

Grade and pay structures

Grade and pay structures are an important part of reward systems. If properly designed and maintained they provide a logically designed framework within which an organization's pay policies can be implemented. They enable the organization to determine where jobs should be placed in a hierarchy, define pay levels and the scope for pay progression, and provide the basis upon which relativities can be managed, equal pay achieved and the processes of monitoring and controlling the implementation of pay practices can take place. A grade structure can also serve as a medium through which the organization communicates the career and pay opportunities available to employees.

GRADE STRUCTURE DEFINED

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed. There may be a single structure that contains grades or bands and which is defined by their number and width (width is the scope the grade or band provides for pay progression). Alternatively the structure may be divided into a number of job or career families consisting of groups of jobs where the essential nature and purpose of the work are similar but the work is carried out at different levels.

PAY STRUCTURE DEFINED

A pay structure defines the different levels of pay for jobs or groups of jobs by reference to their relative internal value as determined by job evaluation, to external relativities as established by market rate surveys and, sometimes, to negotiated rates for jobs. It provides scope for pay progression in accordance with performance, competence, contribution or service.

There may be a single pay structure covering the whole organization or there may be one structure for staff and another for manual workers, but this is becoming less common. There has in recent years been a trend towards 'harmonizing' terms and conditions between different groups of staff as part of a move towards single status. This has been particularly evident in many public sector organizations in the UK, supported by national agreements on 'single status'. Executive directors are sometimes treated separately where reward policy for them is decided by a remuneration committee of non-executive directors.

A grade structure becomes a pay structure when pay ranges, brackets or scales are attached to each grade, band or level. In some broad-banded structures, as described below, reference points and pay zones may be placed within the bands and these define the range of pay for jobs allocated to each band.

GUIDING PRINCIPLES FOR GRADE AND PAY STRUCTURES

Grade and pay structures should:

- be appropriate to the culture, characteristics and needs of the organization and its employees;
- facilitate the management of relativities and the achievement of equity, fairness, consistency and transparency in managing gradings and pay;
- be capable of adapting to pressures arising from market rate changes and skill shortages;
- facilitate operational flexibility and continuous development;
- provide scope as required for rewarding performance, contribution and increases in skill and competence;
- clarify reward, lateral development and career opportunities;
- be constructed logically and clearly so that the basis upon which they operate can readily be communicated to employees;
- enable the organization to exercise control over the implementation of pay policies and budgets.

TYPES OF GRADE AND PAY STRUCTURE

The types of pay structures as described below are narrow-graded, broad-graded, broad-banded, job family, career family and pay spine. Some organizations use spot rates for all or some of their employees and although this approach does not constitute a pay structure, it is described below as a feature of some pay systems. Spot rate systems can be expanded by developing individual job grades.

Narrow-graded structure

A narrow-graded structure, as illustrated in Figure 46.1, consists of a sequence of job grades into which jobs of broadly equivalent value are placed. There may be 10 or more grades and long-established structures, especially in the public sector, may have as many as 18 grades. Grades may be defined by a bracket of job evaluation points so that any job for which the job evaluation score falls within the points bracket for a grade would be allocated to that grade. Alternatively, grades may be defined by grade definitions or profiles, which provide the information required to match jobs set out under job demand factor headings (analytical matching). This information can be supplemented by reference to benchmark jobs that have been already graded as part of the structure design exercise.

'Mid-point management' techniques are often used to analyse and control pay policies by comparing actual pay with the reference point that is regarded as the policy pay level. 'Compa-ratios' can be used to measure the relationship between actual and policy rates of pay as a percentage. If the two coincide, the compa-ratio is 100 per cent. Compa-ratio analysis can be used to establish how pay practice (actual pay) compares with pay policy (the rate for a person who is fully qualified and competent in his or her job).

The problem with narrow-graded structures is that they encourage 'grade drift', ie unjustified upgradings. This takes place because it is difficult to differentiate between successive grades even with the help of job evaluation.

Broad-graded structures

Broad-graded structures, as illustrated in Figure 46.2, have six to nine grades rather than the 10 or more grades contained in narrow-graded structures. They may include 'reference points' or 'market anchors', which indicate the rate of pay for a fully competent performer in the grade and are aligned to market rates in accordance with 'market stance' policy. The grades and pay ranges are defined and managed in the same way as narrow-graded structures except that the increased width of the grades

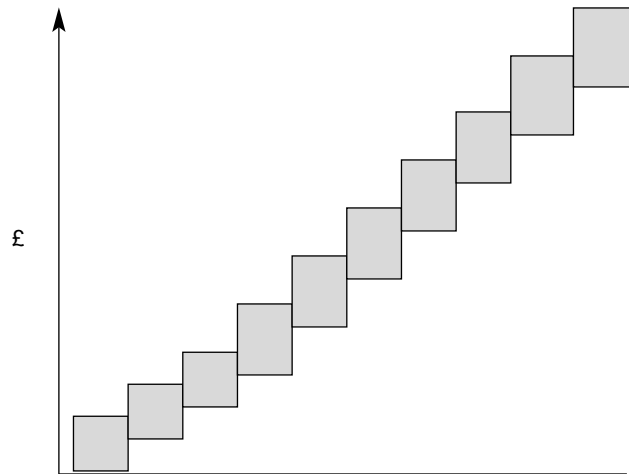


Figure 46.1 A narrow, multi-graded structure

means that organizations sometimes introduce mechanisms to control progression in the grade so that staff do not inevitably reach its upper pay limit. The mechanisms available consist of:

- *Reference point control* – scope is provided for progression according to competence by increments to the reference point. Thereafter, individuals may earn cash bonuses for high achievement that may be consolidated up to the maximum pay for the grade if high achievement levels are sustained.
- *Threshold control* – a point is defined in the pay range beyond which pay cannot increase unless individuals achieve a defined level of competence and achievement.
- *Segment or zone control* – an extension of threshold control, which involves dividing the grade into a number (often three) of segments or zones.

Broad-graded structures are used to overcome or at least alleviate the grade drift problem endemic in multi-graded structures. If the grades are defined, it is easier to differentiate them, and matching (comparing role profiles with grade definitions or profiles to find the best fit) becomes more accurate. But it may be difficult to control progression and this would increase the costs of operating them, although these costs could be offset by better control of grade drift.

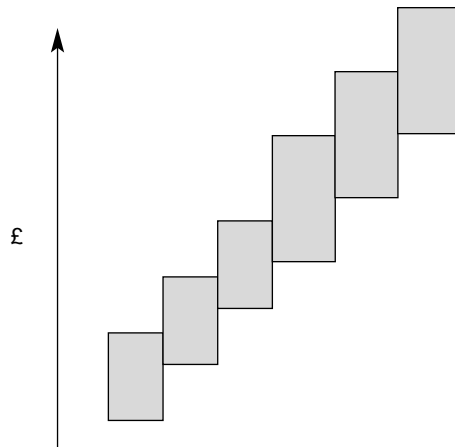


Figure 46.2 A broad-graded structure

Broad-banded structures

Broad-banded structures compress multi-graded structures into four or five 'bands', as illustrated in Figure 46.3. The process of developing broad-banded structures is called 'broad-banding'. In its original version, a broad-banded structure contained no more than five bands, each with, typically, a span of 70 to 100 per cent. Bands were unstructured and pay was managed much more flexibly than in a conventional graded structure (no limits may be defined for progression, which depended on competence and the assumption of wider role responsibilities) and much more attention was paid to market rates that governed what were in effect the spot rates for jobs within bands. Analytical job evaluation was often felt to be unnecessary because of the ease with which jobs could be allocated to one of a small number of bands. The difference between broad bands and broad grades is that the latter still generally adopt a fairly conventional approach to pay management by the use of analytical job evaluation, mid-point management, compa-ratio analysis and pay matrix techniques.

However, structure often crept in. It started with reference points aligned to market rates around which similar roles could be clustered. These were then extended into zones for individual jobs or groups of jobs, which placed limits on pay progression, as illustrated in Figure 46.4. Job evaluation was increasingly used to define the boundaries of the band and to size jobs as a basis for deciding where reference points should be placed in conjunction with market pricing. The original concept of broad-banding was therefore eroded as more structure was introduced and job evaluation became more prominent to define the structure and meet equal pay requirements. Zones within broad bands began to look rather like conventional grades.

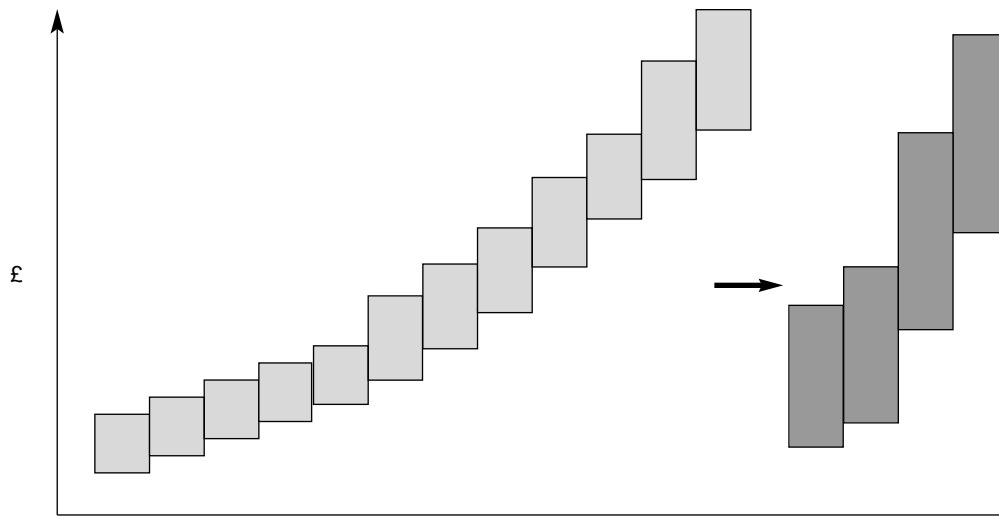


Figure 46.3 Narrow and broad-banded structures

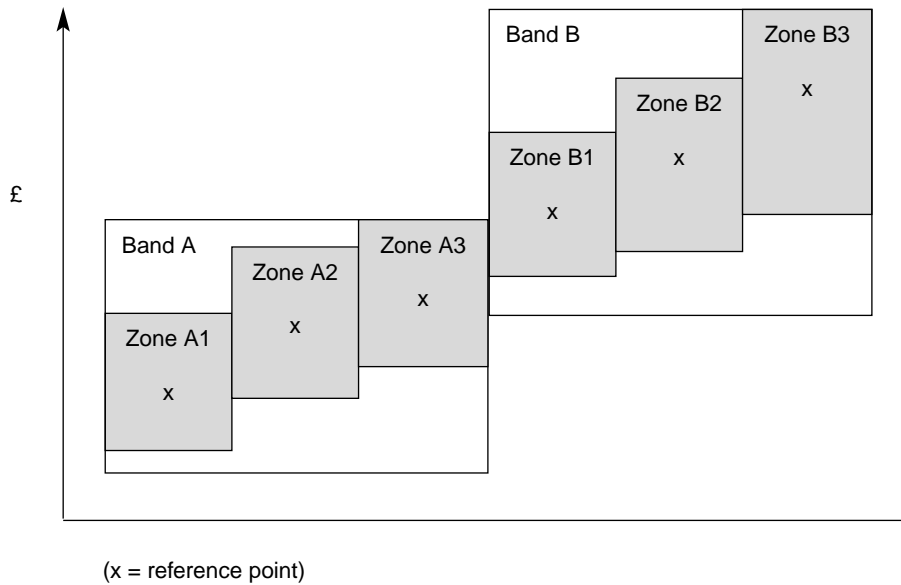


Figure 46.4 A broad-banded structure with zones

Job family structures

Job families consist of jobs in a function or occupation such as marketing, operations, finance, IT, HR, administration or support services, which are related through the activities carried out and the basic knowledge and skills required, but in which the levels of responsibility, knowledge, skill or competence levels required differ. In a job family structure, as shown in Figure 46.5, different job families are identified and the successive levels in each family are defined by reference to the key activities carried out and the knowledge and skills or competences required to perform them effectively. They therefore define career paths – what people have to know and be able to do to advance their career within a family and to develop career opportunities in other families. Typically, job families have between six and eight levels as in broad-graded structures. Some families may have more levels than others.

In contrast to career family structures (see below) each family in a job family structure may in effect have its own pay structure that takes account of different levels of market rates between families (this is sometimes called ‘market grouping’). The level or grade structures may also differ between families to reflect any special family role characteristics. Because the size of jobs and rates of pay can vary between the same levels in different job families, there may be no read-across between them unless use is made of analytical job evaluation.

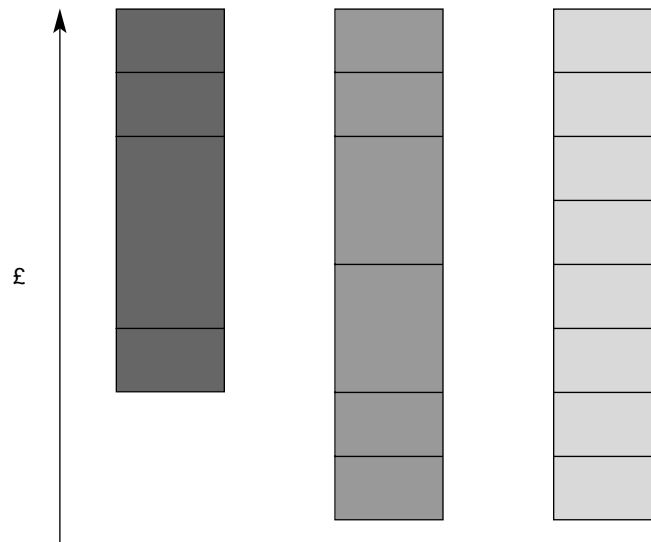


Figure 46.5 A job family structure

Career family structures

Career family structures, as shown in Figure 46.6, resemble job family structures in that there are a number of different ‘families’. The difference is that in a career family, jobs in the corresponding levels across each of the career families are within the same size range and, if an analytical job evaluation scheme is used, this is defined by the same range of scores. Similarly, the pay ranges in corresponding levels across the career families are the same. In effect, a career structure is a single graded structure in which each grade has been divided into families.

Career family structures focus on career mapping and career development as part of an integrated approach to human resource management. This is as important a feature of career families as the pay structure element, possibly even more so.

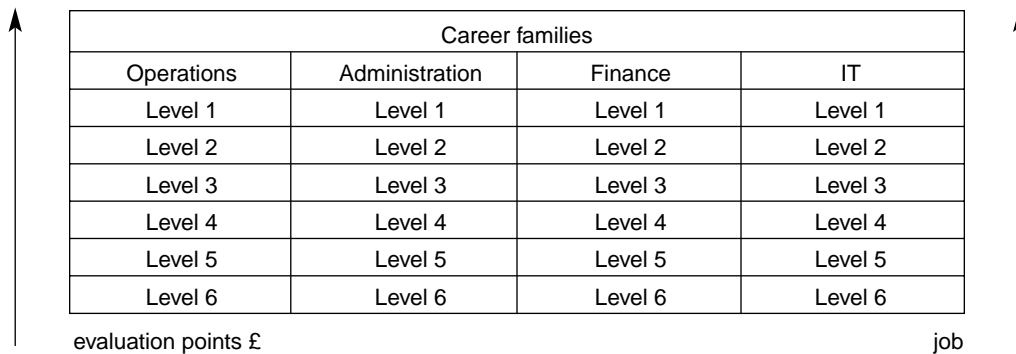


Figure 46.6 A career family structure

Pay spines

Pay spines are found in the public sector or in agencies and charities that have adopted a public sector approach to reward management. As illustrated in Figure 46.7, they consist of a series of incremental ‘pay points’ extending from the lowest to the highest paid jobs covered by the structure. Typically, pay spine increments are between 2.5 and 3 per cent. They may be standardized from the top to the bottom of the spine, or the increments may vary at different levels, sometimes widening towards the top. Job grades are aligned to the pay spine and the pay ranges for the grades are defined by the relevant scale of pay points. The width of grades can vary and job families may have different pay spines. Progression through a grade is based

on service, although an increasing number of organizations provide scope for accelerating increments or providing additional increments above the top of the scale for the grade to reward merit.

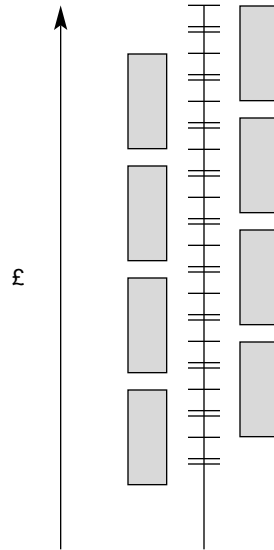


Figure 46.7 A pay spine

Spot rates

Some organizations do not have a graded structure at all for any jobs or for certain jobs such as directors. Instead they use 'spot rates'. They may also be called the 'rate for the job', more typically for manual jobs where there is a defined skilled or semi-skilled market rate that may be negotiated with a trade union. Spot rates are quite often used in retail firms for customer service staff.

Spot rates are sometimes attached to a person rather than a job. Unless they are negotiated, rates of pay and therefore relativities are governed by market rates and managerial judgement. Spot rates are not located within grades and there is no defined scope for progression while on the spot rate. There may, however, be scope for moving on to higher spot rates as skill, competence or contribution increases. Job holders may be eligible for incentive bonuses on top of the spot rate.

Spot rates may be used where there is a very simple hierarchy of jobs, as in some manufacturing and retailing companies. They may be adopted by organizations that want the maximum amount of scope to pay what they like. They often exist in small

or start-up organizations that do not want to be constrained by a formal grade structure and prefer to retain the maximum amount of flexibility. But they can result in serious inequities that may be difficult to justify.

Individual job grades

Individual job grades are, in effect, spot rates to which a defined pay range of, say, 20 per cent on either side of the rate has been attached to provide scope for pay progression based on performance, competence or contribution. Again, the mid-point of the range is fixed by reference to job evaluation and market rate comparisons.

Individual grades are attached to jobs not people, but there may be more flexibility for movement between grades than in a conventional grade structure. This can arise when people have expanded their role and it is considered that this growth in the level of responsibility needs to be recognized without having to upgrade the job. Individual job grades may be restricted to certain jobs, for example more senior managers where flexibility in fixing and increasing rates of pay is felt to be desirable. They provide for greater flexibility than more conventional structures but can be difficult to manage and justify and can result in pay inequities. The 'zones' that are often established in broad-banded structures have some of the characteristics of individual job grades.

Summary

A summary of the features of the different pay structures, their advantages and disadvantages and when they may be appropriate is given in Table 46.1.

Incidence of different types of structure

Figure 46.8 shows the incidence of different types of structure as established by the e-reward survey (2004c). Broad-graded structures are now the most popular. They are replacing narrow-graded structures rather than broad-banding, which is relatively little used. There are a fair number of job family structures but few career family structures.

DESIGNING GRADE AND PAY STRUCTURES

Design options

There is a choice of structure, as shown in Table 46.1, and whichever structure is selected, there will be a number of design options. The first decision to make is where

Table 46.1 Summary analysis of different grade and pay structures

Type of structure	Features	Advantages	Disadvantages	When appropriate
Narrow-graded	A sequence of job grades –10 or more Narrow pay ranges eg 20 per cent – 40 per cent Progression usually linked to performance	Clearly indicate pay relativities Facilitate control Easy to understand	Create hierarchical rigidity Prone to grade drift Inappropriate in a de-layered organization	In a large bureaucratic organization with well defined hierarchies When close and rigid control is required When some but not too much scope for pay progression related to performance or contribution is wanted
Broad-graded	A sequence of between 6 and 9 grades Fairly broad pay ranges eg 40 to 50% Progression linked to contribution and may be controlled by thresholds or zones	As for narrow graded structures but in addition: the broader grades can be defined more clearly better control can be exercised over grade drift	Too much scope for pay progression Control mechanisms can be provided but they can be difficult to manage May be costly	Desirable to define and differentiate grades more accurately as an aid to better precision when grading jobs Grade drift problems exist More scope wanted to reward contribution
Broad-banded	A series of, often 5 or 6 'broad' bands Wide pay bands – typically between 50 and 80% Progression linked to contribution and competence	More flexible Reward lateral development and growth in competence Fit new style organizations	Create unrealistic expectations of scope for pay rises Seem to restrict scope for promotion Difficult to understand Equal pay problems	In de-layered, process-based, flexible organizations Where more flexibility in pay determination is wanted Where the focus is on continuous improvement and lateral development

continued

Table 46.1 *continued*

Type of structure	Features	Advantages	Disadvantages	When appropriate
Job family	Separate grade and pay structures for job families containing similar jobs Progression linked to competence and/or contribution	Can appear to be divisive May inhibit lateral career development May be difficult to maintain internal equity between job families unless underpinned by job evaluation	Facilitate pay differentiation between market groups. Define career paths against clear criteria	When there are distinct market groups which need to be rewarded differentially Where there are distinct groups of jobs in families
Pay spine	A series of incremental pay points covering all jobs Grades may be superimposed Progression linked to service	Easy to manage Pay progression not based on managerial judgement	No scope for differentiating rewards according to performance May be costly as staff drift up the spine	In a public sector or voluntary organization where this is the traditional approach and it therefore fits the culture Where it is believed to be impossible to measure differential levels of performance fairly and consistently

to place grade boundaries which, as described below, is usually informed by a job evaluation exercise. Decisions on grade boundaries will be influenced by considerations affecting the number and width of grades. Further options exist on the pay structure concerning the differentials between grades, the degree to which there should be overlap between grades, if any, and the method of pay progression within grades. In broad-banded structures there is also choice on the infrastructure (the use of reference points or zones), and in career or job family structures there are options concerning the number of families, the composition of families and the basis upon which levels should be defined.

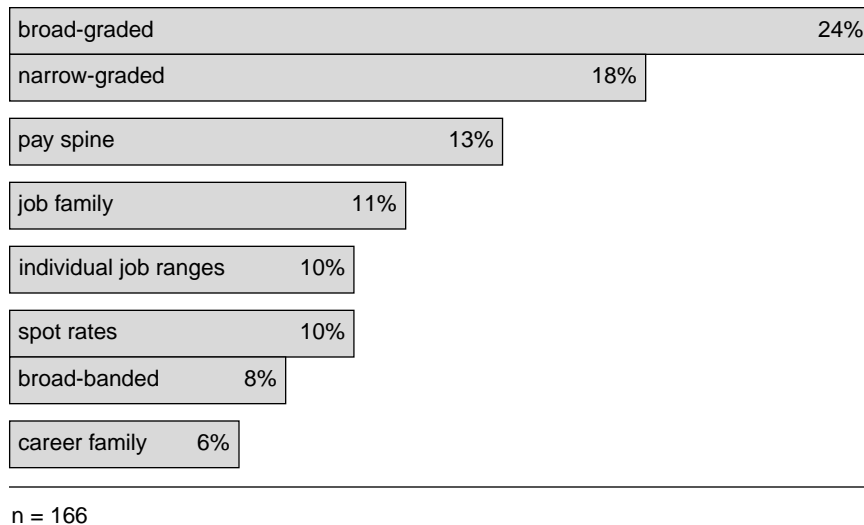


Figure 46.8 Type of grade and pay structure

Deciding on grade boundaries

An analytical job evaluation exercise will produce a rank order of jobs according to their job evaluation scores. A decision then has to be made on where the boundaries that will define grades should be placed in the rank order. So far as possible, boundaries should divide groups or clusters of jobs which are significantly different in size so that all the jobs placed in a grade are clearly smaller than the jobs in the next higher grade and larger than the jobs placed in the next lower grade.

Fixing grade boundaries is one of the most critical aspects of grade structure design following an analytical job evaluation exercise. It requires judgement – the process is not scientific and it is rare to find a situation when there is one right and obvious answer. In theory, grade boundaries could be determined by deciding on the number of grades in advance and then dividing the rank order into equal parts. But this would mean drawing grade boundary lines arbitrarily and the result could be the separation of groups of jobs that should properly be placed in the same grade.

The best approach is to analyse the rank order to identify any significant gaps in the points scores between adjacent jobs. These natural breaks in points scores will then constitute the boundaries between clusters of jobs that can be allocated to adjacent grades. A distinct gap between the highest rated job in one grade and the lowest rated job in the grade above will help to justify the allocation of jobs between grades. It will therefore reduce boundary problems leading to dissatisfaction with gradings

when the distinction is less well defined. Provisionally, it may be decided in advance when designing a conventional graded structure that a certain number of grades is required, but the gap analysis will confirm the number of grades that is appropriate, taking into account the natural divisions between jobs in the rank order. However, the existence of a number of natural breaks cannot be guaranteed, which means that judgement has to be exercised as to where boundaries should be drawn when the scores between adjacent jobs are close.

In cases where there are no obvious natural breaks, the guidelines that should be considered when deciding on boundaries are as follows:

- Jobs with common features as indicated by the job evaluation factors are grouped together so that a distinction can be made between the characteristics of the jobs in different grades – it should be possible to demonstrate that the jobs grouped into one grade resemble each other more than they resemble jobs placed in adjacent grades.
- The grade hierarchy should take account of the organizational hierarchy, ie jobs in which the job holder reports to a higher level job holder should be placed in a lower grade, although this principle should not be followed slavishly when an organization is over-hierarchical with, perhaps, a series of one-over-one reporting relationships.
- The boundaries should not be placed between jobs mainly carried out by men and jobs mainly carried out by women.
- The boundaries should ideally not be placed immediately above jobs in which large numbers of people are employed.
- The grade width in terms of job evaluation points should represent a significant step in demand as indicated by the job evaluation scheme.

Number of grades, levels or bands

The considerations to be taken into account when deciding on the number of grades levels or bands are:

- The range and types of roles to be covered by the structure.
- The range of pay and job evaluation points scores to be accommodated.
- The number of levels in the organizational hierarchy (this will be an important factor in a broad-banded structure).
- Decisions on where grade boundaries should be placed following a job evaluation exercise, which has produced a ranked order of jobs – this might identify the existence of clearly defined clusters of jobs at the various levels in the hierarchy between which there are significant differences in job size.

- The fact that within a given range of pay and responsibility, the greater the number of grades the smaller their width and vice versa – this is associated with views on what is regarded as the desirable width of a range, taking into account the scope for progression, the size of increments in a pay spine and equal pay issues.
- The problem of ‘grade drift’ (unjustified upgradings in response to pressure, lack of promotion opportunities or because job evaluation has been applied laxly), which can be increased if there are too many narrow grades.

Width of grades

The factors affecting decisions on the width of grades or bands are:

- Views on the scope that should be allowed for performance, contribution or career progression within grade.
- Equal pay considerations – wide grades, especially extended incremental scales, are a major cause of pay gaps between men and women simply because women, who are more likely to have career breaks than men, may not have the same opportunity as men to progress to the upper regions of the range; male jobs may therefore cluster towards the top of the range while women’s may cluster towards the bottom.
- Views on the number of grades – the greater the number the smaller the width.
- Decisions on the value of increments in a pay spine – if it is believed, as in local government and as a result of an ACAS equal pay case that the number of increments should be restricted, for equal pay or other reasons, but that the number of grades should also be limited, then it is necessary to increase the value of the increments.
- In a broad-banded structure, the range of market rates and job evaluation scores covering the jobs allocated to the band.

Differentials between pay ranges

Differentials between pay ranges should provide scope to recognize increases in job size between successive grades. If differentials are too close – less than 10 per cent – many jobs become borderline cases, which can result in a proliferation of appeals and arguments about grading. Large differentials below senior management level of more than 25 per cent can create problems for marginal or borderline cases because of the amount at stake. Experience has shown that in most organizations with conventional grade structures, a differential of between 16 and 20 per cent is appropriate except, perhaps, at the highest levels.

Pay range overlap

There is a choice on whether or not pay ranges should overlap and if so, by how much. The amount of overlap, if any, is a function of range width and differentials. Large overlaps of more than 10 per cent can create equal pay problems where, as is quite common, men are clustered at the top of their grades and women are more likely to be found at the lower end.

Pay progression

There is a choice of methods of pay progression between the fixed service-related increments common in the public sector, and the other forms of contingent pay, namely performance, competence or contribution-related, as described in Chapter 47.

The grade and pay structure design process

An analytical job evaluation scheme is usually the basis for designing a graded structure and it can be used in the initial stages of designing a broad-banded or career/job family structure. In the case of graded structures, decisions on the number and width of grades are generally based on an analysis of the rank order of scores produced by job evaluation.

This approach is used less often in the design of broad-banded or career/job family structures, where the most common method is to make a provisional advance decision on the number of bands or career family levels, and then position roles in bands (often by reference to market rates) or allocate roles into levels by an 'analytical matching' process, as described in Chapter 44. Job evaluation may only be used at a later stage to validate the positioning of roles in bands or the allocation of jobs to family levels, check on relativities and, sometimes, define the bands or levels in job evaluation score terms. The initial decision on the number of bands or levels and their definition may, however, be changed in the light of the outcome of the allocation, matching and evaluation processes.

More rarely, the grade and pay structure design is conducted by means of a non-analytical job classification exercise (see Chapter 44), which defines a number of single grades. Jobs are then slotted into the grades by reference to the grade definitions. The basic sequence of steps for designing a grade and pay structure is illustrated in Figure 46.9. Note the emphasis on communication and involvement at all stages.

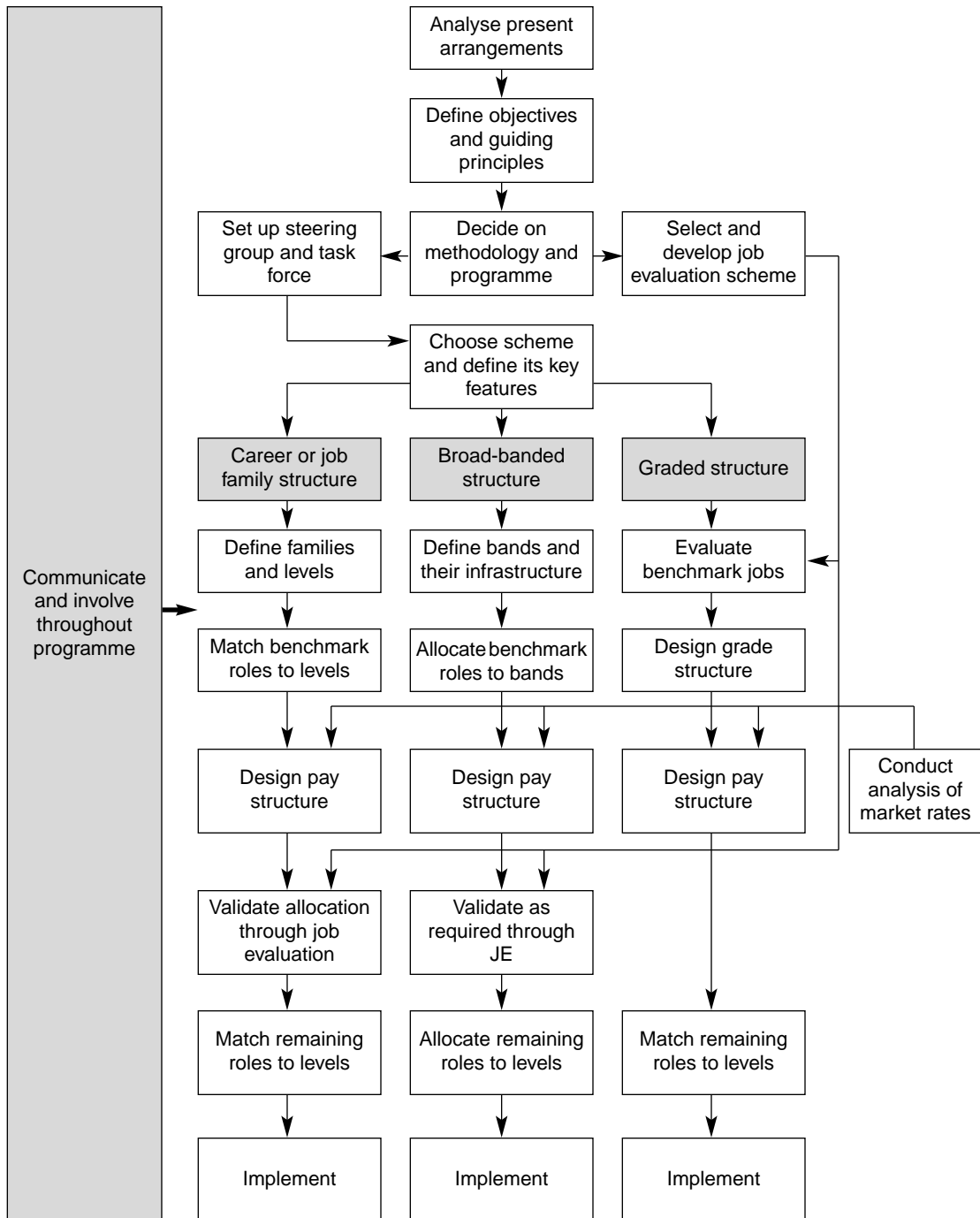


Figure 46.9 Flow chart: design of a new grade and pay structure