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SOLUTIONS

Compensation Consulting Since 1995

Volume 13, Number 2

Single vs. Multiple Pay Plans: When should they be used?

The first goal of salary structure is market competitiveness

If job groups or families are evident in the organization, a salary structure may be beneficial

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At some point HR must address the matter of market competitiveness for special or unique skill sets. Frequently, special skills and market competitiveness can be handled on an individual job or employee-by-employee basis, having no effect on the overall salary structure. If, however, a significant number of employees make up these special groups, multiple salary structures may be indicated.

The intent of a salary structure is to ensure a balance between the internal equity of jobs and market competitive salary ranges for each level of responsibility and the skills required. Salary structures can also differentiate variable levels of responsibility within an organization or specific job family, as in a non-exempt structure or executive job structure.

When is it necessary to change or update an entire salary structure to manage these groups of jobs? Understand that we are proponents of a single salary structure for organizations. Single salary structures allow for consistency, easier administration, and the concept of a single organization. Occasionally, however, situations make necessary, even beneficial, the implementation of multiple salary structures. Following is a short list of these situations:

Market Competitiveness

This is the primary goal of the salary structure. Without market competitiveness your organization may have difficulty recruiting or retaining qualified employees.

Market competitiveness can happen on two levels: individual or job family. We address the job family below under Labor Market Changes.

For individual jobs, a market premium for the identified jobs may be developed within the same salary structure.

The grade or pay level of the job need not be changed; the salary range need only be temporarily adjusted until regaining market competitiveness. If the market median is consistently 15% higher than suggested median pay level or your current structure, a market premium should be investigated.

Large Organizations

Large cities, counties, or any number of larger organizations typically have many jobs in multiple departments. Due to the quantity and variety of such jobs, the Human Resources department may find it difficult to manage all the classifications within the same salary structure.

Large organizations benefit from the very quantity of jobs that can be separated into functions (e.g. police, fire, health care, finance, etc.), requiring natural levels of responsibility. For example, a small organization may only have two to three levels of responsibility within the police department – police officer and police chief – which would not require a separate salary structure. The larger police department will have officers, sergeants, lieutenants, majors, deputy chiefs, and chiefs. A very noticeable career progression is in place, giving that organization the ability to develop a salary structure with six distinct levels of responsibility.

Labor Market Changes

In recent history we have seen some dramatic shifts in the labor market. In the late 1990s even private organizations seemed unable to keep up with the information technology salaries, and the public sector experienced high turnover in these areas. Today we are seeing a similar change in police jobs, engineers, planners, and inspectors.

If your organization has any of these job families, identify the jobs or functions

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by reviewing past turnover rates, salary surveys, and even internal salary movements (for example, changes in entry level salaries will provide significant data). After identifying the specific jobs or functions, determine if the jobs form a natural hierarchy.

Presence of Represented Employees

One reason employees are represented is to ensure the competitiveness of salary and benefits. Therefore, represented employees will have developed separate salary structures through negotiating efforts.

Such structures may guide even organizations without represented employees in defining job groups for salary structure development. By following the market grouping, your organization ensures that similar positions are market competitive not only in their salary ranges but also salary grade and relationship to similar positions within the market.

Different Labor Markets

As shown above, large organizations have multiple job families or occupation groups that may necessitate separate salary structures; however, some organizations encompass completely different labor markets: police, fire, bridge, airport, etc. Employees in these labor groups do not typically move from one group to another. For example, a police officer does not typically move to the fire station.

Organizations of this type may find it beneficial to separate the salary schedules since each labor market requires distinct skills, knowledge and abilities; recruit from different areas; in markets moving at different rates. A separate salary structure permits quicker responses to these changes in order to maintain market competitiveness.

Conclusion

There is nothing wrong with using multiple salary structures as long as you have reason to use them. If your organization meets the outlined criteria it may be advisable to have multiple salary structures.

Employing multiple salary structures may actually decrease turnover, increase market competitiveness, and increase the ability of HR to track the labor market movements of specific jobs and job families. However, remember to establish clear guidelines to define the need for separate salary structures or you could end up with more than may be justified. Below is a short summary of the pros and cons to using multiple salary structures.

Pros

- Maintain market competitiveness
- Easy to track market movements
- Easy to explain to employees
- Easy for employees to understand
- Addresses specific or unique skill sets

Cons

- Creates a special group
- Salary structure could go up and down differently than do other salary structures
- Increases administrative burden on HR

No hard and fast rule can help determine whether multiple salary structures are needed. However, when the multiple salary structures are considered for job families or occupational groups, it is important that HR review the entire system to see how creating a separate salary schedule for one job family may impact the organization.

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