

Factors which shape organizational approach

[Business](#), [Organization](#)



In organisations pay rates are influenced by several factors, such as: the intrinsic value of the job, the internal and external relativities and the market inflation.

Introduction

Every job should be valued to be given a rate of pay. The intrinsic value of a job is based on the amount of responsibility, the level of competences, and the degree of skills required to perform the job (Armstrong and Murlis, 2007). Nevertheless, the intrinsic value depends on other characteristics, such as: the number of resources managed the amount of power job holders possess, the degree of flexibility in making decisions and the extent to which they receive guidance on how to perform their duties (Armstrong and Murlis, 2007).

It has been argued that it is impossible to find a definite value for a job since the value of anything is always relative to something else (Armstrong and Murlis, 2007). So jobs are compared either to other jobs (internal relativities) in the organisation or to similar job outside the organisation (external relativities) (Milkovich and Newman, 2002).

The Internal relativities are based on determining the value of the job compared to other jobs in the organisation (Milkovich and Newman, 2002). The internal differentials between jobs are based on the information related to the input requirements and the use of different levels of knowledge and skills. Differentials between jobs can also be connected to the added value they create (Milkovich and Newman, 2002). While external relativities are

based on determining the value of the job according to the market rate (Milkovich and Newman, 2002).

However, market rates are not very accurate, since market surveys reveal salaries about organisations that are usually linked to their unique circumstances in terms of their organisational structures, the numbers of people employed and their own pay policies (IRS Employment Review, 2006). Nevertheless, organisations that tend to compete and seek to recruit high employee calibre need to adjust their salaries based on market rates (IRS Employment Review, 2006). In some cases, specific individuals whose talents are unique in the market place could have their own individual market value, based on what the market is willing to pay them for their services. Head hunters are usually interested in these people (Armstrong and Murlis, 2007).

Organisations strive to achieve a balance between the internal relativities ensuring equity and the external relativities ensuring a competitive position in the market. However, organisations seeking this balance will always face a degree of tension when creating it (Armstrong and Murlis, 2007).

The inflation and market movement will definitely have an influence on the pay rates of any organisation (People Management, 2007). Other factors can influence the pay rates, as follows: the budget, the pay strategy, and the pressure by trade unions (Perkins and White, 2007).

Job evaluation is a systematic approach that establishes internal relativities among jobs by assessing their intrinsic values, to be later placed in grade and pay structures (CIPD, 2002d). Job evaluation is important to ensure

consistency, equity and transparency (Milkovich and Newman, 2002).

Nevertheless, many researchers argue that job evaluation is very time consuming, inflexible and has no relation to salaries since salaries are set in reference to market rates (Armstrong and Brown, 2009).

Job evaluation can be both analytical and non analytical. The former makes decisions based on the analysis of the extent to which a set of predetermined factors are present in a job (Burn, 2002). The factors should be selected carefully and agreed on by the management. The same factors are used in the evaluation of other jobs (Armstrong and Cummins, 2011).

In a point factor rating, jobs are broken down into several factors and certain levels are allocated to these factors reflecting the extent to which the factor is present in the job. The levels should be carefully described ensuring fair judgements are made. Following that, all points are summed up together resulting in a total score for the job (Burn, 2002). Ranks are then arranged sequentially in reference to the total scores of the jobs which are divided later into grades. Pay ranges will be attached to these grades taking into account the external relativities (Burn, 2002). This evaluation might be very time consuming therefore it is possible to evaluate several general roles and then match the rest to these grades. The other analytical approach is the factor comparison that compares jobs, factor by factor using a scale of values.

In comparison, the non-analytical job evaluation compares jobs as a whole together and not based on any factors as in the analytical approach and then place them in a grade or rank order. Therefore it is a simple and easy

process, yet it is very subjective since it is not based on any fixed standards (Armstrong and Cummins, 2011). There are different non analytical methods, as follow: job classification where jobs are placed in a grade by matching the job description with the grade description without any numerical values (Burn, 2002). The other method is job ranking which compares whole jobs to one another and then arrange them according to their perceived size. The paired comparison ranking is another tool which compares a certain job as a whole separately with each and every other job in the organisation (Burn, 2002).

The non analytical approach is another type for job evaluation that neither falls under the analytical job scheme nor the non-analytical scheme, it encloses the following two tools: market pricing and job/role matching (internal benchmarking) (Burn, 2002).

Market pricing is the process of determining the rate of pay for a certain job according to the supply and demand in the labour market (Corby, 2008). However, it neglects the internal relativities, which may results in dissatisfaction among employees who put in the same effort in different jobs but are paid unequally due to the different market rates (Corby, 2008). Nevertheless, internal relativities might be achieved if all jobs in the organisation are market driven (Armstrong and Murlis, 2007).

These rates should be accurate and up to date. Market info sources should compare jobs that are similar in: region, sector, organisation's size, industry and job value (Milkovich and Newman, 2002). There is no absolute correct market rate for a certain job since it is not possible to track similar jobs

everywhere (IRS Management Review, 2006). Therefore, it only provides approximate values. Organisations must decide its market posture and stance, in other words it must decide the extent to which their pay levels should relate to market rates (Milkovich and Newman, 2002).

Spot rates are rates given to a certain job taking in consideration the market relativities and the market value of an individual (Fisher, 1995). They are usually applied when paying professionals, senior managers, and manual workers. This type of pay does not consist of grades and pay ranges; therefore there is no scope for pay progression (CIPD, 2010). Any increases will produce a new spot rate for the person (Berger. and Berger, D., 2000). Spot rates are often used by small organisations that don't have any formal graded structure. Furthermore, organisations that seek a maximum amount of flexibility in their pay would adopt the spot rate (Armstrong and Murlis, 2007).

Individual job grades are similar to spot rates with a defined pay range in both sides. A scope of progression is available to reward employees without the need to upgrade their jobs (Corby, 2008).

4. 1. Narrow graded structure (Conventional graded structure) consists of 10 or more grades arranged sequentially, pay ranges are attached to each grade with a maximum of pay range between 20%-50% above the minimum and differentials between pay grades are usually around 20% (Perkins and White, 2007). Grades are described by points based on analytical job evaluation, by grades' definitions or by the types of jobs slotted in grades (Fisher, 1995). Mid points are defined between the minimum and the

maximum of grades based on the market rates and the organisation's market policy which explains the relation of its pay levels and market rates.

The mid point represents the rate of a fully proficient person (Berger, L. and Berger, D., 2000). This structure ensures equal pay for equal value since all jobs are placed in the structure in reference to their job evaluation points (Milkovich and Newman, 2001). Nevertheless, this type of structure may result in extended hierarchy that does not exist in flat and flexible organisations. The width of grades and pay ranges are very narrow, therefore this structure doesn't provide enough scope for progression (Armstrong and Murlis, 2007) . A common problem that arises with this structure is the grade drift; where grades are upgraded only to reward people that might already have reached the max of their grades and yet there is no more scope for progression for them within the current grade (Fisher, 1995).

This type of structure fits mostly in large and bureaucratic organisations with rigid structures and in which great amount of control is required.

4. 2. Broad banded pay structure is a structure where a number of different grades are all put together in a small number of wider bands (Milkovich and Newman, 2001). The number of bands is usually 5 to 6 bands with a width typically around 50% and 80%; the number of bands is based on the levels of responsibility and accountability in an organisation (Martocchio, 2001). In this type of structure; the pay is based more on market relativities (Caruth and Handlogten, 2001). Jobs are slotted in bands either by reference to their market rate or by reference to both: their job evaluation and the market

rates (Armstrong and Murlis, 2007). Bands are described by the type of jobs slotted (senior management) in them and the similar roles they enclose (administration and support) (Armstrong and Murlis, 2007).

Broad band pay structures offer great flexibility in pay that could result in increased labour costs and high employee expectations. Therefore reference points that are aligned to market rates can be added in order to guide pay progression rather than to control it as in narrow graded structure (Milkovich and Newman, 2002). Ranges for progression exist as zones around the predefined reference points (CIPD, 2010). It is easy to update and modify this type of structure because many jobs can be placed in one band (IRS Management Review, 2001c).

Additionally, a broad banded structure facilitates cross team working since it allows lateral movement between bands (Corby, 2008). This type of pay structure puts a great load on line managers and HR especially in appraisals and pay progression, therefore equal pay problem may arise (Berger, L. and Beger, D., 2000). It is difficult to explain for employees the basis upon which salaries and pay progression are set. It has also been argued that wider bands will result in placing jobs that are different in value altogether, since this structure depends more on market rates than job evaluation (Martocchio, 2001).

This structure fits in flexible and delayed organisations where a scope of flexibility within pay is required. Furthermore, it fits in organisations that focus on lateral development rather than vertical careergrowth and promotions (Corby, 2008).

4. 3. Career and Job Family structures in these types of structures jobs are grouped into families. Career families group jobs in either functions or occupation, such as: marketing, operations and engineering (People Management, 2000a). They are grouped based on the activities they execute and the fundamental knowledge, skills and competencies needed to perform the job, but in which levels of responsibility, knowledge, skills and competences differ (Armstrong and Murlis, 2011, p. 219). The number of levels within a family is often 6 to 8 levels and pay ranges are attached to levels. Nevertheless, these numbers are not fixed and might vary between career families. However, career families provide clear and well defined career paths for progression within levels (Zinghein and Schuster, 2000). So organisations must inform all employees with the criteria needed for progression. It is a single graded structure since the same specific grade might be placed in several families; furthermore, jobs in the same level have the same value and the same pay range across all families which in return ensure equity. It perfectly fits in organisations that aim to achieve career development and that already have a comprehensive competency framework for all their jobs. Nevertheless, it has been argued that progression occurs in an occupational 'silo' (Armstrong and Murlis, 2011, p. 221).

Job families are very similar to career families, but jobs are grouped according to their common purposes, processes and skills like business support (People Management, 2000a). This structure consists of 3-5 separate families. It also consists of levels that might vary between families (People Management, 2000a). Levels are defined depending on their responsibilities,

knowledge and the levels of skills and competences required (Corby, 2008). In other words, role profiles are often set that could also be used for progression between levels (IRS Management Review, 2001b). This structure facilitates market differentials between families since there are different market pay structures for each family (IRS Management Review, 2001a). Moreover, jobs in the same level among families may differ in their size and their pay ranges unless they are slotted in families based on job evaluation. Consequently, this structure might appear very divisive and unfair if it isn't linked to job evaluation (Corby, 2008).

Job families could be designed either by the use of job evaluation or by the modelling process that is developed by hay group. The job evaluation process relies on using the analytical job evaluation that produces a rank order of jobs that are then divided into families. Levels within families are then defined either by the knowledge, skills and competences needed or by job evaluation points (Armstrong and Murlis, 2007). After defining the groups and levels, organisations can match role profiles with levels definitions.

Modelling involves identifying job groups with similar work but performed at different levels, followed by a general level identification. Produce general job roles and profiles and match them with the levels' definitions in order to place them into the appropriate levels. The matching process will then be validated by the use of job evaluation processes. Following that pay ranges are determined based on market rates (Armstrong and Cummins, 2011).

This structure fits in organisations that consist of different groups of job families and a huge number of professionals (People Management, 2000a). It

also fits in organisations that emphasise on planning career paths and routes. It is highly recommended when a specific job family needs to be rewarded and paid distinctively and differentially (Personnel Today, 2009).

The mixed model; which mixes broad banded and job family pay structures, arranges job families within bands. This model provides a flexible scope for promotions and pay progression since it encloses the benefits of both pay structures (IRS Management Review, 2001a).

4. 4. Pay Spines is a series of incremental pay points enclosing all jobs in an organisation. Progression is usually linked to the length of service and increments are fixed between 2. 5%-3%. Public sectors and voluntary organisations usually use this type of structure. Furthermore, it is used by organisations that are unable to evaluate fairly the different performance levels of employees (CIPD, 2009).

Job evaluation is recently used in some structures like the broad band and job family to validate only the positioning of roles into bands and jobs into levels. ' Reports of the death of job evaluation have been overstated, but its lifestyle has changed' (People Management, 2000a). The role of job evaluation is now minor and only supportive rather than being the solid base pay structure as it has always been.

Every organisation has its own context and circumstances that makes one specific structure more suitable than another. The type of structure depends on the organisational strategy, structure, culture and size (People Management, 2000a). It also depends on the type of industry, the type of

people employed and the budget available. Other external factors can influence the selection process, as follows: the competitive pressure, the demographic trends and employment legislation (Corby, 2008). For more statistics regarding pay structures, see appendix (4).

It is suggested to replace the current pay structure with a job family pay structure. Job families should be identified and the levels should be defined carefully either based on the job evaluation points or the level of skills and competences required for each level. Jobs are later placed in different levels within each family. It is advised to have wider pay ranges to allow a scope for progression (CIPD, 2010). Differentials between pay ranges, in other words between the mid point of one level and the mid-point of the neighbouring level, should provide enough scope to recognise the increases in job sizes among levels (CIPD, 2010). Large differential gaps will cause problems for people on borderlines waiting for long period of time, while small gaps will result in many appeals and arguments regarding the fairness of the pay structure. It is also recommended to have an overlap between pay ranges to allow flexibility and to recognise the contributions of well experienced employee on the top of his level that might be more beneficial for the organisation than a new employee in the next higher level (CIPD, 2010). It is highly recommended to design the job family pay structure based on the job evaluation that is already in place to ensure equity among families rather than the modelling process where job evaluation exist only to validate the allocation of jobs within families.

Reward strategies should be aligned with other HR strategies so that they balance and support one another (Armstrong and Murlis, 2007). For instance, implementing job family structure will provide basis for planning career progression and career paths and setting the general framework for managing performance. Pay is one of the main factors that attracts candidates to join an organisation through offering them excellent packages. Pay policies are also linked to training and development, since many organisations reward their employees upon their possession of skills and the development of their competencies (Armstrong and Murlis, 2007).

Conclusion

Every organisation strives to achieve a balance between internal relativities ensuring internal equity and external relativities ensuring competitive benefits. Many organisations try to replicate best practices in reward structures neglecting the fact that each organisation is operating in a distinct context and a unique culture. Organisations must look for the best fit rather than the best practice as there is no one best model structure that fits all organisations (Armstrong and Murlis, 2007). Furthermore, it is impossible to achieve 100% pay satisfaction in any organisation; as O'Neil cited in Armstrong and Murlis (2007, p. 9) stated : “ it is not possible to create a set of rewards that is generally acceptable and attractive to all employees since there is no right single set of solution that can address all the business issues and concerns”.