost that this implies is perhaps the reason that this model is usually associated with executive salaries (Egan 2010a).

- Broad-banding

At the other end of the scale, broadbanding (or broad-grading) offers only a few bands with a range of rates, and typically has little barrier to progression within a band. Strictly implemented, this can lead to drift upwards to the top of a band, and loss of pay relativities.

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- Narrow-banded pay structures

These feature a larger number of bands arranged in a vertical progression, with a small number of increments to each grade or band. Typically used for manual and clerical jobs (Egan 2010a), for the organisation, this structure offers more control than broadbanding, and more certainty than individual rates. However, if there is only a limited number of steps available to employees, then there may be pressure to upgrade individuals or re-classify jobs in order to achieve salary increases. Pay spines—commonly deployed across all levels in the public sector in the UK (Egan 2010a)—may be seen as a form of narrow-graded pay structure.

- Job Families:

Grouping of linked occupations into career-oriented job families allows pay structures to be determined for each family in the light of market rates, competition from other employers, and other extrinsic factors. A common pay spine may be used for all the job families, at the price of reducing competitiveness with external players.

These pay structures are not mutually exclusive, thus providing a further source of complexity. One approach to reducing this complexity is to implement a *Pay Spine* or *Salary Spine.* That is, “an extended series of pay or salary points which can be divided up into a series of grades to create a graded salary structure” (Heery & Noon 2001, p. 263). Complexity may be reduced to a single-spine pay structure—a single scale on which all jobs that are given equal weight are put at the same point, and accordingly employees at the same point on the scale are paid equally regardless of technical or other differentiating factors. As noted above, this integrated approach (*Pay structure – grades, single-status, job familites, job-evaluation – Grades, Structures, Management, Single, Skilled, and Trends* 2011) can be applied to a variety of different pay structures.

Independently, the height of the pay structure may also be varied. A higher structure has a great many pay points; a flatter structure has few pay points, which reflects trends over recent decades to remove layers of management and structure organisations for more flexibilty. That said, a flatter structure reduces opportunities to develop staff, because there are fewer opportunities for promotion, whether permanent or temporary.

Strategy

Strategically, several factors need to be considered when contemplating the pay structures to be deployed.

First and foremost the organisational outcomes sought must be defined and ranked clearly, in order to provide a series of objective criteria to use in designing the most appropriate pay structure. Categories of outcomes include retention, recruitment, productivity incentives, gender or race equity, workforce flexibility, and affordability,

Next, the organisation must determine whether it is looking outwards to the broader labour market context in which it is operating, or whether it is focused inwards, towards its current employees and internal relationships. At one level of abstraction this could be seen as a focus on recruitment as a strategic outcome on the one hand, or retention on the other.There are further practical implications that flow from this decision. Thus, for example, in the former case, analysis of market rates may be a suitable and appropriate approach to setting rates. In the latter case a job evaluation approach may be required to understand and manage the relationships.

In the light of this issue, the second consideration is whether in-principle simplification is feasible. Historically, a complex series of pay points was one way of fine-tuning the organisation’s relationship with each of its employees, and undue simplification may undermine this capacity. That said, the Employee Value Proposition is now understood at a much more sophisticated level (Smith 2010), and accordingly there may be a broader range of options available to complement a simplified pay structure.

Next is the degree to which the organisation is willing to adjust the pay structure in order to address special circumstances. There are three major scenarios (Egan 2010, *Compensating differentials – human capital* 2010). The first is variation in the cost of living in different localities: thus for example, recruiting staff to Sydney may require higher pay because of the cost of housing there. The second scenario is labour market pressure: the mining industry in Western Australia provides an example. Finally, compensating wage differentials may be required for jobs that have particular hazards or other unpleasant features associated with them.

Finally, implementation issues must be considered (Smith 2011). Principles are required to manage each of the following situations, so that the strategic intent of the new pay structure is not diluted by implementation anomalies:

- Current pay matches that proposed under the new structure;
- Current pay is lower than that proposed under the new structure—options include reducing the responsibilities of the job, promoting the individual to the higher grade, or both;
- Current pay is higher that that proposed under the new structure: options include adding new responsibilities to the job; moving the individual to a job at a lower level, offering training and other devlopment to the individual to assist them in attaining promotion, paying the higher rate for a predetermined timeframe, or any combination of these options.

As well, principles covering progression through a grade must be specified, covering accelerated progression, retarded progression, and advancement beyond a grade (ACAS 2005).

Conclusion

Towers (2008) has reported that, although this emphasis changes once they have been appointed, a competitive salary is the number one interest of candidates when selecting a new employer. The choice of pay structure and salary points is accordingly critical for an organisation.

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