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Salary Structures: Value Add or Bureaucratic Waste of Time?

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In today's fast-moving and complex workplace, are salary structures still relevant? The pace of business change and dynamic demand for talent leads many to question whether deploying salary structures still adds value or if it is too time-consuming and a bureaucratic waste of time.

Why Have Them

Salary structures provide a framework to manage base pay that traditionally serves as the foundation of the economic contract between employers and employees. Around since the 1950s and 1960s, salary structures help make sense of external market pricing and internal peer relativity. They also provide governance and transparency around who is paid how much. When designed well, salary structures can help an organization bring life to its rewards values and control compensation while also meeting employee demand for fair pay.



This all sounds eminently sensible. But, inevitably, salary structures require you to organize individuals into similar levels of responsibility and impact on the organization so that you can assign them to salary grades. That's where it gets difficult.

The organization of individuals into similar job levels traditionally has been done through job evaluation, which provides an analytical process to sizing and comparing jobs. And job evaluation is what causes many issues with the deployment of salary structures in today's fast-moving business environment.

The Perils of Job Evaluation

Once created, and due to the bureaucratic effort involved, job evaluation systems have a tendency to become static. They typically aren't maintained, so end up being a one-time tool to

aid in the creation of pay programs. This means that, over time, they can lose relevance — hence the criticism by some that their organization's job evaluation system is archaic. When implementing this invaluable source of insight into jobs, it's important to build in processes for maintaining them so they remain agile and relevant.

Another key criticism of these systems is that job evaluation does exactly what it says on the box: measures jobs, not the individual performing the job. In today's complex workplace, the skills an individual brings to the job often make a big difference to the level of contribution and, therefore, the market value of the employee. This is why some organizations have adopted broadband pay structures rather than traditional salary-step structures. Broadband frameworks emphasize external market comparison rather than internal equity, with a focus on horizontal opportunities rather than on hierarchy. Also, to recognize individual contribution, some employers deploy contribution-based zones within these that segment bands into zones of competency.

Regardless the approach to job evaluation, ensure it can be easily adapted to meet future business needs and is appropriate for the way in which you deploy talent.

One Size Fits All

When implementing salary structures, be open to the fact that it may not be effective to shoehorn all employees into one framework. Due to the increasing diversity of the workforce, different roles may be performed by different types of talent. Sometimes, to get work done, you have to buy in specific skills from the market. But that requirement may be short term, and you are unlikely to be able to offer career progression to these highly skilled employees for the long term.

In this case, a single rate of pay aligned to the market may work. Or you may need specific, unique skills that are learned on the job internally and cannot be bought from the external market. Here, a lower starting pay that increases incrementally as individuals gain the required expertise may be relevant. It's important to understand where pockets of talent exist and how to segment and align your rewards approach.

There are some compelling examples of innovative approaches to salary structures that work for the business. Buffer, the social media management platform, opted to publicly publish salary information on every employee. Salaries are determined using a salary calculation formula that has been adapted over the past four years. Most importantly, the company uses this approach to reinforce its value of transparency. Gravity Payments took another approach, implementing a \$70,000 annual minimum salary for employees to alleviate the distraction that pay can cause while also reinforcing the company's values.

While these might be quite extreme examples that would be hard to apply to large organizations with many years of hereditary salary structures, they do highlight the importance of aligning to company culture and business strategy and talent requirements.

Achieving Equal Pay

One area in which salary structures can add value is ensuring pay equity. A transparent pay structure can give employees confidence that their pay is fair and nondiscriminatory. But you do need to consider whether your salary structures carry any inherent bias.

The first place to look is your job evaluation framework. Make sure the framework avoids any bias due to historical division of labor based on gender roles so that it can assess roles in a fairly and consistent manner as well as judge each role using the same gender-neutral criteria. You also need to question whether the market data you are using carries inherent bias for the same reasons that recently introduced U.S. equal pay legislation bans employers from seeing information about applicants' compensation history. Even though market data can be a material defense when it comes to an equal-pay claim, ultimately it is sourced from other employees' salaries that may have pay inequity built in and, therefore, may carry inherent bias.

Value Add

Despite the potential pitfalls, transparency is a critical part of the employee engagement question when it comes to base pay, thus making salary structures critical. The trick is to provide a framework that reflects your own organization's business strategy and talent requirements. Then ask yourself two key questions: How agile is it? And, is it free from any inherent bias?

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