Developing Salary Structures

October 29, 2015

A business would never consider constructing a facility or office without building a foundation to support that structure. Yet many employers pay employees without building a foundation for how much and under what conditions employees should be paid. When space and layout are considered for a building, every aspect of cost and business efficiency is considered. Yet the same planning is not consistently utilized in compensation practices. With an effective compensation program, as with designing a facility, beginning with a good structure and a design that matches business needs are essential.

Salary structures help to ensure that pay levels for groups of jobs are externally competitive and internally equitable. Without external competitiveness in compensation practices, a business may have difficulty attracting new employees, or, on the other end of the spectrum, keeping human capital expenses under control and in line with competitors. Without internal equity, it can be difficult to keep employees in whom an extensive investment in training and development has been made and on whom customers have come to depend.

In a recent Mercer survey, they reported that:

- 83% of companies reported having formal base salary range structures.
- 68% of companies with formal base salary range structures review their ranges annually.
- 85% use market data when designing salary structures.

Salary ranges indicate the span between the minimum and maximum amounts of pay that a company is willing to (and should) pay for specific jobs or groups of jobs. If these ranges are developed based upon reliable market data, you should not pay less than the minimum if you want to be externally competitive and should not pay more than the maximum if you want to remain financially stable. The salary structure is a hierarchical group of jobs and salary ranges within an organization and is used to differentiate between the levels of pay from one position level to another, with each higher level indicating how the job market differentiates between how much is/should be paid for each position. Salary ranges, and competitive market pay practices, need to be reviewed on a regular basis in order to attract and retain quality employees.

As indicated above, the most common and effective method of designing, or maintaining, a salary structure is through market pricing. This requires the use of relevant and statistically reliable data sources. Relevancy requires data sources that have data break-outs: by specific industry; of organizations of similar size (revenue/operating budget and employee size); in specific location (or locations if there are geographically diverse operations); with similar job requirements for positions being reviewed; and of a significant sampling size for all of the above. Incumbent, self-reported survey sources, that are prevalent in a web search or narrow industry surveys, frequently do not provide these necessary ingredients.

Employers Resource Association, as your business partner, can assist you with all of the above requirements for a cost-effective, competitive salary structure.
If you need assistance with reviewing existing salary structure and/or practices, or developing one, please contact Monique Kahkonen, Director of Compensation and Benefit Services, at (513) 679-4120 or, by email, at mkahkonen@hrxperts.org.