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Designing Salary Structures

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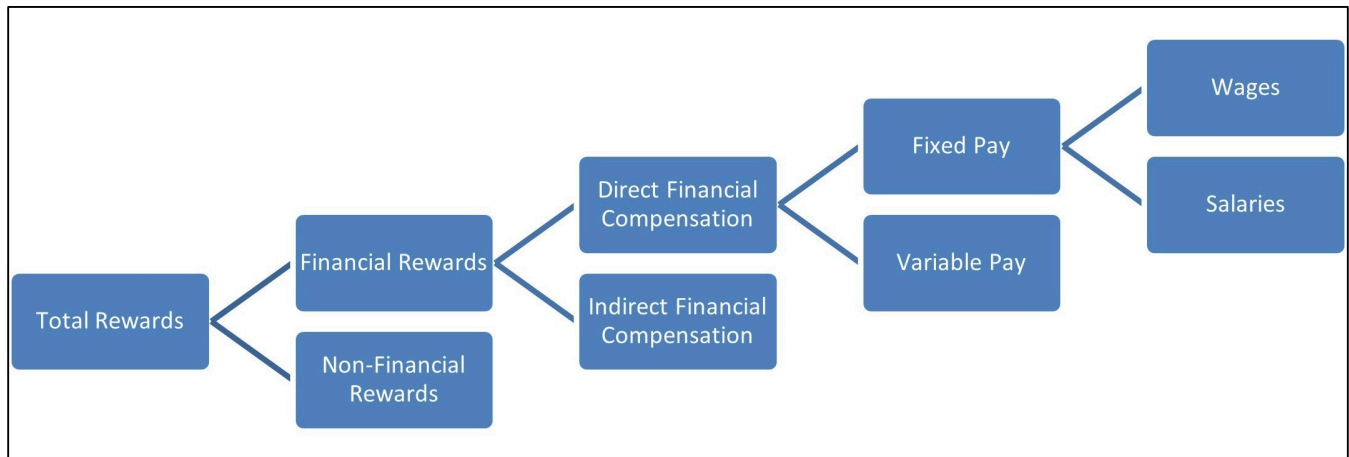
Designing Salary Structures

Overview

Employers reward employees in exchange for their work and services. These rewards may be financial—with a direct monetary value—or nonfinancial, such as flexible scheduling, a positive organizational culture, or the intrinsic motivation that comes from working in a particular role or organization. Financial rewards are typically classified as either direct or indirect. Direct rewards consist of monetary compensation, whereas indirect rewards encompass employee benefits, including pensions and healthcare plans.

Monetary compensation can be either variable or fixed. Variable compensation is generally tied to performance, such as incentives and bonuses, whereas fixed compensation is often expressed through wages or salaries. The distinction between the two is essential. Wages are calculated on an hourly basis, and employees who are paid hourly usually qualify for overtime pay. Salaries, in contrast, are fixed payments delivered regularly, typically biweekly or monthly. Salaried employees are often exempt from overtime pay in some countries, such as the United States. Although employees tend to evaluate their compensation based on the total rewards package, this Skill focuses specifically on salaries. [Figure 1](#) summarizes the various types of rewards.

Figure 1. Total rewards: types of rewards to attract, motivate, engage, and retain employees.



Source: Created by the Author.

Salaries are typically linked to jobs within an organization, but employees holding the same position are rarely paid the same amount of money. Defining a minimum and maximum pay level for each job or job category is common practice, allowing for flexibility in adjusting compensation within that range. Employees typically move upward within the range based on seniority, experience, skills, and performance. A salary scale therefore is a structured system that specifies the pay range an employee can receive for a particular job or job category.

Employees should view total compensation, including salaries and wages, as fair and equitable. According to J. Stacy Adams' (1963) equity theory, employees compare their work efforts and compensation—essentially their inputs and outputs—with those of other employees both within and outside their organizations. If they believe that they are being treated fairly, employees are likely to maintain their productivity levels. However, if they feel that they are being treated unfairly, they may become dissatisfied, which can lead to a decrease in productivity or resignation. Conversely, if employees believe that they are being treated better than others, they are more likely to feel satisfied, which can result in increased productivity and higher retention rates.

Salaries should be equitable because employees expect to receive the same pay

as others who are perceived to contribute similar effort. There are two types of equity to consider:

1. *Internal equity.* Employees should view their compensation as fair compared with that of others within the same organization. This means that employees may compare their pay with that of colleagues in similar or the same positions as well as with those in higher or lower roles within their career paths. They also may evaluate their compensation relative to jobs in different vocational tracks.
2. *External equity.* Employees should perceive their pay as fair when compared with that for similar jobs outside their organization.

Consequently, the task team assigned to design the compensation system must ensure high equity levels throughout the design process of the salary scale. To achieve this, the process should be objective, clear, transparent, well communicated, unbiased, and compliant with relevant laws and regulations.

This Skill discusses the process of designing salary scales. The process begins with selecting the team that will be involved. Next, job evaluations should be conducted based on job analysis and job descriptions to determine the relative worth of each position. Following this, a salary survey should be conducted to determine the market curve. After establishing the market curve, the organization should define its own salary curve. Finally, the team must determine the appropriate salary grades. [Figure 2](#) specifies these five main steps for designing salary scales.

Figure 2. Steps for designing effective salary scales.



Source: Created by the Author.



Learning Objectives

After reading this Skill, students should be able to

- understand the key principles and best practices for forming an effective task force dedicated to designing salary scales;
- compare various methods for conducting job evaluations to ensure internal equity when assigning salaries to different occupations;
- conduct salary surveys to ensure alignment between external and internal equity when designing these salary scales;
- determine the most suitable pay policy by conducting a thorough assessment of the organization's internal and external environments;
- generate an organizational salary curve that correlates job evaluation results with the chosen pay policy; and
- create salary grades for each occupational group to provide flexibility, promote fairness, and ensure the best fit with the organiza-

tion's context.

Suggested Readings

Adams, J. S. (1963). Towards an understanding of inequity. *Journal of Abnormal and Social Psychology*, 67(5), 422–436. <https://doi.org/10.1037/h0040968>

Gupta, N., & Douglas Jenkins, G. (1991). Practical problems in using job evaluation systems to determine compensation. *Human Resource Management Review*, 1(2), 133–144. [https://doi.org/10.1016/s1053-4822\(05\)80005-1](https://doi.org/10.1016/s1053-4822(05)80005-1)

Ismail, S., Arshad, A. S., Abd Rahman, N. H., & Shafie, N. I. (2022). Job price compensable factors and parameters: The framework of the job evaluation system. *Sustainable Business and Society in Emerging Economies*, 4(3). <https://doi.org/10.26710/sbsee.v4i3.2402>

Kilgour, J. G. (2008). Job evaluation revisited: The point factor method. *Compensation & Benefits Review*, 40(4), 37–46. <https://doi.org/10.1177/0886368708320563>

Korn Ferry Hay Group. (2017). Job evaluation: Foundations and applications [Guide]. <https://www.kornferry.com/content/dam/kornferry/docs/pdfs/job-evaluation.pdf>

Select the Task Force

Designing salary scales is a complex human resources (HR) process that neces-

sitates the formation of a dedicated task force to ensure that the methodology employed is not only valid and reliable but also representative and inclusive of all stakeholders involved. Creating salary scales also involves various decision-making and analytic procedures. Thus, the caliber of the final salary policy is heavily dependent on the competencies, backgrounds, and active participation of task force members.

The task force should comprise HR professionals with expertise in key areas, such as job analysis, job evaluation, and compensation systems. This ensures that the team has a comprehensive understanding of the various roles within the organization and can accurately assess the appropriate compensation levels for each role. The team also should include a diverse group of representatives from various job categories, organizational divisions, and functions, particularly those in managerial or supervisory positions. This diversity enriches the discussion, providing a broad spectrum of insights and perspectives that enhance the customization, relevance, and overall acceptability of the salary scales.

In some cases, organizations may choose to engage external consultants who specialize in compensation strategies to provide an objective viewpoint and expert guidance throughout the process. These external experts can bring fresh ideas and benchmarking data that might not be readily available internally. Or some organizations opt to rely only on internal consultants, typically HR compensation specialists, who have a deep understanding of the organization's culture and compensation philosophy.

Furthermore, considering the role of union representatives in this process is cru-

cial. Their involvement may be mandated by existing collective bargaining agreements, but also advisable is including them proactively in discussions regarding salary scales. Engaging unions early on can help mitigate potential resistance to new salary structures when they are implemented. Additionally, it facilitates smoother negotiations during the contract renewal process because unions are more likely to support changes that they had a hand in shaping.

Although involving additional stakeholders is generally advantageous, it should be weighed against practical considerations. The greater the inclusion, the more prolonged, expensive, and complicated the procedure becomes. Therefore, restricting the number of participants in the task force is best. As practical guidance, having a wider array of viewpoints enhances the quality of input, but managing complexity to maintain the team's functionality is essential.

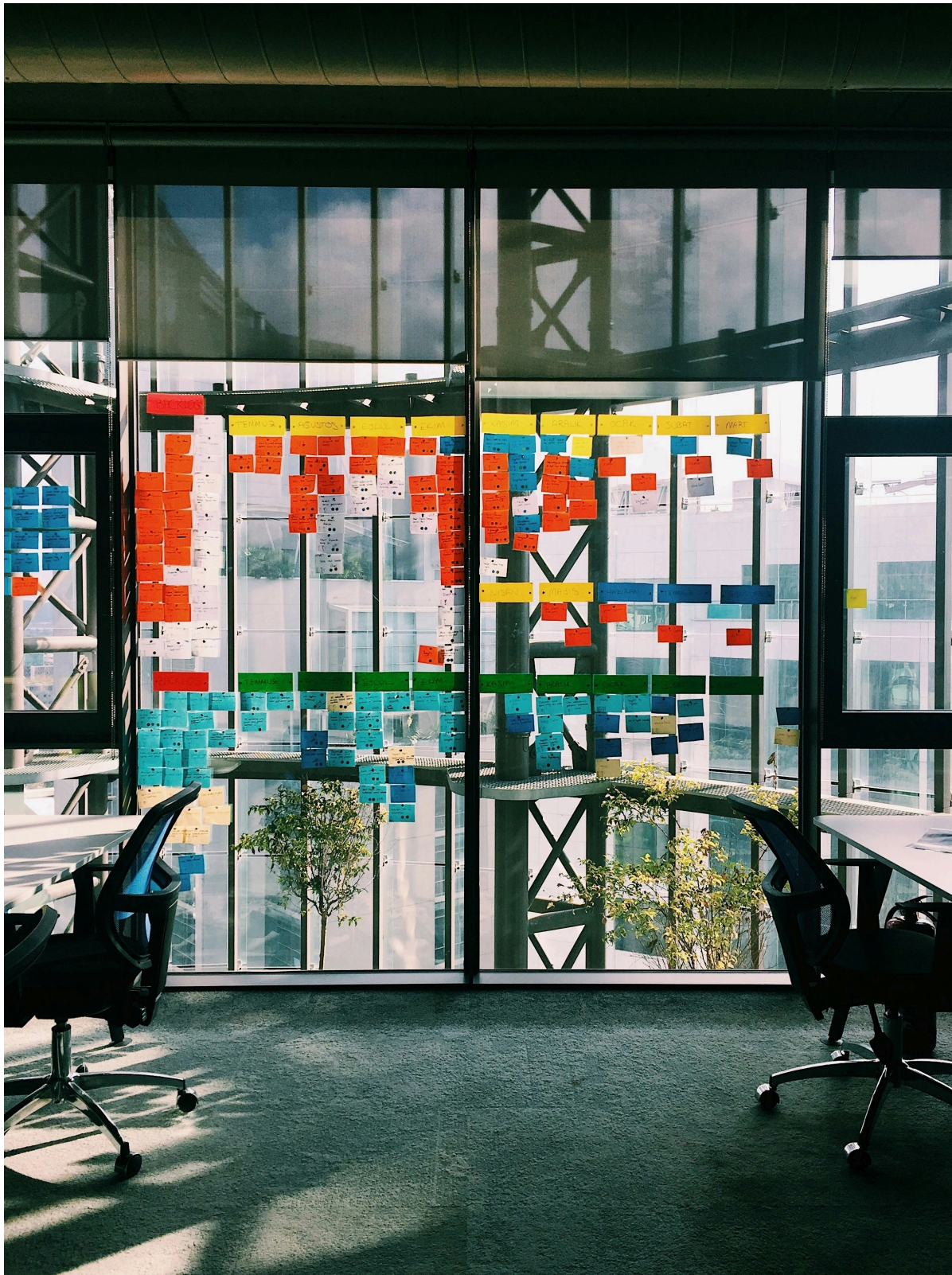
The following video explores how salary structures can help eliminate disparities in compensation and why understanding bias in salary structures is essential for creating fair and equitable compensation systems.

Video 1. Salary Structures and Bias.

[Click here](#) to view the online version of the skill for an optimal experience of its multimedia resources.

Selecting an Evaluation Method

How much should I pay a marketing manager compared with a finance manager? If a company decides to pay the marketing manager more than the finance manager, then what is the rationale behind this decision? And within the finance team, a finance manager should earn more than a senior accountant, and a senior accountant should earn more than an accountant. To determine how much more a senior accountant should earn compared with an accountant and how much more a finance manager should earn than a senior accountant, we need to evaluate each position to establish its comparable worth.



Source: Photo by İrfan Simsar on Unsplash.

Job evaluation serves as the starting point for designing a salary scale that con-

nects fixed pay for each role, with a focus on internal equity when differentiating pay among employees. This rational process ensures that pay differentials are fair, objective, transparent, and consistent, resulting in a job hierarchy based on the importance of the job and the value each position adds to the organization. Widely recognized is that jobs vary in pay due to several factors, including experience, skills, levels of responsibility, and the overall impact of each role on organizational performance.

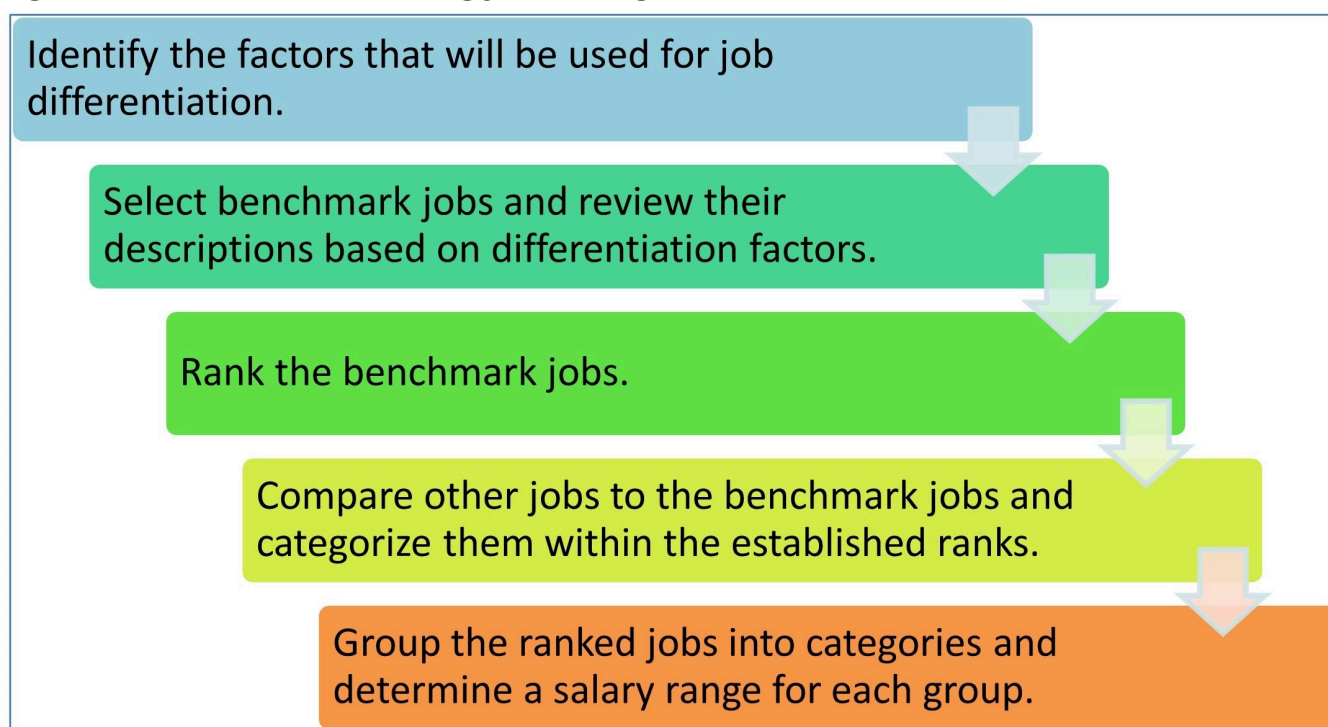
The process of job evaluation focuses on assessing the jobs themselves rather than the individual employees occupying those roles. This means that different employees in the same position may receive varied pay within the designated pay range. Generally, four primary methods are used for job evaluation that concentrate on internal equity. The initial two methods, job ranking and job classification, are qualitative and largely depend on the judgment of the decision makers. The next two methods—factor comparison and the point method—are quantitative and seek to minimize subjectivity by applying measurable criteria to determine the relative value of jobs. We should acknowledge that some methods emphasize external equity in determining compensation, such as market pricing, which dictates a job's pay based on its value in the market, adhering to specific managerial guidelines. In practice, decision makers typically consider both internal and external equity when evaluating jobs, resulting in a combined approach to job evaluation.

Job Ranking Method

Job ranking is a qualitative method of job evaluation that involves assessing jobs

based on their value to the organization. In this approach, each job description is reviewed and compared with others, allowing us to organize the jobs in order of their importance to the company, from highest to lowest. This comparison continues until we have evaluated and ranked all the jobs within the organization or all the jobs we intend to assess. The process is depicted in [Figure 1](#).

Figure 1. Process for conducting job ranking.



Source: Created by the Author.

When an organization has a large number of jobs, selecting 10–20 benchmark jobs to rank first is advisable. Other jobs then can be compared with the benchmark positions, determining whether they fall above, below, or are equal to each benchmark job. This process establishes a job hierarchy, in which higher-ranked positions are associated with higher pay. Jobs also can be categorized, with each category assigned a specific salary range. This categorization simplifies the salary

structure and offers more flexibility within the salary ranges. These groups may be referred to as *salary classes* or *grades*. When selecting benchmark jobs, choose a comprehensive and representative group to ensure accurate comparisons.

[Table 1](#) provides an example of job rankings for a sample of retail store positions. A total of 20 jobs have been ranked, with five benchmark jobs noted with an asterisk. After ranking these benchmark jobs, we evaluate the remaining 15 positions by comparing them with the benchmark job. This process results in a final list of all 20 ranked jobs.

Table 1. Job Ranking for a Sample of Retail Store Positions.			
Rank	Job	Rank	Job
1	Store manager*	11	Customer service representative
2	Assistant store manager	12	Deli/bakery team associate
3	Human resources manager	13	Retail sales associate*
4	Marketing manager*	14	Maintenance associate
5	Inventory manager	15	Merchandise
6	Team leader	16	Cashier
7	Loss-prevention supervisor	17	Loss-prevention associate
8	Customer experience supervisor*	18	Security guard
9	Receiving area supervisor	19	Stocker*

10

Buyer

20

Cleaner

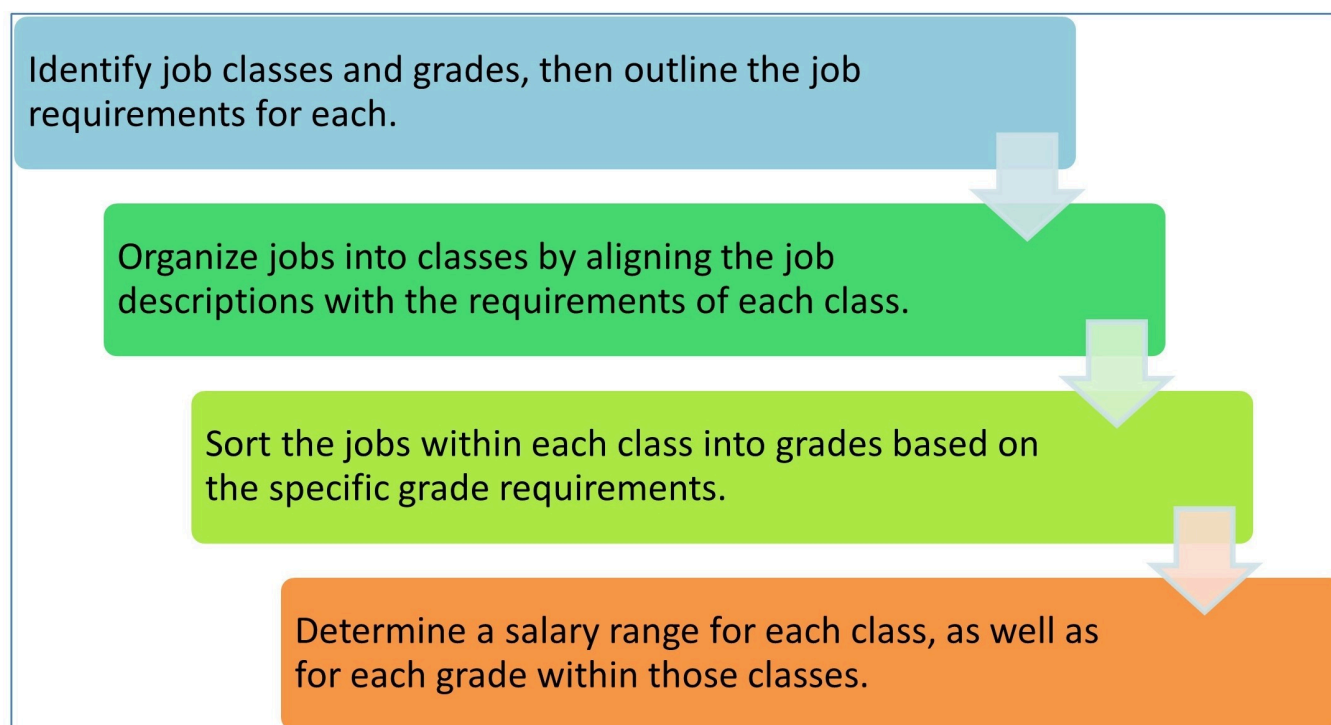
Note: Benchmark jobs are noted with an asterisk.

The job ranking method is relatively simple and efficient when there are only a few jobs to consider. For instance, if there are just 20 jobs to evaluate, this method is quite manageable. However, what happens when there are 10,000 jobs? Is it practically feasible to compare each job against the other 9,999 jobs? Therefore, the job ranking method is most effective for small organizations with a limited number of job categories.

Job Classification Method

Job classification, also known as the *job grading*, is a qualitative approach to job evaluation that organizes jobs into predetermined grades or classes. [Figure 1](#) summarizes the key steps involved in conducting the job classification method.

Figure 1. Process for conducting job classification.



Source: Created by the Author.

Each class represents a group of jobs with similar tasks, duties, responsibilities, and qualifications. Job descriptions are revised, and each position is assigned to the most appropriate class by matching its description with the requirements of that class.

These classes are ranked from highest to lowest in value, meaning that the higher-ranked classes generally are offered higher salary ranges than the lower-ranked ones. Within each class, there are different grades that indicate varying levels of difficulty and responsibility. Having several grades within each class is common, especially when an organization has many jobs and needs to differentiate further within each class due to significant variations in comparative worth.

[Table 1](#) illustrates an example of job classification for retail store positions. Five

classes have been identified: managers, supervisors, skilled workers, semiskilled workers, and less-skilled workers. Each class has a specific description, and each store job has been assigned to a class based on its alignment with these descriptions.

Table 1 Job Classification for a Sample of Retail Store Positions.			
Class	Rank	Description	Jobs
A	Managers	Spend most of the work time on assigning and meeting store objectives	Store manager
			Assistant store manager
			Human resources manager
			Inventory manager
			Marketing manager
B	Supervisors	Offer hands-on oversight to a team or group of operational or technical staff	Team leader
			Loss-prevention supervisor
			Customer experience supervisor
			Receiving area supervisor
C	Skilled workers	Perform essential store tasks that require a high level of knowledge, skills, and abilities.	Buyer
			Customer service representative
			Deli/bakery team associate
			Retail sales associate
			Maintenance associate
D	Semiskilled workers	Perform essential store tasks that require a medium level of knowledge, skills, and abilities.	Merchandise
			Cashier
			Loss-prevention associate

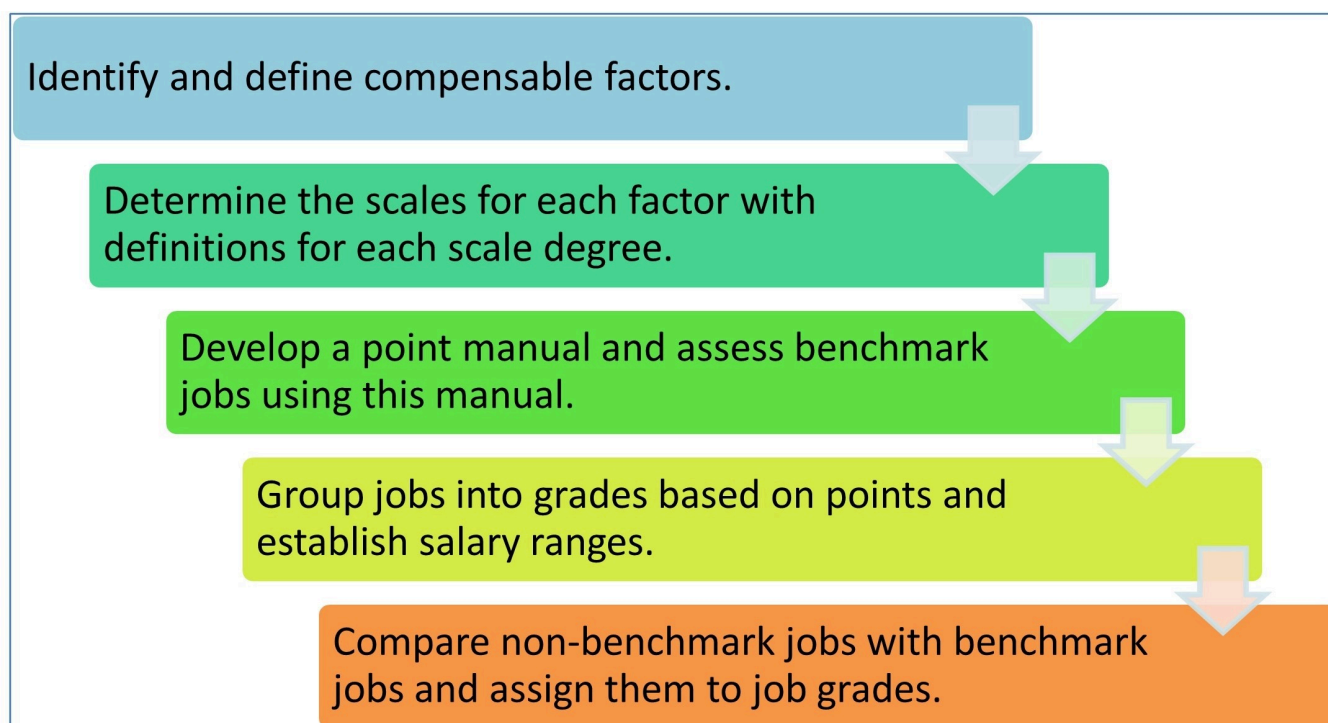
E	Less-skilled workers	Carry out tasks that require fundamental knowledge, skills, and abilities.	Security guard
			Stocker
			Cleaner

The job classification method is generally viewed as less subjective than the job ranking method, making it more acceptable to employees. However, like job ranking, it still can be influenced by subjectivity. Additionally, job classification may become more complex to implement if there are numerous jobs or if certain jobs can be classified into multiple categories. In contrast to the job ranking method, the job classification method is more feasible for larger organizations and is widely used by government agencies.

Point Factor Method

The *point factor method* is the most commonly used type of job evaluation. This quantitative technique involves assigning point values to jobs based on specific, predetermined criteria known as *compensable factors*. By comparing the scores of various jobs, we can determine their relative worth. The point factor method process is depicted in [Figure 1](#).

Figure 1. Process for conducting the point factor method.



Source: Created by the Author.

To implement this method, the first step is to identify key criteria essential for the organization to achieve its objectives. Compensable factors are consistent across jobs within the company and are vital for reaching its goals, prompting the organization to reward employees based on these factors. Common compensable factors include skills, effort, responsibility, and working conditions. However, organizations also can consider other relevant factors, such as knowledge, creativity, and hazards, depending on their specific context. Limiting these factors to four or five is advisable to simplify the evaluation process. Additionally, each compensable factor may include subfactors that provide more specificity and accuracy in measurement. For instance, the category of skills could be further divided into two subfactors: education and experience.

After determining the compensable factors, the next step is to create a *scale man-*

ual. This manual includes definitions for each compensable factor. Additionally, each factor is assigned a *degree scale*, typically a 5- or 7-point scale whereby each level within the scale is clearly defined. [Table 1](#) offers an example of a scale manual for the skill compensable factor, including its two subfactors: education and experience.

Table 1. Scale manual for the skill compensable factor.

Compensable factor: Skill	Definition: The level of education and experience required to perform job tasks effectively
Subfactor 1: Education	Definition: Years of education required to perform job tasks effectively
First degree	Fewer than 12 years of formal education
Second degree	A minimum of 12 years of formal education, equivalent to a high school diploma
Third degree	A minimum of 14 years of formal education, equivalent to an associate's degree
Fourth degree	A minimum of 16 years of formal education, equivalent to a bachelor's degree
Fifth degree	A minimum of 18 years of formal education, equivalent to a master's degree
Subfactor 2: Experience	Definition: Years of experience required to perform job tasks effectively
First degree	No prior experience required
Second degree	No more than 2 years of experience required
Third degree	A minimum of 2 years and less than 4 years of experience required.
Fourth degree	A minimum of 4 years and less than 6 years of experience required.

Fifth degree

A minimum of 6 years of experience required

Next, a point manual should be developed for all compensable factors. This manual includes the weights assigned to each compensable factor and its subfactors. Additionally, based on these weights, it specifies the points assigned for each degree within each compensable factor and its subfactors. Let’s assume that the maximum number of points for assessing the positions of the retail store is 1,500 points. We consider four compensable factors—skill, effort, responsibility, and working conditions—to evaluate the value of retail store jobs. [Table 2](#) reflects the point assignments for each compensable factor and subfactor based on the assigned weights for each.

Table 2. Point manual for the retail store positions.								
Compensable factor	Weight	Compensable subfactor	Weight	1st	2nd	3rd	4th	5th
Skill	40%	Education	15%	45	90	135	180	225
		Experience	25%	75	150	225	300	375
Effort	25%	Mental	15%	45	90	135	180	225
		Physical	10%	30	60	90	120	150
Responsibility	25%	Supervision	10%	30	60	90	120	150
		Financial	15%	45	90	135	180	225
Working conditions	10%	Working Conditions	10%	30	60	90	120	150

Afterward, jobs are evaluated using a point manual. If the number of jobs being assessed is manageable, evaluating them all may be more efficient. However, for larger organizations with many positions, only the benchmark jobs are assessed using the point manual. The remaining jobs are then compared with the benchmark positions and assigned to the corresponding salary grade of a similar benchmark job.

[Table 3](#) is an example of an assessment of five benchmark jobs within a retail store. For each benchmark job, the compensable factors and subfactors are evaluated using a 5-point scale. These evaluations are then converted into points using the point manual. The final result is the total number of points assigned to each benchmark job, reflecting its comparable worth. This, in turn, helps determine an appropriate salary range for each position.

Table 3. Point Factor Assessment of the Five Benchmark Jobs in a Retail Store.						
Compensable factor	Compensable subfactor	Store manager	Marketing manager	Customer service supervisor	Retail sales associate	Stocker
Skill	Education	225	180	60	45	45
	Experience	375	300	300	150	75
Effort	Mental	225	180	135	90	45
	Physical	120	90	120	120	120
Responsibility	Supervision	150	90	90	30	30
	Financial	225	135	60	90	45

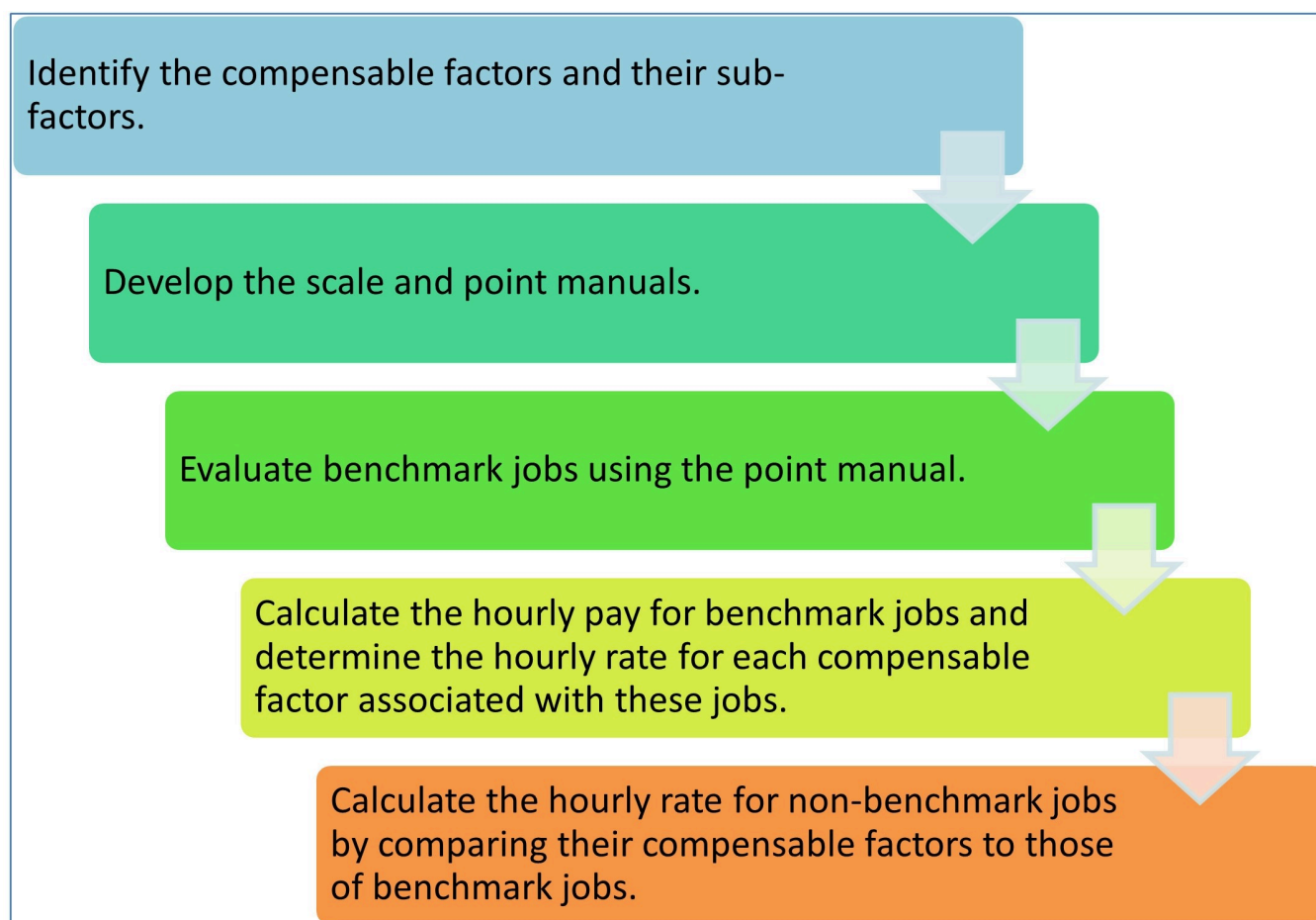
Working conditions	120	90	120	120	120
Total points	1,440	1,065	885	645	480

The point factor method is generally more comprehensive and objective than qualitative methods, making it more acceptable and more fair to employees due to its focus on objectivity and process. However, implementing this method requires significant commitment and time from the decision-making team to design and execute the process. Additionally, it can be complex for someone without a background in the area to understand.

Factor Comparison Method

The *factor comparison method* is another quantitative job evaluation technique that ranks jobs in relation to one another across several compensable factors. This method is a hybrid of both the ranking and point methods because it rates jobs by comparing them and analyzing each job against compensable factors. The process of conducting the factor comparison method is outlined in [Figure 1](#).

Figure 1. Process for conducting the factor comparison method.



Source: Created by the Author.

Each job is assigned an hourly rate based on these factors. In this approach, the wage rate is broken down into smaller components, with a specific amount of money assigned to each compensable factor. This evaluation methodology is typically used for white-collar, professional, and managerial positions because it is better suited for complex jobs for which the value of the jobs is not easily measured by output alone.

The factor comparison method is similar to the point method, whereby benchmark jobs are evaluated using a point manual. The process begins by assigning points to each compensable factor and subfactor for the benchmark jobs, followed by

calculating the total points. Afterward, a monetary value is assigned to each point, which ultimately determines the hourly wage for each benchmark job. This wage can be further broken down into components for each compensable factor and its respective subfactors.

For instance, if we set the point value at 4 cents per point, the hourly wage for a store manager would be calculated as follows: 4 cents × 1,440 points = \$57.60. To break this down further, the hourly wage allocated for skills, effort, responsibility, and working conditions would be \$21.00, \$13.80, \$15.00, and \$4.80, respectively. [Table 1](#) displays the hourly wages for the five benchmark jobs at a retail store and calculates the hourly pay for each compensable factor associated with those jobs.

Table 1. Hourly Pay Compensable Factors Breakdown of the Benchmark Jobs in a Retail Store.					
Job	Hourly pay	Hourly pay, skills	Hourly pay, effort	Hourly pay, responsibility	Hourly pay, working conditions
Store manager	\$57.60	\$24.00	\$13.80	\$15.00	\$4.80
Marketing manager	\$42.60	\$19.20	\$10.80	\$9.00	\$3.60
Customer service supervisor	\$35.40	\$14.40	\$10.20	\$6.00	\$4.80
Retail sales associate	\$25.80	\$7.80	\$8.40	\$4.80	\$4.80
Stocker	\$19.20	\$4.80	\$6.60	\$3.00	\$4.80

The next step is to identify the hourly pay for all nonbenchmark jobs. As an example, let’s use the team leader position in [Table 1](#) in [Topic 3](#). The skill level of

the team leader is comparable to that of a customer service supervisor, resulting in a skill hourly pay of \$14.40. The effort level of the team leader is the same as that of the customer service supervisor, resulting in an hourly pay of \$10.20. The responsibility level of the team leader aligns with that of a marketing manager, so the responsibility hourly pay for the team leader is \$9.00. Finally, the working conditions for the team leader are similar to those of the customer service supervisor, leading to a working conditions hourly pay of \$4.80. In total, the hourly pay for the team leader amounts to \$38.40. Therefore, for nonbenchmark jobs, monetary values are assigned directly to each factor, and the sum of those values determines the total hourly rate for the job.

The factor comparison method shares the same advantages as the point factor method. Another major advantage is that it directly translates comparable worth into an hourly dollar value. However, this method is more time-consuming and requires more effort to implement than the point factor method. Additionally, because the results are reported in dollar values instead of points, it necessitates more frequent updates. Overall, due to its complexity and the need for these updates, the factor comparison method is generally less used than the point factor method.

A heavy machinery manufacturing facility is implementing a new automation system designed to increase productivity. The operations manager oversees all activities related to this initiative. Because the new automation system requires continuous updates, the company previously relied on outsourced software engineers for this function. However, due to its strategic importance, the board has decided to internalize this function and recruit a software engineering manager who will re-

port directly to the operations manager.

Although this new position is evaluated at a lower level than the operations manager role, the HR department has found that qualified candidates for the software engineering manager position are expecting higher salaries than what the operations manager currently earns.

What is the best course of action to ensure both internal and external equity while maintaining the strategic role of software engineering within the manufacturing facility?

Because software engineering is a strategic function, the organization should recruit the most qualified software engineering manager while maintaining the operations manager's salary at the current level.

Feedback: *Feedback:* This solution will achieve external equity by providing a competitive salary for the software engineering manager and will ensure that the strategic function is integrated within the firm. However, there will be a significant issue regarding internal equity. In this scenario, the operations manager supervises the software engineering manager but will earn less than their direct report.

To ensure internal equity, the organization should recruit a software engineering manager who requests a salary below market rates, even if this means

hiring a less-than-average candidate.

Feedback: *Feedback:* This solution aims to achieve both internal and external equity. However, a significant concern is the quality of the newly recruited manager. Because this role is crucial for the successful implementation and updating of the automation system, there is a risk that the new hire may not be able to perform their duties effectively. This could negatively impact the productivity of the manufacturing facility, leading to issues such as production downtime, errors, and reliance on just-in-time outsourcing services. All these factors ultimately could cost much more than the savings realized from the new recruit's salary.

To ensure internal and external equity, the organization should refrain from creating this new position, even if it is strategic to its operations. Thus, the organization will depend on an outsourcing company to provide software engineering services.

Feedback: *Feedback:* This solution aims to achieve both internal and external equity. However, it also presents a potential strategic risk. Because this function is critical to the new operations, organizations often choose to handle it internally. Alternatively, the company may form a strategic alliance with an outsourcing firm to prevent sharing

their knowledge with competitors and to maintain high-quality service. Thus, special attention should be given to the cost of these services, the quality of the services, the consistency in service delivery, and the risk of knowledge loss.

To achieve internal equity, the organization should reassess the role of the operations manager, leading to a higher salary allocation.

Feedback: *Feedback:* This solution will achieve both internal and external equity while integrating software engineering as a strategic function. The operations manager's role now includes overseeing the software engineering function, which increases the level of responsibility, skill, and effort required. As a result of this job revaluation, the operations manager will receive a higher salary, enabling the recruitment of a highly qualified software engineering manager. However, paying special attention to the current operations manager is essential. There may be a need to adjust the job's duties, and a development plan should be created to ensure that the operations manager can effectively fulfill these new responsibilities.

Salary Survey Guidelines

After job evaluations are completed, a salary survey should be conducted to as-

sess external equity. Salary surveys are a structured method for collecting information regarding salaries in the external labor market. However, the organization must design these surveys meticulously to ensure that the data gathered are reliable, valid, and pertinent to its specific context. Furthermore, management can choose to either conduct its own surveys or obtain survey data from various sources, such as professional organizations and HR consulting firms.

A reliable compensation survey uses standard, proven methods for gathering data and conducting statistical analysis to determine the salaries companies offer for specific jobs within a particular industry. When an organization decides to purchase data, it should ask several questions, such as inquiring about the methods used for data collection, the types of organizations included in the survey, and the specific jobs that were analyzed.

Even if the organization conducts the survey internally, it should perform due diligence and thoroughly analyze the collected data. Salary decisions can heavily depend on this information. Using inaccurate data may lead to significant payroll costs if it suggests salaries above the market average, or it may result in high employee turnover if it indicates salaries below the market average.

If an organization plans to purchase salary data from an external vendor to assist with its salary survey process, these guidelines should be followed:

1. *Select credible companies.* Select well-regarded firms that use reliable and valid quantitative methods for gathering and analyzing compensation data.
2. *Understand the survey scope.* Ensure that the survey covers the industries, jobs, and regions most relevant to the organization while also being cost ef-

fective.

3. *Review methodology.* Examine the summary of the methodology used to ensure that it aligns with industry standards or those set by reputable industry associations. Engaging with HR professionals or senior management can provide accurate salary information necessary for both internal and external surveys.
4. *Check sample size and statistical significance.* Ensure that the survey includes a representative number of jobs and companies for its target population. Although it does not need to cover the entire industry or region, it should involve at least a few dozen responding employers to provide sufficient data for validation. Verify that the sample size (i.e., the number of incumbents for each job surveyed) is at least 30 to ensure statistical significance.
5. *Analyze competitors' data.* Research salary information from industry competitors because the organization may be competing directly with those firms for candidates. Additionally, consider that the organization might be attracting similar talent from different industries that operate in the same geographic area.
6. *Match job descriptions.* Confirm that the job descriptions are relevant to the positions being benchmarked. Find a good match between the survey and the organization, comparing job descriptions rather than just relying on job titles, to ensure accurate results.
7. *Use recent data.* Ensure that data are recent, specifically within the past year and preferably within the last 6 months.

Drawing the Market Curve

After conducting a salary survey that collects data on salaries for, at a minimum, benchmark jobs, the job pricing process can begin. For each job, the organization gathers multiple observations and performs descriptive data analysis, focusing particularly on the minimum, maximum, range, and average salaries for each benchmark position. Job pricing is a systematic process that assigns monetary rates to jobs, ensuring that a company's internal salaries align with external market salaries. This process is essential for developing the company's pay policy.

During this stage, a market salary curve is generated. The x-axis represents the job evaluation points of benchmark positions, and the y-axis shows the salaries that the external labor market pays for those roles. By combining data for these jobs, we can create a scatterplot that enables us to draw a straight line connecting the points. We can manually draw the salary curve by ensuring that approximately the same number of points are above the line as are below it, or we can use a statistical regression process for greater accuracy. This market salary line visually represents the relationship between job evaluation points and the salaries offered for those positions. Although the actual market salary trend is typically more of a curve, we can simplify the representation by using a straight line.

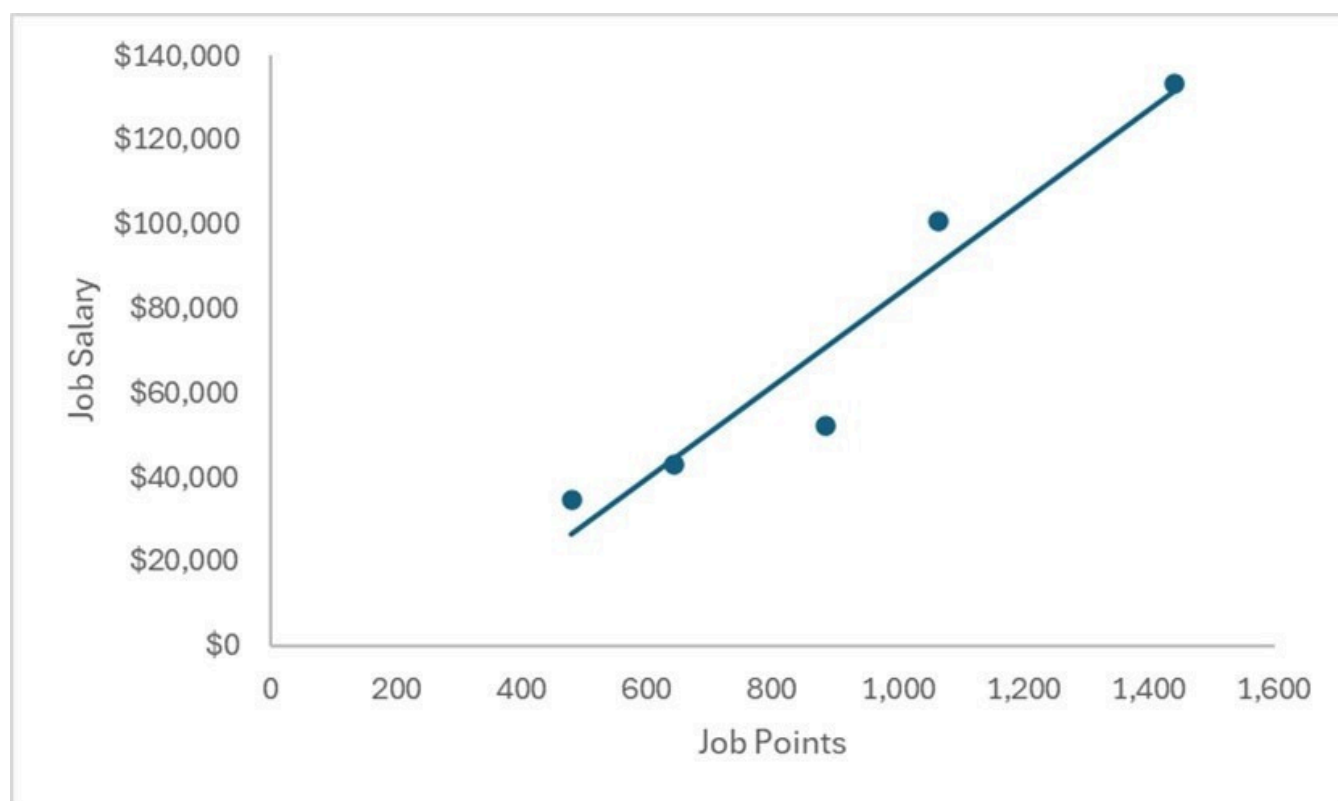
Using the example of retail store jobs, [Table 1](#) identifies the job evaluation points for each of five benchmark jobs along with the corresponding average salaries based on a market salary survey. The table also includes the minimum and maximum values for each benchmark occupation.

Table 1. Salary Survey Results of the Benchmark Jobs in a Retail Store.

Benchmark job	Points	Minimum	Average salary	Maximum
Retail store manager	1,440	\$106,648	\$133,310	\$159,972
Marketing manager	1,065	\$80,562	\$100,703	\$120,844
Customer service supervisor	885	\$41,624	\$52,030	\$62,436
Retail sales associate	645	\$34,264	\$42,830	\$51,396
Stocker	480	\$27,784	\$34,730	\$41,676

A corresponding scatterplot is provided in [Figure 1](#), displaying the five jobs along with a regression line that illustrates the trend of average salaries in the market in relation to the job evaluation points of the jobs within the organization.

Figure 1. Market salary curve based on the benchmark jobs in a retail store.



Source: Created by the Author.

Deciding on the Pay Policy

A [market salary curve](#) establishes the relationship between the internal job evaluation system used by the organization and the findings from the market salary survey. This alignment helps ensure both internal and external equity in compensation. Now, the organization needs to determine its pay policy. It must decide whether to offer salaries at the market rate, thereby adopting the market salary curve, or to choose to pay above or below the market rate. Several internal and external factors influence an organization's decision to adopt its pay policy. Although the pay policy is typically influenced by a combination of these factors, certain ones may carry more weight in the decision-making process in specific instances.



Source: Photo by h hc on Unsplash.

Internal factors include the following:

- *Company's profitability and financial resources.* If a company is experiencing financial difficulties in terms of profitability and cash flow, it may offer salaries at or below the market rate. Conversely, if the company's financial situation is healthy, it may be more inclined to offer competitive salaries that exceed those of its competitors.
- *HR and compensation strategy.* If the organization aims to attract top talent from the market, it must adopt a pay policy that exceeds the market rate. If the talent required is average in qualifications, the organization likely will offer salaries that align with the market rate. For roles requiring below-average qualifications, the company may pay a rate below the market average.

- *Organizational strategy.* When a company adopts a cost-leadership strategy focused on operational efficiency and providing the most affordable products or services, it may pay employees below the market rate. However, if the company chooses to differentiate itself based on quality and innovation, it likely will seek to acquire the best-qualified talent, necessitating a pay policy that exceeds the market rate. Depending on the organizational strategy, certain jobs will be valued more highly than others. For instance, in a company focused on innovation, positions in research and development or product development will be paid higher than the market rate. In contrast, if the emphasis is on efficiency, roles related to operations and process optimization will be regarded as the most valuable.
- *Employee value proposition.* Compensation encompasses various elements, including fixed pay, variable pay, benefits, and nonfinancial rewards. The company may choose to increase the proportion of benefits or incentive pay while reducing fixed pay, such as salaries, to align with market rates or below. Alternatively, the company may choose to primarily compensate employees through salaries, resulting in salaries that are likely higher than the market rate.

External factors include the following:

- *Availability of talent.* The availability of talent is influenced by the dynamics of labor supply and demand within a specific labor market. When labor supply exceeds labor demand, companies often can pay at or below market rates and still attract and retain the right quality and quantity of talent. Conversely, if labor demand surpasses supply, companies may need to offer higher than market rates to attract and retain the required talent. Notably,

the availability of talent varies by occupation; some fields may currently experience shortages and are likely to continue facing shortages in the future, whereas others may have a surplus of talent. As a result, competition for talent can be much more intense in certain occupations than others.

- *Economic trends.* If the economy is growing or projected to grow, the demand for talent will be high, which puts pressure on companies to increase salaries to attract and retain employees. Conversely, if the economy is in a recession or projected to decline, talent may become more abundant, allowing companies to pay at or even below market rates while still maintaining a qualified talent pool. This situation is also tied to the unemployment rate; when unemployment is high, companies may not need to offer salaries above the market rate. However, when unemployment is low, companies might be compelled to pay more to attract the right quality and quantity of talent. Additionally, high inflation rates also can pressure companies to offer higher salaries to keep pace with rising living costs.
- *Regulations.* There are many laws and regulations that impact compensation costs. One of the key factors is the regulation of minimum wage; any increase in the minimum wage will compel companies to raise all salaries to remain competitive. Additionally, various regulations directly affect the cost of labor, which may influence the overall cost structure of total compensation and the budget allocated for salaries.
- *Rivalry among industry competitors.* Competition can drive salaries higher in the market, especially when it is intense. This can lead to a talent war, in which organizations not only recruit based on their own needs but also aim to deprive competitors of exceptional talent. As a result, some companies may adopt a pay policy that offers salaries above the market rate to attract

a sufficient number of qualified candidates. In some cases, this also may involve luring high-quality talent away from competitors, even if it results in overstaffing. Conversely, if competition is moderate or low, this could result in pay policies that are at or below the market rate.

The pay policy is not fixed; it must change in response to shifts in both the internal and external environments of the organization. Therefore, any modifications to the policy will necessitate adjustments to the current salary structure. Additionally, an organization should regularly review its pay policy—the more frequently, the better—although at a minimum, it should be revisited every 3 years.

The following video examines how corporate social responsibility initiatives enhance an organization's appeal to job candidates and strengthen what it offers employees beyond traditional compensation.

Video 1. Corporate Social Responsibility as Part of an Employee Value Proposition.

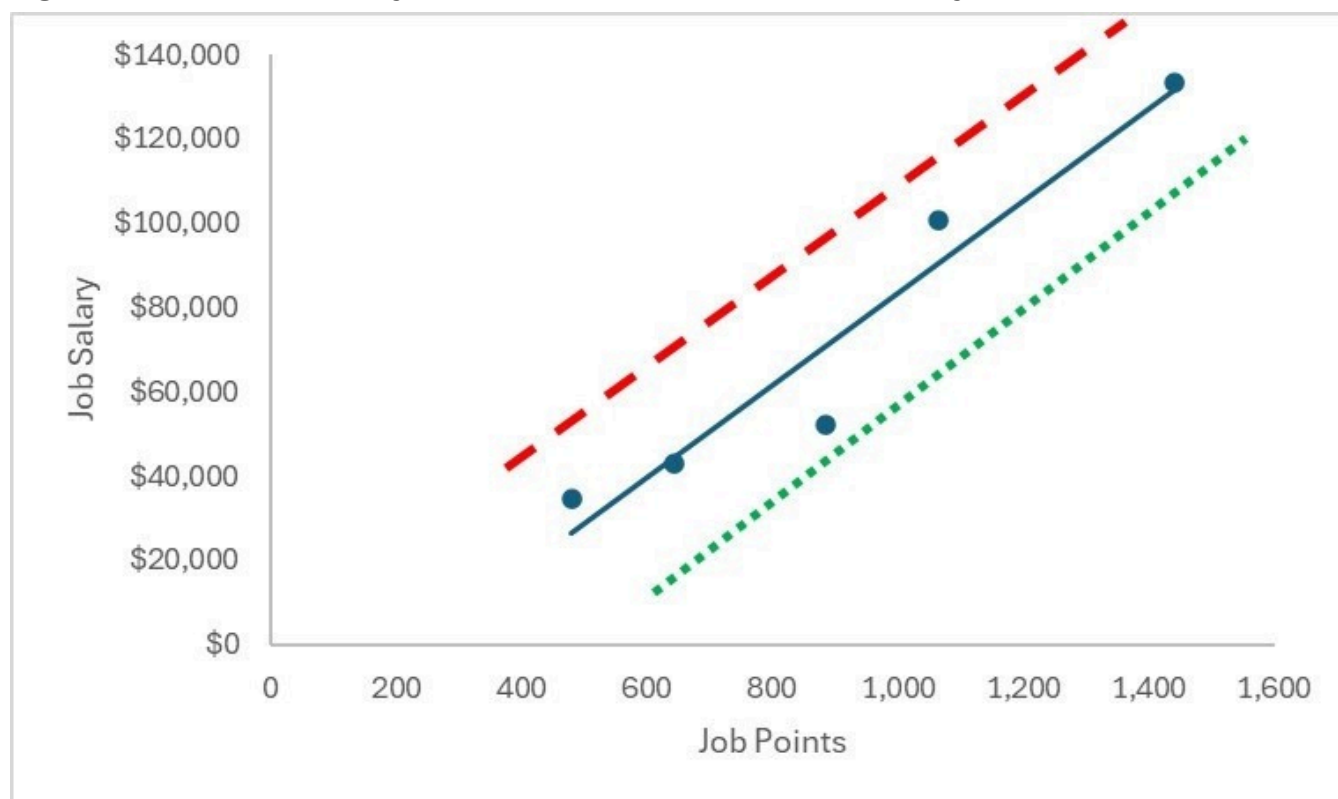
[Click here](#) to view the online version of the skill for an optimal experience of its multimedia resources.

Organizational Salary Curve

The *organizational [salary curve](#)* is created by plotting a line that shows how job market salaries correspond with the internal job evaluation points assigned to jobs within an organization. [Figure 1](#) illustrates the market salary curve for benchmark

jobs at a retail store. It also includes two additional curves—one representing a higher organizational salary curve (dashed line) and the other a lower organizational salary curve (dotted line).

Figure 1. Retail store salary curves in relation to the market salary curve.



Source: Created by the Author.

If the company decides to pay above the market rate, the salary curve will shift upward, as indicated by the dashed line. Conversely, if the company chooses to pay below the market rate, the salary curve will shift downward, as indicated in the dotted line. If the organization opts to pay at the market rate, its salary curve will align with the market salary curve. When the organization's salary curve is set higher or lower than the market salary curve, a decision must be made regarding the percentage increase or decrease in salaries.

The percentage increase or decrease in pay is set by the task force responsible for the pay policy. This decision reflects the organization's strategy for attracting and retaining targeted talent. If the organization is willing to pay above the market rate, it is more likely to attract and retain top talent. Conversely, if the organization pays less than the market rate, it indicates a lower priority on attracting top talent and employee retention.

In the following video, Professor William Dwyer discusses how salary structures can help Human Resource Management professionals attract new talent and negotiate with job candidates.

Video 1. Salary Structures in Negotiations.

[Click here](#) to view the online version of the skill for an optimal experience of its multimedia resources.

Determining the Salary Grades

After establishing the [organizational salary curve](#) in accordance with its pay policy, the next step is to *determine the pay grades* and their corresponding salary ranges. Having a single-rate system in which all employees in the same occupation receive the same salary is rare. Instead, assigning a salary range to each pay grade is more common, allowing for a range of salaries for a group of jobs within each grade.

The first step is to assign pay grades. In the job ranking method, jobs are grouped based on a range of ranks. For instance, in the case of a retail store with 20 jobs, [as presented in Table 1 in Topic 3](#), the top five ranked jobs will be assigned to pay grade 4. Jobs ranked 6–10 will be placed in pay grade 3, those ranked 11–15 will fall under pay grade 2, and the lowest five ranked jobs will be assigned to pay grade 1.

In the job classification method, each job class or grade constitutes a pay grade. At the retail store, we have five job classes, allowing us to assign each class to a pay grade. Pay grade 5 will include jobs from class A, pay grade 4 will include jobs from class B, pay grade 3 will include jobs from class C, pay grade 2 will encompass jobs from class D, and pay grade 1 will consist of jobs from class E.

The point factor method assigns pay grades based on specific point ranges. In this example, the minimum number of points is 300, and the maximum is 1,500 points. If we establish four pay grades, each grade will correspond to a range of 300 points. Grade 4 will encompass all jobs with scores from 1,201 to 1,500 points, whereas grade 3 will include jobs scoring between 901 and 1,200 points. Grade 2 will cover jobs with scores ranging from 601 to 900 points, and grade 1 will consist of jobs scoring from 300 to 600 points. This structure ensures that each pay grade is clearly defined based on the assigned point totals.

After assigning a pay grade, we ensure that all jobs are categorized accordingly. For each grade, we establish a minimum, maximum, and average salary. The minimum salary is generally offered to entry-level employees within that grade. The average salary is allocated to employees who are fully qualified and perform at an

acceptable level. The maximum salary is reserved for highly qualified top performers with the longest tenure in the position.

Overlapping salary ranges between different grades is common. This overlap provides greater flexibility in increasing salaries for employees who have reached the maximum compensation within their current grade without requiring a formal promotion. Additionally, this practice improves the perception of fairness. For instance, highly qualified employees who perform exceptionally well in a lower grade may feel undervalued if they earn less than an entry-level employee in the next higher grade. Therefore, common practice is to adjust the maximum salary of a grade by introducing an additional overlap increase, which is determined as a percentage of the maximum salary for that grade.

Let's visit an example of retail store jobs. Assuming that we have adopted the point factor method for job evaluation, the company has determined that each point is valued at \$94 based on the salary survey and pay policy. As a result, the minimum and maximum salaries for each grade are calculated by multiplying the minimum and maximum points assigned to each grade by \$94. The overlap is set at 10% of the maximum salary. The average salary for each grade is determined by averaging the minimum and maximum salaries (including the 10% overlap) within that grade. [Table 1](#) outlines all the details of the pay grades for the retail store.

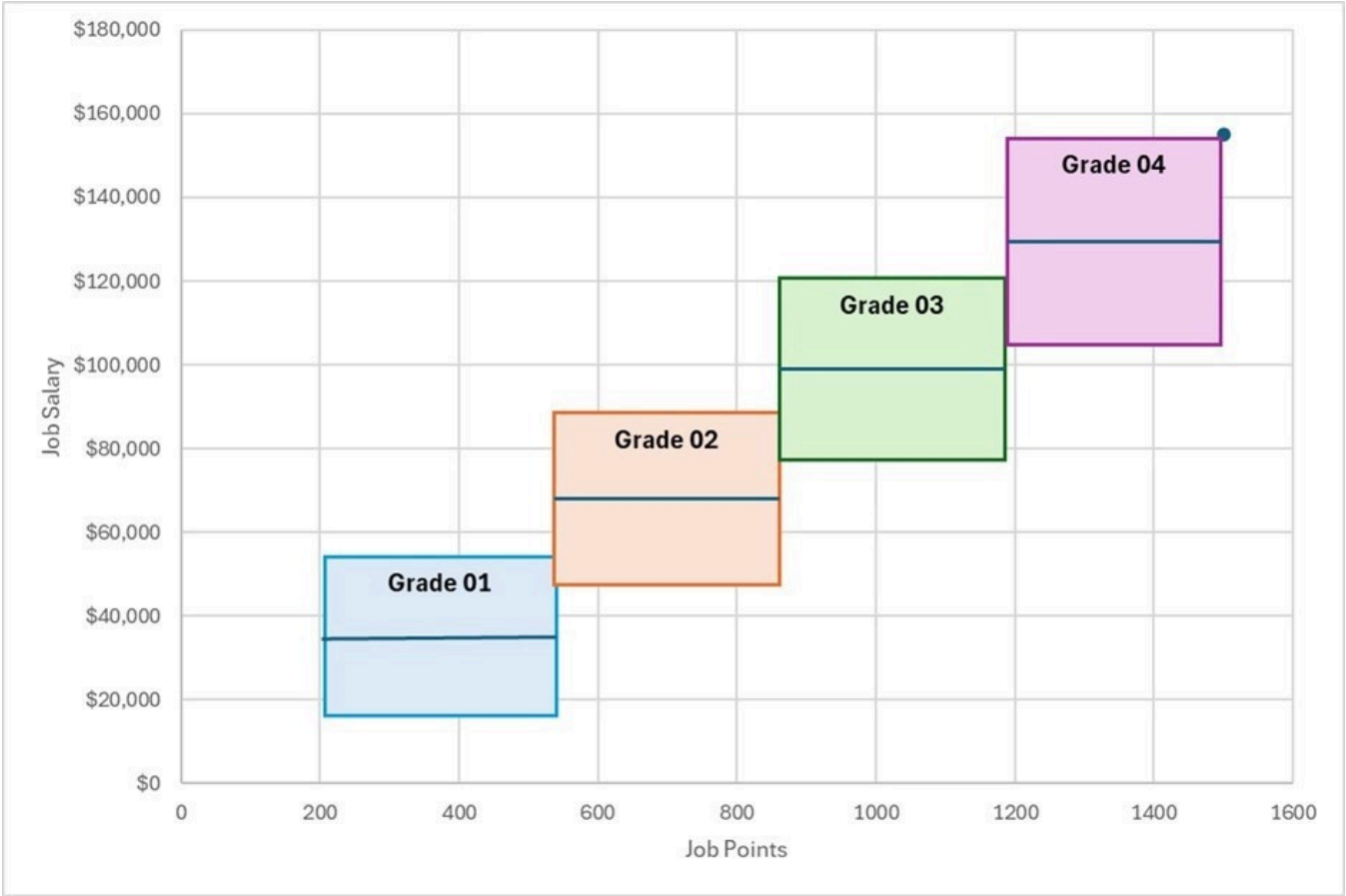
Table 1. Pay Grade Details for a Retail Store.

Grade	Minimum points	Maximum points	Minimum salary	Maximum salary	Maximum +10%	Average salary	Salary range	Grade overlap
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4	1,201	1,500	\$112,894	\$141,000	\$155,100	\$133,997	\$42,206	\$14,100
3	901	1,200	\$84,694	\$112,800	\$124,080	\$104,387	\$39,386	\$11,280
2	601	900	\$56,494	\$84,600	\$93,060	\$74,777	\$36,566	\$8,460
1	300	600	\$28,200	\$56,400	\$62,040	\$45,120	\$33,840	\$5,640

[Figure 1](#) illustrates the four pay grades, including the minimum, maximum, and average salaries, along with their overlaps.

Figure 1. Pay grades for the retail store.



Source: Created by the Author.

1. Who is usually paid at the lower end of the pay grade?

- ☐ a. Highly skilled employees
- ☐ b. Highly experienced employees
- ☐ c. High-performing employees
- ☐ d. Entry-level employees

2. What is the impact of having fewer pay grades on job classifications and pay ranges?

- ☐ a. Pay grades will include fewer job positions and offer lower pay ranges.
- ☐ b. Pay grades will encompass a broader range of jobs and offer a narrower pay range.
- ☐ c. The number of pay grades has no impact on pay ranges.
- ☐ d. Pay grades will encompass a broader range of jobs and offer a wider

pay range.

3. After completing job evaluations and determining the organization's salary curve, one employee's salary was flagged as being above the pay range. What is the best course of action?

- ☐ a. Pause the salary increases until the annual regular salary adjustments align with the pay grade range or until the employee is promoted.
- ☐ b. Reduce the salary to be within the pay grade of the job.
- ☐ c. Promote the employee immediately, even if the employee is not yet qualified for the position.
- ☐ d. Intentionally reevaluate the job to elevate its pay grade.

Summarizing Designing Salary Scales

After completing this Skill, you should have acquired practical and procedural skills for designing salary scales using various job evaluation methods. Although the process aims for objectivity, it involves many decision-making steps that require human judgment, making subjectivity unavoidable. The following questions

will evaluate your knowledge and decision-making abilities related to the salary scale design process.

1. According to equity theory, what affects employee productivity?

☐ a. Comparison of compensation with others

☐ b. Tenure within the organization

☐ c. Knowledge, skills, and abilities

☐ d. The difficulty level of the task

2. What is the major advantage of the job ranking method?

☐ a. The method is highly objective.

☐ b. The method is highly efficient.

☐ c. The method is highly complex.

☐ d. The method is expensive to implement.

3. Among the qualitative job evaluation methods, which one is the most used by organizations?

☐ a. Job classification

☐ b. Job ranking

☐ c. Point factor

☐ d. Factor comparison

4. Among the qualitative job evaluation methods, which one is the most used by organizations?

☐ a. Point factor

☐ b. Factor comparison

☐ c. Job ranking

☐ d. Job classification

5. What is the main setback of the point factor method?

- ☐ a. Simple to design and implement
- ☐ b. Complex to design and implement
- ☐ c. Lacks objectivity
- ☐ d. Lacks a comprehensive evaluation of jobs

6. Which jobs are best to choose as benchmark jobs?

- ☐ a. Clearly defined jobs that are available across organizations within a particular industry
- ☐ b. Jobs that are uncommon, meaning only a few organizations have them
- ☐ c. Any position within an organization
- ☐ d. Jobs that are vaguely defined, where the same job title may imply different duties in different organizations

7. What is a key feature of an effective salary survey?

- ☐ a. It's supplied by the most affordable vendor in the market.
 - ☐ b. It depends on the fastest data available in the market.
 - ☐ c. It depends on publicly available data that are free.
 - ☐ d. It collects valid and recent data.
-

8. What is the best pay policy to acquire and retain the most qualified employees?

- ☐ a. Pay employees less than the market rate
- ☐ b. Compensate employees solely based on their relative internal value regardless of market prices
- ☐ c. Ensure that employees are compensated equal to the market rate
- ☐ d. Offer employees a salary that exceeds the market rate

9. What will be the impact on pay policy if the unemployment rate increases in the labor market?

- ☐ a. Organizations are likely to offer less competitive salaries.
- ☐ b. Organizations are likely to offer more competitive salaries.
- ☐ c. Organizations tend to offer similar compensation packages.
- ☐ d. No change to pay policies in organizations because the unemployment rate minimally affects employee retention and recruitment.

10. What impact will a shift from cost leadership to an innovation-focused strategy have on an organization's pay policy?

- ☐ a. Organizations are expected to continue offering the same salaries as they have in the past.
- ☐ b. Organizations are likely to offer less competitive salaries.
- ☐ c. Organizations are likely to offer more competitive salaries.

- ☐ **d.** Organizations are expected to offer salaries slightly higher than those in the past.

11. Under the point factor method, how are pay grades usually assigned?

- ☐ **a.** Pay grades are determined by the ranking of the jobs.

- ☐ **b.** Pay grades are assigned according to a specific range of points.

- ☐ **c.** Pay grades are determined according to the specific definitions of each job classification.

- ☐ **d.** Pay grades are determined by managers' subjective evaluations.

12. If an employee holds an entry-level position, where does their pay fall within the pay grade range?

- ☐ **a.** The employee's salary will be at the lower end of the pay range.

- ☐ **b.** The employee's salary will be at the higher end of the pay range.

☐ **c.** The employee's salary will be in the middle of the pay range.

☐ **d.** The employee's experience is not directly related to their salary.

13. If an organization consists of only eight occupations, which job evaluation method would be the most efficient and suitable for it?

☐ **a.** Job classification

☐ **b.** Point factor

☐ **c.** Job ranking

☐ **d.** Factor comparison

14. What is the major advantage of basing a pay policy on the market salary curve?

☐ **a.** The market salary curve strikes a balance between external and internal equities.

- ☐ **b.** The market salary curve considers only external equity.
- ☐ **c.** The market salary curve considers only internal equity.
- ☐ **d.** The market salary curve has minimal impact on the pay policy.

15. After completing a job evaluation, the HR department flagged that one of the employees is paid less than the minimum of the employee's grade pay range. What will be the best course of action?

- ☐ **a.** Maintain the current salary because the company saves money by paying less.
- ☐ **b.** Reevaluate the job to ensure that the employee's current pay falls within the pay range.
- ☐ **c.** Demote the employee to a position where their current pay fits within the job pay range.
- ☐ **d.** Provide the employee with a salary increase.

Let's Dive Deeper!

1. How do companies determine their pay policies? Consider two companies within the same industry, and reflect on why their pay policies may be similar or different.
2. In your opinion, which stakeholders should be represented in the salary scales task force? What are the interests of each stakeholder, and how would they contribute to the decision-making process?
3. Consider the scenario of recruiting for a new job vacancy that reports to another position. While searching for candidates, you find that the salary expectations of qualified candidates exceed the salary allocated for the direct report of this position. What solutions do you propose to maintain internal equity while still being able to attract a qualified candidate?

Designing Salary Scales Capstone Project

Individual Capstone Project

Select 5–10 job descriptions within the same department of one organization. Using the job classification method, generate a report that outlines all the stages involved in evaluating those jobs. The following are the deliverables of this capstone project:

1. Collect job descriptions from a large organization. Follow the outlined steps for conducting job classification.

2. Clearly identify the compensable factors, job classes, and definitions. Provide justification for how each job fits into the assigned class.
3. Conduct an online salary survey for each job and assign a salary range for each class. Reflect on the main challenges you encountered while working on completing this project.

Tips for Students

1. You can collect the job descriptions from platforms such as LinkedIn or from company websites under the career section.
2. Salary data could be retrieved from online platforms such as Salary.com, Glassdoor.com, and the Bureau of Labor Statistics.

Group Capstone Assignment

Select an organization and identify 20 jobs within it. Using the point factor method, generate salary grades for this organization, as in the example provided in this Skill for a retail store. The following are the deliverables of this capstone project:

1. Collect job descriptions for a large organization.
2. Follow the outlined steps for conducting the point factor method.
3. Design a scale and point manual for the compensable factors.
4. Score each job based on the point manual, providing appropriate justification for each score.

5. Conduct an online salary survey for each job and assign a salary range to each position.
6. Generate a market salary curve and determine the pay policy for the organization.
7. Create a set of grades, where each grade contains several jobs along with their corresponding salary ranges.

Tips for Students

1. You can collect job descriptions from platforms such as LinkedIn or from company websites under the career section.
2. You can collect salary information from platforms such as Salary.com and Glassdoor.com or from company websites that publish salaries on job ads.

<https://doi.org/10.4135/9798348862251>