# A Guide to Pay Structuring

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It is well known that the human resource is one of the most important assets a company can have, with a 2004 Havard Business Review article by R.S. Kaplan and D.P. Norton going on to say that it is in fact much more valuable than tangible assets. This is due to the fact that a company's workforce cannot be easily duplicated by competitors. This ensures that companies holding this invaluable resource maintain a competitive advantage over the rest of the pack. This means that a highly engaged and innovative workforce can propel a company to success, being the key difference between a successful market leader and an average company simply following trends set by the former. This is in line with sentiments portrayed by the highly influential management expert Peter Drucker in a 1999 California Management Review article titled Knowledge-Worker: The Biggest Challenge, where he stated that "the most valuable asset of a 21st-century institution (whether business or non-business) will be its knowledge workers and their productivity."

An engaged workforce is one that is mentally and emotionally invested in the company and its goals. The benefits of an engaged workforce are far-reaching. According to a Dr Jim Harter, one of the chief scientists at the Gallup Organisation, in an email interview with the Havard Business Review stated that an engaged workforce is "more attentive and vigilant. They look out for the needs of their coworkers and the overall enterprise because they personally 'own' the result of their work and that of the organization." A 2016 Gallup Business Journal article revealed that an engaged workforce is likely to be involved in 70% fewer safety-related incidents. Other Gallup studies showed that engaged employees are 41% less likely to be absent from work and are between 25% and 65% less likely to leave voluntarily leave the organisation. More than this they are reported to be 22% more productive than their less engaged counterparts. An IBM Smarter Workforce Institute survey revealed that about 60% of employees that leave their jobs cite unhappiness with either job or organization as the reason they left. This thus shows that the key to retaining top talent that the company is at risk of losing is investing in employee engagements. It is through such surveys that companies uncover issues that need rectification if they are to promote a crop of engaged employees.

Many issues could lead to the disengagement of employees, chief among these is compensation or remuneration. The 2018 National Employee Engagement Survey conducted by Industrial Psychology Consultants revealed that 50% of employees are not satisfied with the remuneration at their company. It detailed that five in ten employees do not feel the remuneration process is transparent and fair. As companies are able to lose critical employees to better offers from other companies, it becomes the onus of companies to ensure that they implement a solid structure that attracts and retains such employees. One way to address this is through designing equitable pay structures.

A pay/salary structure is a framework that defines salary ranges for all jobs within a company. A well-structured pay structure system is critical to the success of a company. When designed well, pay structures are able to promote growth at the employee level as well as at company level. There are some criteria that make for a well-designed pay structure.

Firstly, they should promote internal equity i.e. they should ensure employees feel their pay reflects the relative worth of their job when compared to other jobs in the company. Job evaluations are able to establish internal equity.

Secondly, they should promote external equity. Where the previous looked at jobs within the company, external equity looks at other companies within the market. This is an important point especially as employees are able to be lured to other companies by better offers. The pay structure should reflect the value of the job compared to other jobs in the market.

Thirdly, they should promote process equity. Process equity deals with how employees perceive the fairness involved in the salary and benefit system. This is mainly dictated by the openness of the system, communication of the system to employees and participation in the design of the system.

Finally, the pay structure should be affordable for the company as well as sustainable in the long run. Whilst it is desirable to acquire the best employees for the positions in the company, it is more important to ensure that the company can actually afford to pay the employees. Furthermore, the sustainability of the pay structure will ensure that employees do not become disgruntled in the future as a result of unpaid salaries. Failing to meet these two requirements will almost guarantee that the company’s valued possession, the employees, will start to look for other companies that can actually afford to pay them. A company’s strategy should dictate how much as well as how to pay its staff. A remuneration strategy outlines how a company uses rewards to attract, retain, motivate and reward employees. An effective remuneration strategy supports the Human Resources department and its business strategies. Most organisations require multiple strategies to support each business strategy, which may vary by business unit, employee group, and geographic location. A common but false belief is that what works for one organisation will work for another. Many organisations discover later that they are rewarding people for behaviour of little value to them.

The strategies that will attract, retain and develop engaged employees vary from company to company. Before developing a remuneration policy several key questions need to be answered:

1. What is the goal of the company’s remuneration system? In addition to attracting and retaining qualified staff, is the intent to reward employees for good performance or reinforce a particular type of organisational culture?
2. How will decisions regarding pay be made?
3. Who will be involved in these decisions?
4. What decision guidelines will need to be developed?
5. What is the organisation’s desired market position relative to pay?
6. Will the organisation choose to pay market rates, above market or below market?
7. How does the desired market position fit in with other strategic goals of the organisation?
8. What is the desired mix between benefits and cash?
9. Since benefits are an important part of remuneration, how does a company use them to maximise the effectiveness of the remuneration strategy?

10. Does the organisation pay for performance, length of service or some combination of the two?
11. What is the role of performance measurement in the organisation?
12. How will the organisation manage the transition from one pay system to another?
13. How does the new remuneration strategy fit in with the rest of the company's strategy?
14. What is the lowest rate of pay that can be offered and still hire desirable employees?
15. What is the rate of pay necessary to retain employees?
16. Will your organisation want to recognise seniority and merit through the pay structure?
17. Do employees have a significant opportunity to progress to higher-level jobs? If so, what should be the relationship between promotion to a higher job and changes in base pay?
18. Will policies and regulations permit incumbents to earn rates of pay higher than established maximums and lower than established minimums? What should be the reasons for allowing such deviations?

Overall, many methods exist for designing and implementing a pay structure for your employees, and one size never fits all. But, by understanding your options, you can strike a balance between employee engagement and your organization's overall health and growth.

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