Maintaining your organisation pay structure

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Organisations develop and implement salary structures to provide a framework for administering their employee compensation programs. Effective administration of a compensation program requires a balance between the pay levels for employees inside the company (internal equity) and the pay levels those employees could command in the company's recruiting markets (external equity).

Sammer (2013) emphasizes that maintaining a strong salary structure is imperative for any organization. If the salary structure gets out of sync with the overall labor market, a company may find itself paying employees too much and needlessly increasing operating costs, or paying employees too little and having difficulty attracting and retaining talent.

As a general rule, employers should examine the overall salary structure at least every three to five years. The review should determine whether the structure is still aligned with the company's needs and the labor market. There are other situations, changes, and events that also demand a review of the salary structure, such as a significant change in the labor market, or mergers and acquisitions

Based on a study conducted by Kenexa (2011) over 70% of organizations classified as having a dynamic culture tend to place less emphasis on base pay in favor of variable pay, which has a greater impact on employee behavior for achieving business objectives. By contrast, organizations with static cultures place emphasis on base pay because they can reasonably predict business performance and employee behaviors. It is important to consider the organization's financial resources with regard to its ability to pay employees in the form of salaries, which are fixed costs.

Occasionally, employee salaries might fall outside the company's defined salary range for the job. The employee salary will be either above the maximum value or below the minimum value. Salaries that fall above the maximum are referred to as red-circle rates. Red-circle rates might be caused by demotion, an exceptional salary paid to retain a high-potential employee, reorganization or acquisition, or a structure that has fallen behind competitive rates. Compensation professionals recommend employees not be paid salaries below the company's prescribed minimum value. The employee's salary should be raised to the range minimum value immediately, or at some scheduled event in the salary administration process, such as annual salary review.

Business considerations for pay structure design include strategic issues, competitive practices, the organizational culture and the affordability of pay. The key strategic issues to consider are the objectives of the company and the extent to which salary will be used to attract and retain employees capable of achieving business success.

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