

2: Examine internal alignment of pay structures

Learning Objectives

- Describe various methods of developing a pay structure

Developing a pay structure involves evaluating jobs and establishing associated salary ranges and grades based on market data and the company's compensation policy. The relative value of different roles is based on factors including responsibility, experience and education, key skills, effort/impact, and working conditions. A well-designed and transparent pay structure should help an organization attract and retain talent be perceived as fair and equitable.



Figure 2.1: (Pixabay License; via [pixabay](#))

The steps involved in developing a pay structure are outlined below:

1. **Conduct a job analysis.** As discussed in the book Human Resources Management, a job analysis involves identifying the essential tasks and responsibilities of a job, including knowledge skills and abilities.
2. **Conduct a job evaluation.** Determine the relevance and value of the job to the organization. This involves comparing or evaluating roles based on criteria such as the required education and experience, skills, effort, level of responsibility or authority and potential revenue impact. In order to avoid introducing bias, the role should be evaluated based on the job criteria, not a specific employee in that role.
3. **Determine the basis for your pay structure.** Use one or both of the following methods to do so:
 - **Market Pricing (or benchmarking).** Setting a salary range based on market data. Note that job titles and descriptions aren't necessarily consistent across companies and industries. When conducting research, consider job details or descriptions to select appropriate salary benchmarks.
 - **Pay grades.** Establishing salary ranges for job groups. Pay grades are salary ranges established for groups of jobs with a similar value to the organization. For example, multiple sales roles may be included in the same grade if they require the same education, experience, skills and responsibility. In practice, then, the salaries of every sales person in the same grade would fall between the minimum and maximum of the range.

It's common to use benchmarking to establish pay grades and then fine-tune from there. Websites such as Glassdoor, Salary.com and PayScale provide minimum, midpoint, and maximum salaries that can form the basis for a pay range. Additional sources of market salary data include the following:

- [The Bureau of Labor Statistics \(BLS\)](#), which reports data by area and occupation
- [O*NET OnLine](#), which provides occupational search and forecasting combined with BLS data

HR firms, career websites and industry and trade associations also conduct and publish salary surveys and provide related services. For example, CareerBuilder has a [Supply & Demand Portal](#) that provides compensation rates for specific positions.



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Pay grades can be based on market prices, as mentioned above, or actual salaries or a combination of the two methods. For example, you could use market data to establish the salary range for a specific pay grade and use actual salaries to determine the midpoint in the range. To establish pay grades based solely on actual salaries, create groups based on levels in the organizational hierarchy. For example, managers and vice presidents would be two separate pay grades. Multiple roles with similar organizational value, requirements and salaries can be included in the same group. The midpoint of the average of the salaries in a group can form the midpoint of the range. The minimum and maximum of a range can be calculated from the midpoint or relative to a lower and higher grade to form a logical progression.

Practice Question

<https://assessments.lumenlearning.com/assessments/18179>

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