

Pay Structure: A great employee retention tool in both good and bad times

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A salary or pay structure is a series of grade levels and related salary ranges established for all jobs within an organisation. A well-structured pay system is essential for the success of any organisation. Whether you have a pay perception issue you want to fix, or simply want to maintain high employee satisfaction around pay, I bet there are at least a couple of things you can know and implement to help your employees feel better about their pay.

From the national employee survey done by IPC in 2018, only one in two employees feel like they're fairly paid. 50 percent of the employees feel like the remuneration process is transparent and equitable. Companies need to implement a solid structure that attracts and retains competent staff.

For a pay structure to be able to promote employee and company growth at the same time retaining employees, it should achieve certain objectives. Firstly, it should promote internal equity. This deals with the perceived worth of a job relative to other jobs in the organisation. Internal equity is normally established through the process of job evaluation.

Secondly, it should promote external equity. This deals with issues of market rates for jobs. An employer's goal should be to pay what is necessary to attract, retain and motivate staff. Employees also compare their jobs and pay to the jobs and pay in other organisations. An organisation may choose to place the primary emphasis of its pay structure on internal equity, external equity or a blend of the two.

Thirdly, it should promote process equity. This deals with how employees perceive the fairness or equity in the administration of the salary and benefit system. Process equity is strongly influenced by the openness of the system, communication of the system to employees and participation in the design of the system.

Please note that when setting pay, you need to look at your ability to pay as well as the need to attract and retain competent staff. Your organisation's strategy should dictate what and how you are supposed to pay your staff. A remuneration strategy outlines how your organisation uses total rewards to attract, retain, motivate and reward employees. An effective remuneration strategy supports the HR and 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 belief is that what works for one organisation will probably work for another. Many organisations discover later that they are rewarding people for behaviour of little value to them.

Like I outlined above, the classic pay philosophy is to provide salaries that will attract, retain and motivate qualified employees to direct their efforts towards achieving organisational goals. The strategies by which this can be achieved vary from organisation to organisation. Before developing a remuneration policy several key questions need to be answered:

1. What is the goal of the organisation'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 Competition and Tariff Commission 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 organisation'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 satisfaction and your organization's overall health and growth.

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