REWARDS MANAGEMENT

Pay Structures

Elements of Rewards

1. Analyzing and describing roles

2. Evaluating roles

3. Analyzing Market Data

4. Designing salary structures

Once you get the data......

- We made the evaluation
- We made the job matching with market data

- What else shall we do?

Put them in a structure/ organise them

Key issues to address

- Compensation Philosophy (P.M. connections, differentials, types of benefits etc)
- Compensation & Benefits strategy (pay level, short and long term, pay mix)
- Policies
- Processes
- Procedures
- Total rewards or restricted rewards
- Interwoven with HR strategy and policies
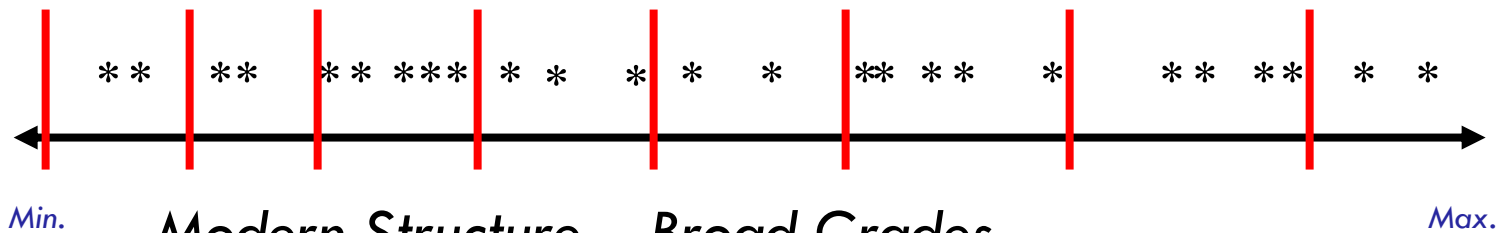- Compensation communication

Taken into account.....

- Current situation

- Internal drivers

- External drivers

- People issues

- Company's strategy

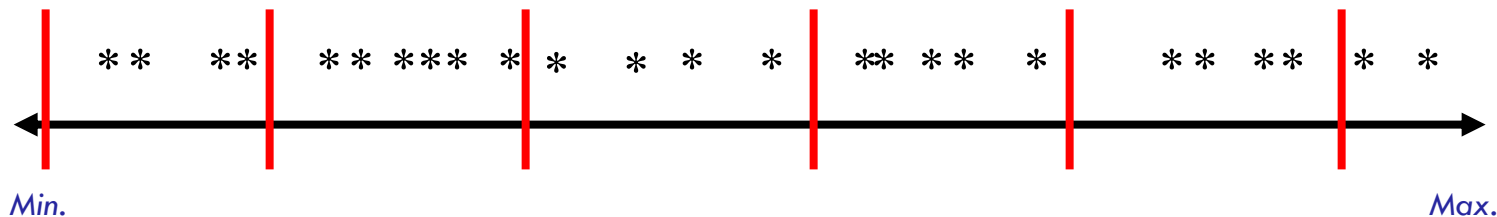- HC strategy

- HR department readiness

Job structure

- Job Content structures establish the job worth primarily on the basis of internal equity.
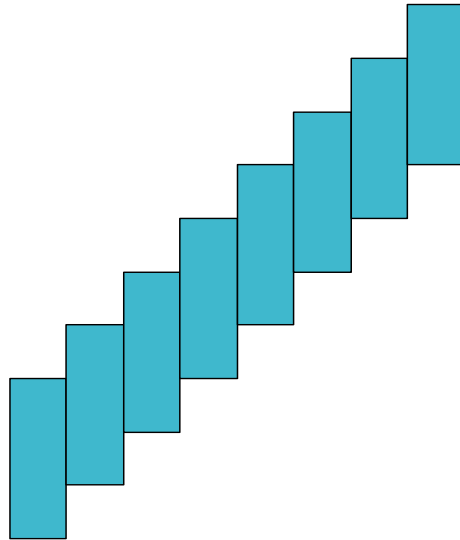
Traditional Structure – Grades

** ** ** *** * * * * * ** ** * ** ** * *

Min.   Max.

Modern Structure – Broad Grades

** ** ** *** * * * * * ** ** * ** ** * *

Min.   Max.

Traditional vs broad banding
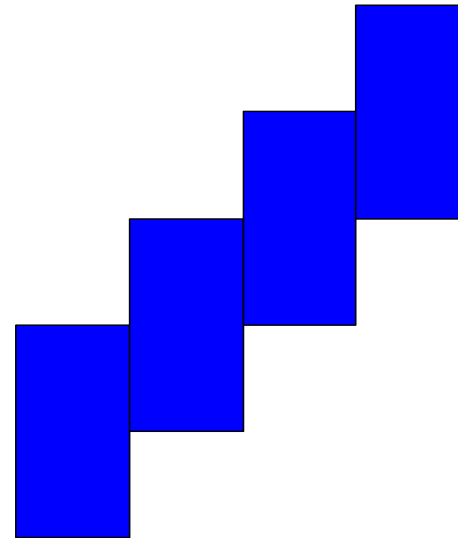
Traditional Structure

Range Spread: 30% - 50%

Midpoint Differential: 10% - 15%
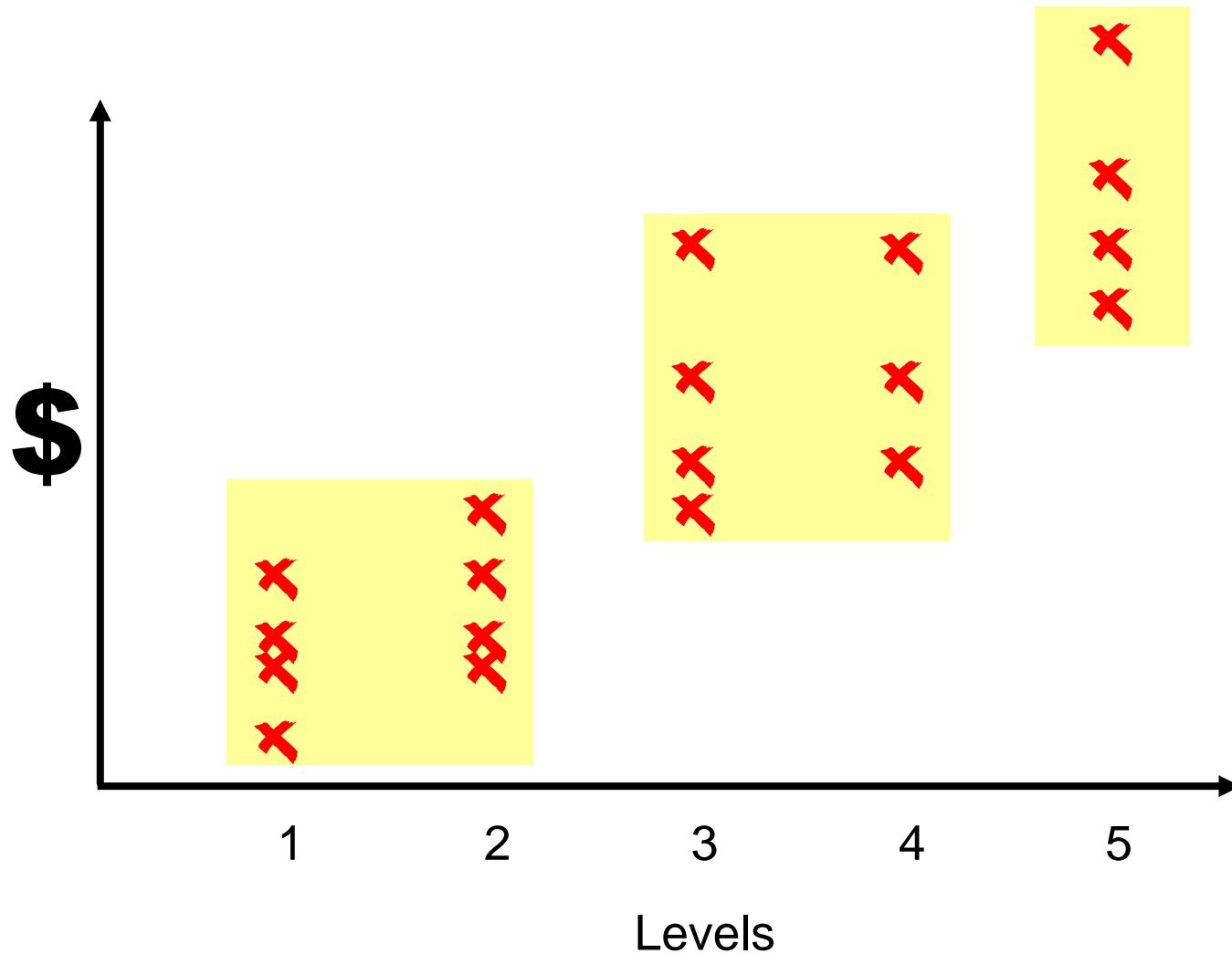
Broad Grades

Range Spread: 50% - 75%

Midpoint Differential: 15% - 30%

# Mix of internal equity and external competitiveness

- Grouping of grades or level into broader clusters based on internal equity and market
  - The internal equity principle applies as in previous example
  - The external market will give an indication of adjacent levels that have the same value in the marketplace

Mix of internal equity and external competitiveness

Mix of internal equity and external competitiveness

Graded structure

Broad-graded structure

Starting point

Starting point

12   13   14

12/13   14/15
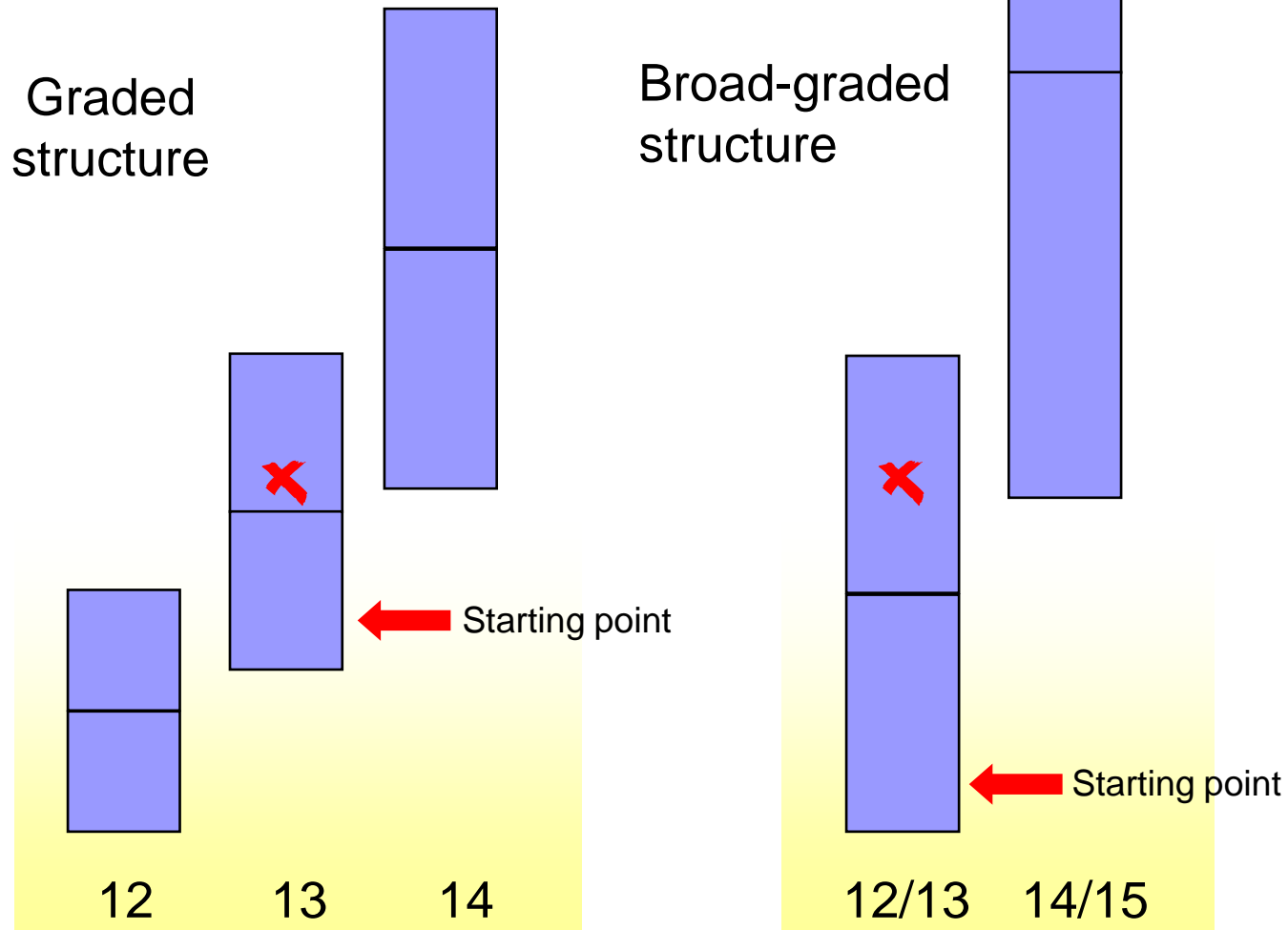
Pay framework options

Traditional

- Range spreads 20–40%
- Smaller midpoint progressions (5–10%)
- Many pay grades

Broadbanding

- Range spreads 50–80%+
- Few pay bands

Market pricing

- Range spreads 30–60% (narrower at lower levels, widening as level increases)
- Market-data- driven midpoint progressions (usually between 25–50%)

Pay framework options (broad banding)

Flattens the structure

Reduces costs of hierarchy

Broader coverage of assimilation cases $\rightarrow$ no demotivation

No dramatic changes to market changes

Internal movements without promotions (lateral moves)

Tied to performance

Builds on management trust

Management autonomy to increases

Needs Performance Management in place

Needs more mature management

Pay inequities due to less tighten to job evaluation (within bands)

Fewer opportunities to promotion

Too much autonomy lead to enormous increases

Pay framework options (traditional)

☺

- Clear structures for large organisations
- More promotional prospects (vertical promotions)
- Typical for organisations that are more predictable
- Reflects more accurate market data
- Better cost controlling

☹

- Not tied to performance rather to tenure
- Does not encourage teamwork
- Does not encourage development (plateauing)
- Is not tied to job families
- Not management autonomy-demotivation of management
- Cannot easily assimilate outliers (outside bands)

Pay framework options

Traditional Structure	Broad Grades

Traditional Structure

Advantages
• Reduced burden for managers, process usually controlled by HR

• Internal ranking integrity

• Can be build around market anchors

• Provides guidance to managers

Implications
• Pressure on the accuracy of job evaluation methods

• Hierarchical focus can be a barrier to development
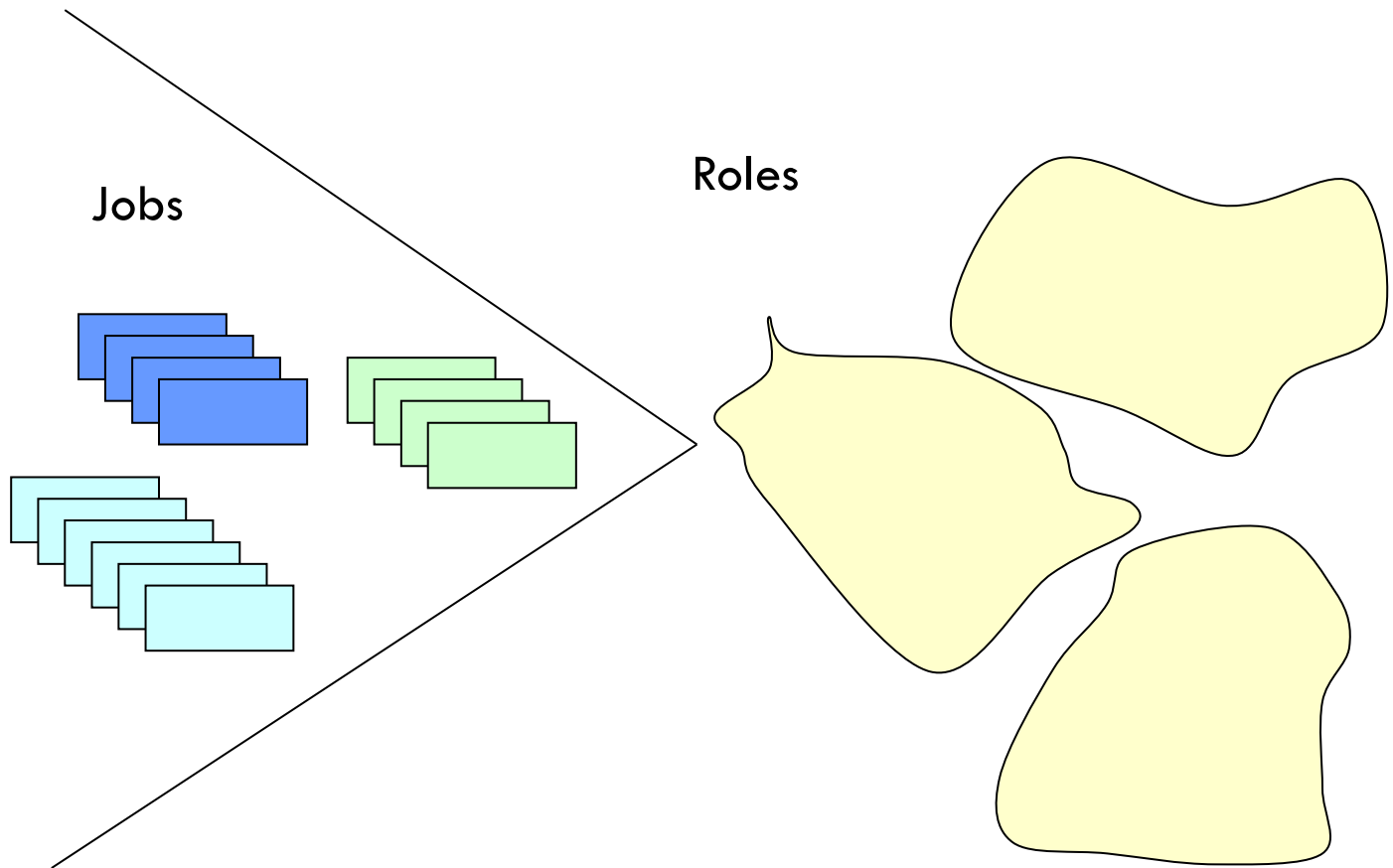
Broad Grades

Advantages
• Offers more flexibility to reward individual contribution while still providing guidance of a traditional system

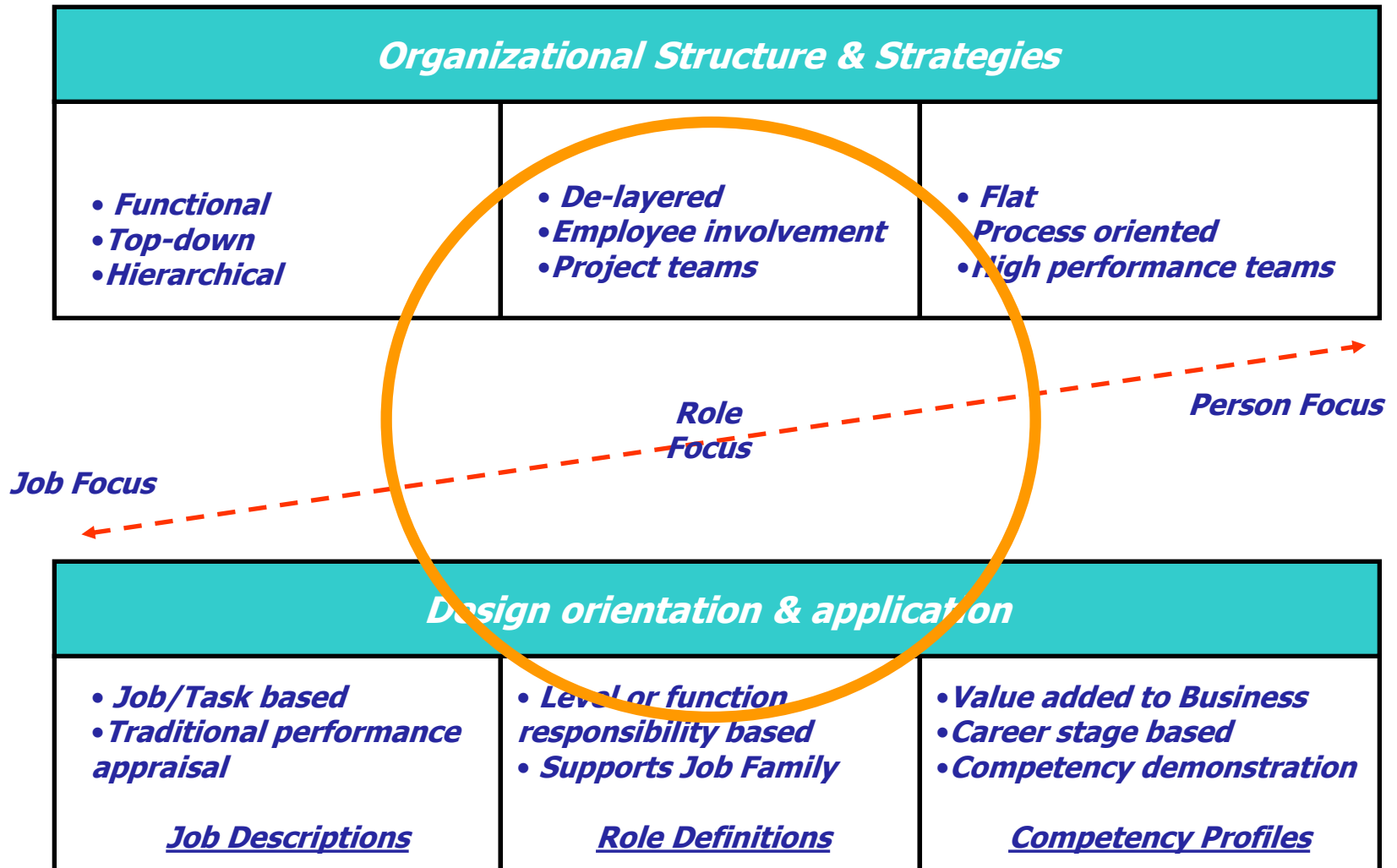• Control points reflect market value

Implications
• Requires strong Performance Management System

Job families

Moving from Jobs to Roles

Jobs

Roles

Job families

Organizational Structure & Strategies		
• **Functional** •**Top-down** •**Hierarchical**	• **De-layered** •**Employee involvement** •**Project teams**	• **Flat** **Process oriented** •**High performance teams**

Role Focus

Person Focus

Job Focus

Design orientation & application		
• **Job/Task based** •**Traditional performance appraisal**	• **Level or function responsibility based** • **Supports Job Family**	•**Value added to Business** •**Career stage based** •**Competency demonstration**
Job Descriptions	*Role Definitions*	*Competency Profiles*

# Job families

Job Families are useful in

- Defining/Analysing roles

- Fixing Reward

- Performance Management/training & development

- Career paths/succession planning

- Recruitment & selection

..they act as a platform for the co-ordination and integration of people management processes

Job families

- Different approach in Job Analysis based on level and family

- No need for detailed Job Descriptions

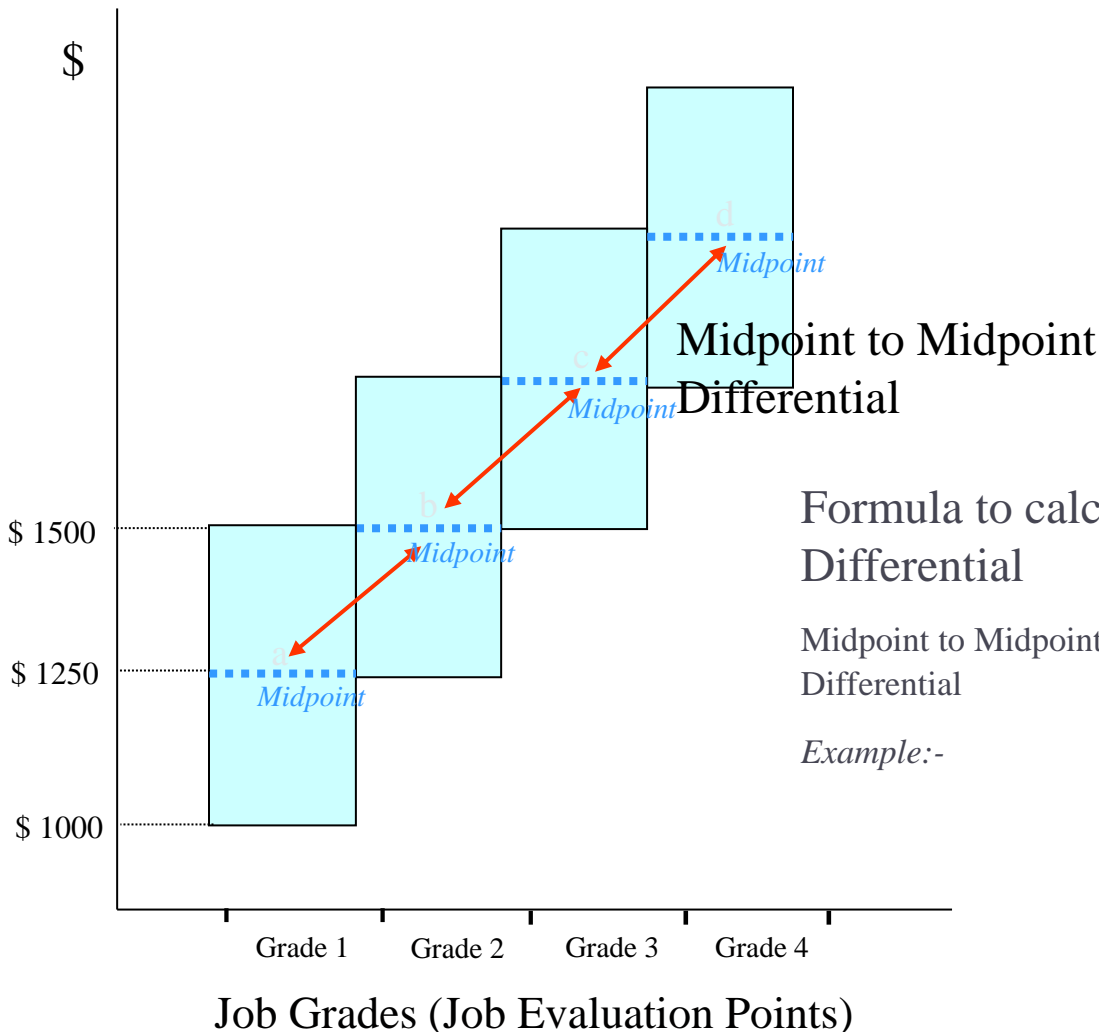- Clarity about how roles contribute to the organization

Job evaluation-Job matching

Grade 1

Grade 2

Grade 3

Grade 4
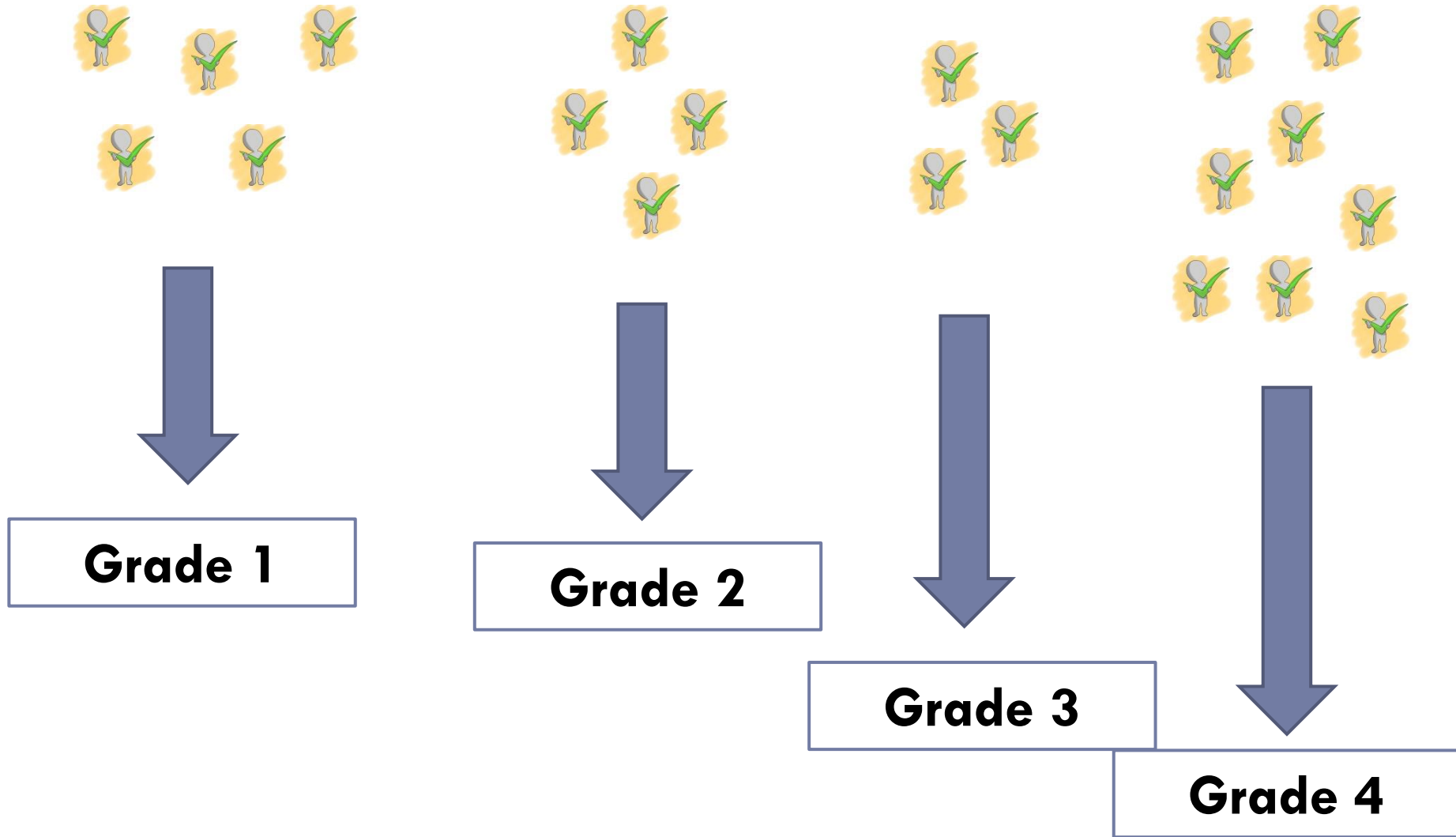
Job evaluation-Job matching

Midpoint to Midpoint differential

$
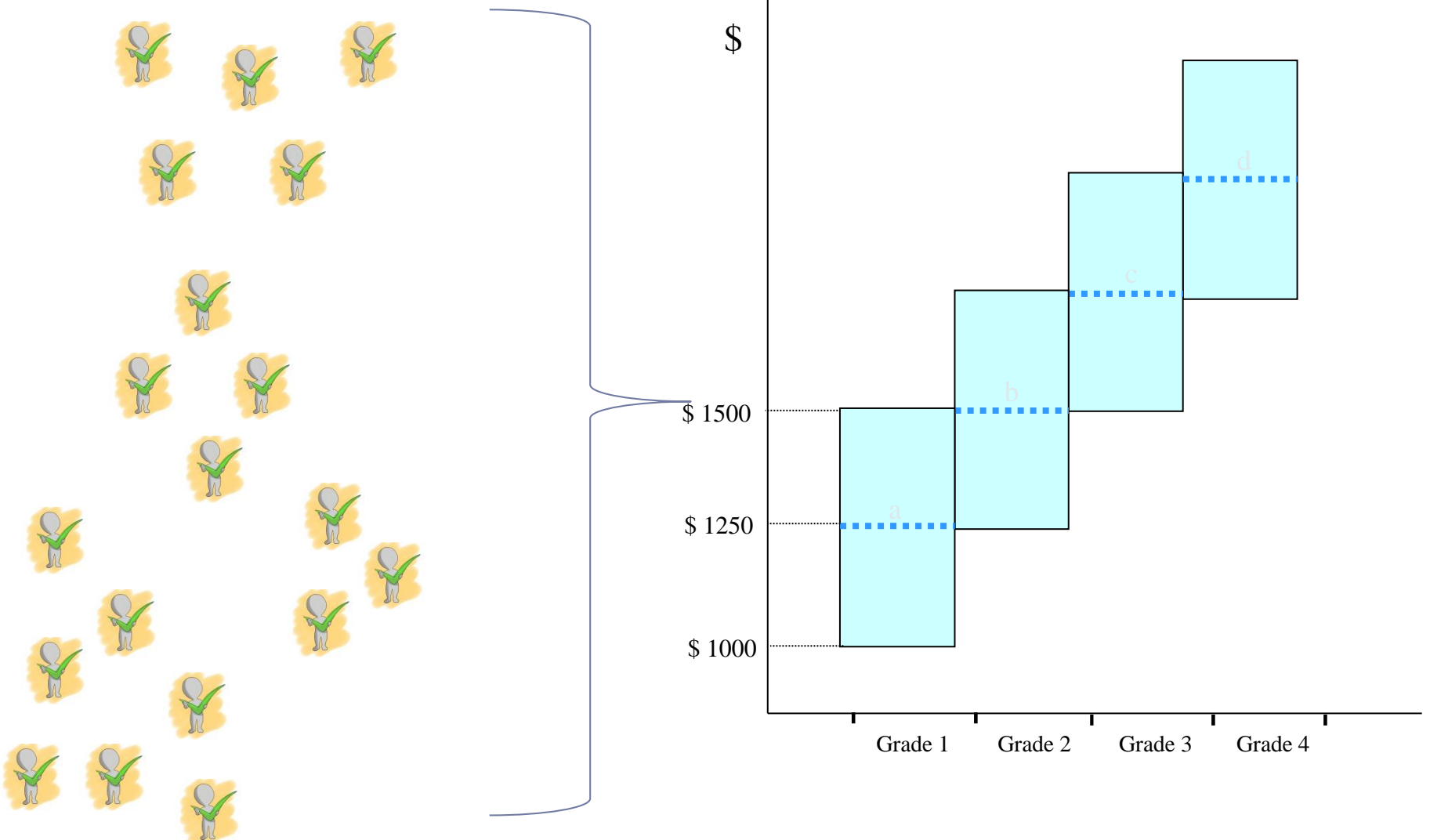
Midpoint to Midpoint Differential
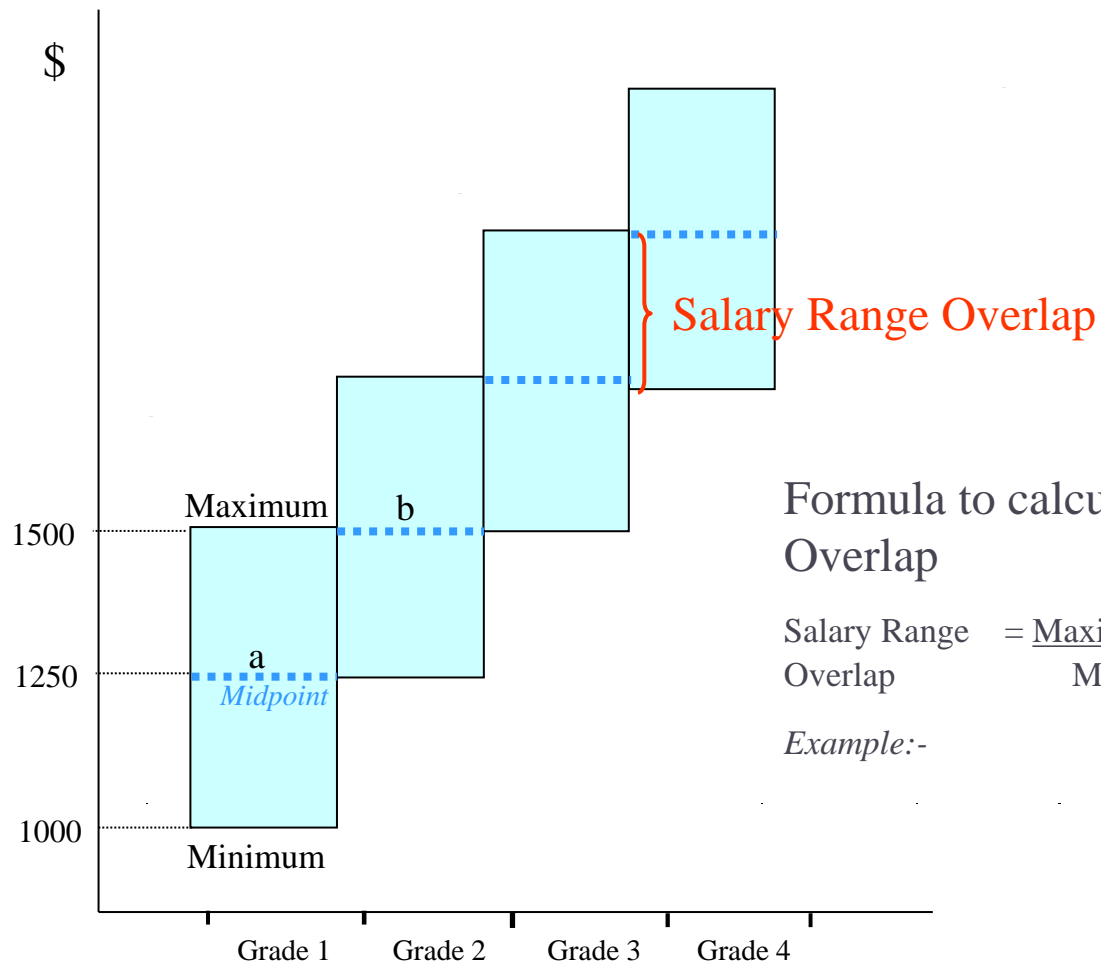
Formula to calculate Midpoint to Midpoint Differential

Midpoint to Midpoint Differential $= \dfrac{\text{Midpoint b - Midpoint a}}{\text{Midpoint a}} \times 100\%$

Example:- $\dfrac{1500 - 1250}{1250} \times 100\% = 20\%$

$ 1500
$ 1250
$ 1000

d
Midpoint

c
Midpoint

b
Midpoint

a
Midpoint

Grade 1   Grade 2   Grade 3   Grade 4

Job Grades (Job Evaluation Points)

Salary range overlap

y-axis: **$**

1500 — Maximum

1250 — a, *Midpoint*

1000 — Minimum

b

Salary Range Overlap

Formula to calculate Salary Range Overlap
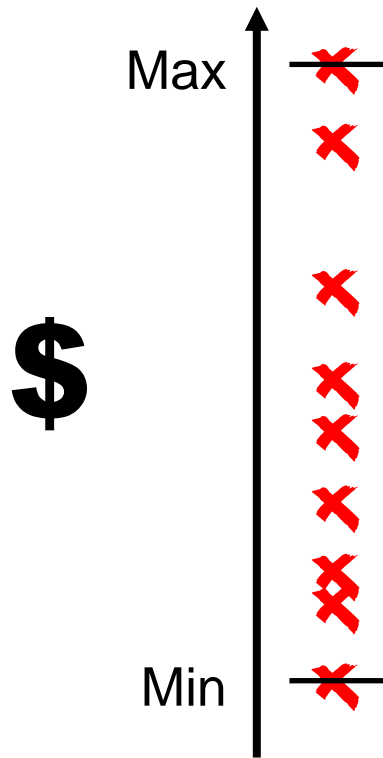
Salary Range Overlap = $\dfrac{\text{Maximum a - Minimum b}}{\text{Maximum a - Minimum a}} \times 100\%$

Example:- $\dfrac{1500 - 1250}{1500 - 1000} \times 100\% = 50\%$

Grade 1   Grade 2   Grade 3   Grade 4
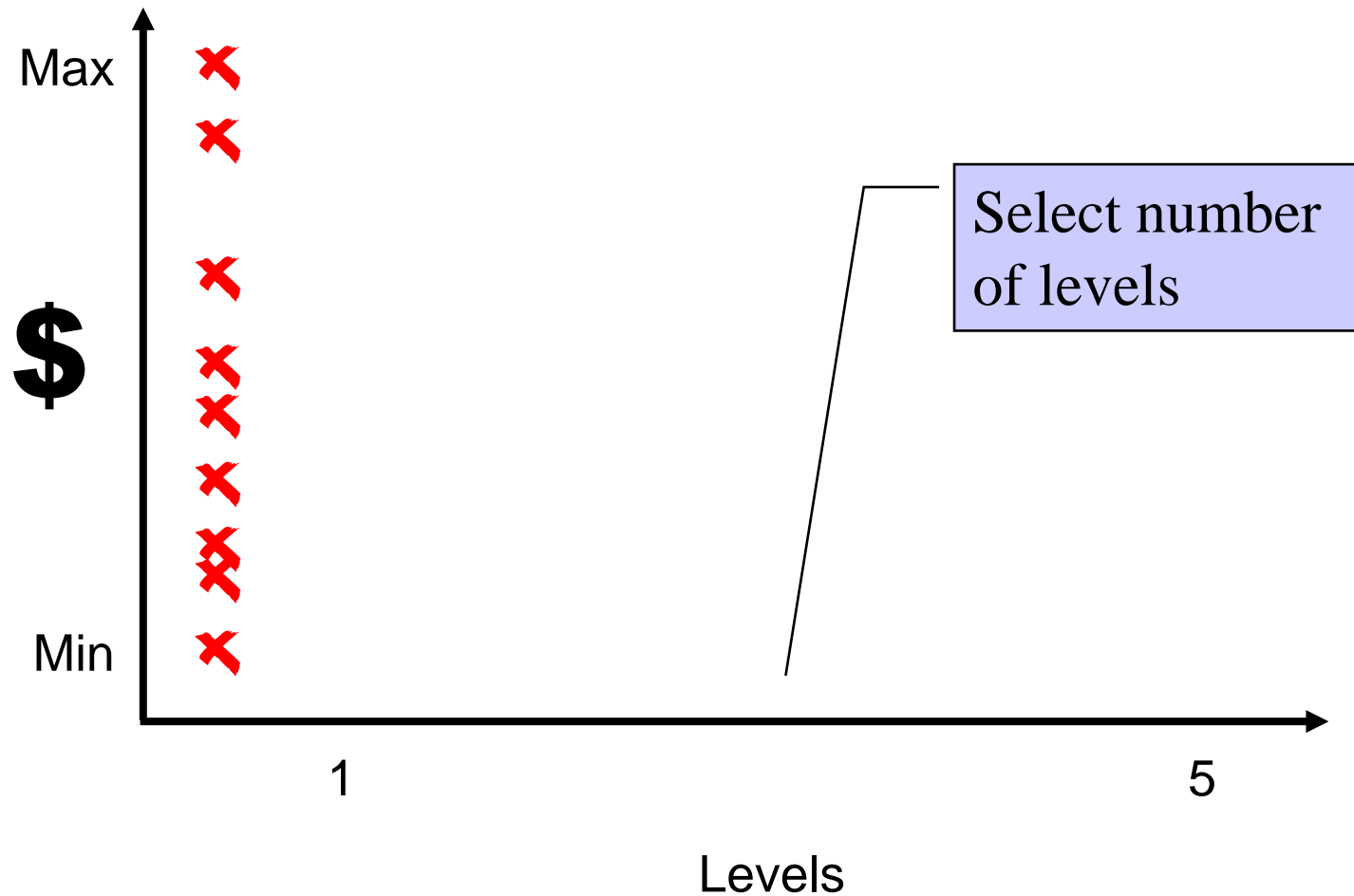
Job Grades (Job Evaluation Points)

Typical Structure methodology

Max

$

Min

- Calculate the Estimated Market Value for all jobs

- Plot the max and min salary levels in a scale

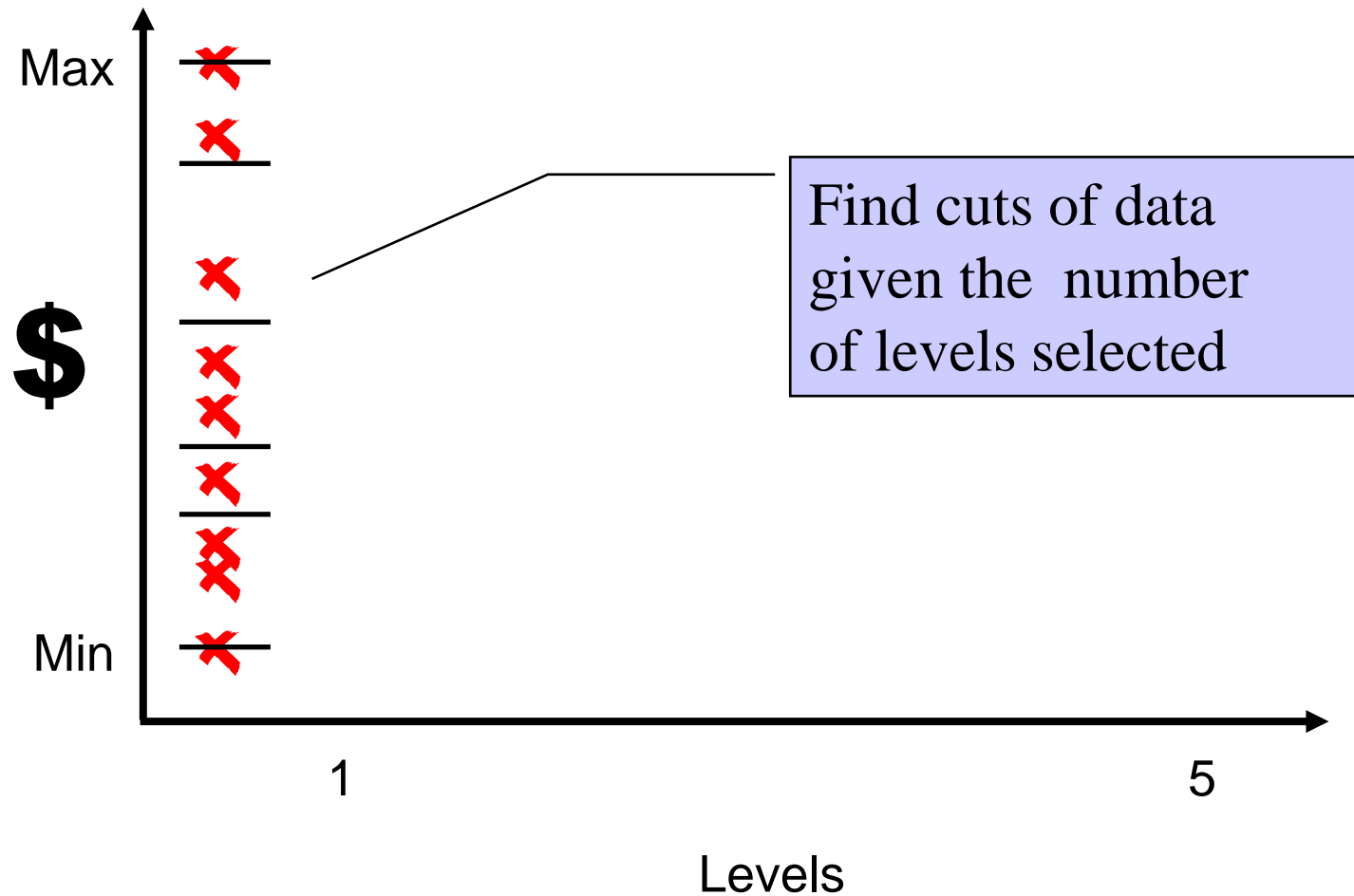- These will determine the top and bottom of the structure

Match jobs against the market
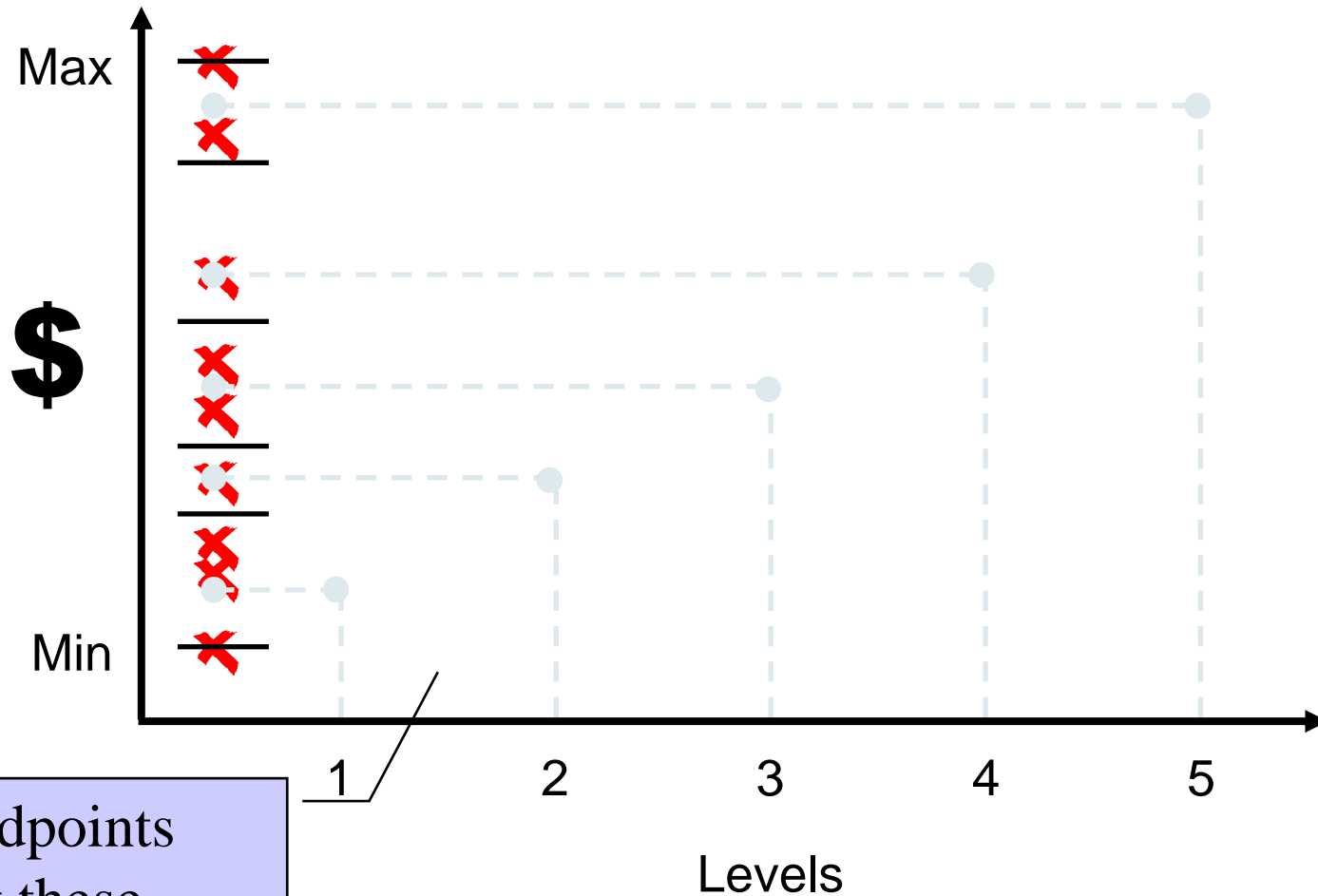
Typical Structure methodology

Select number of levels

Develop a structure

Typical Structure methodology

Find cuts of data given the number of levels selected

Develop a structure

Typical Structure methodology

Find midpoints and plot these through the x-axis
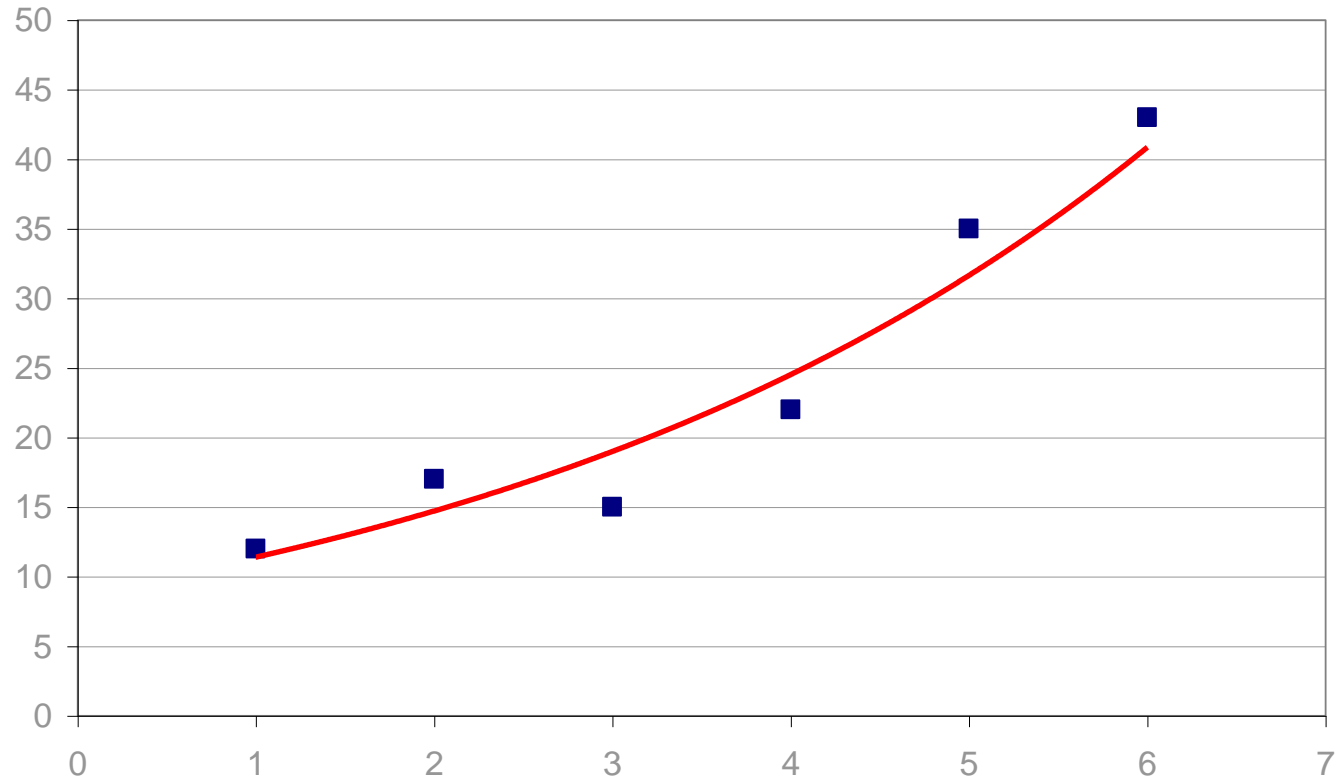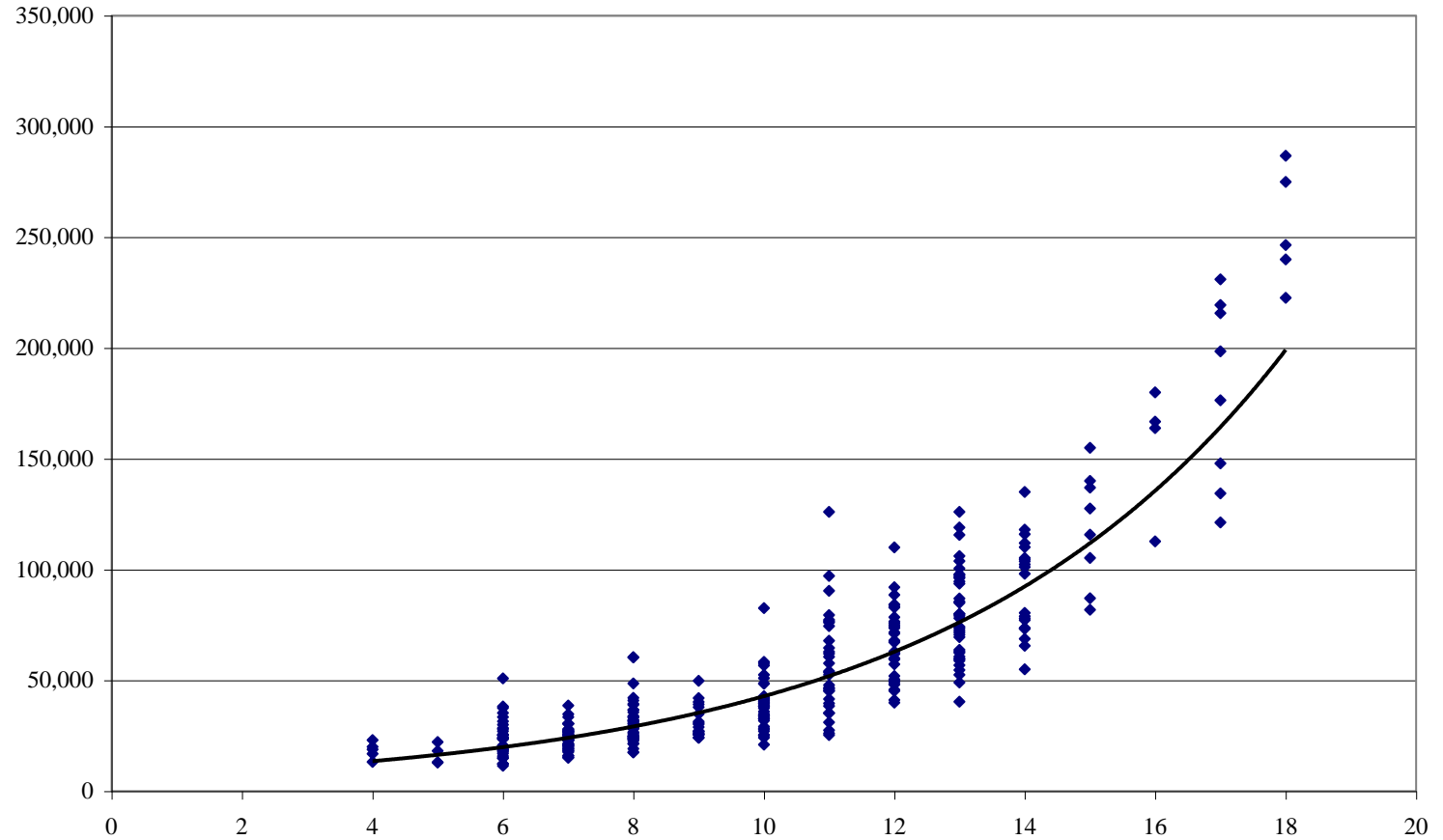
Develop a structure

Regression

- Statistical technique to analyse the relationship between two variables

- Known as the 'least square' method

- The technique results in a line/curve of best fit that minimises the sum of squared vertical distances from the data points to the line/curve
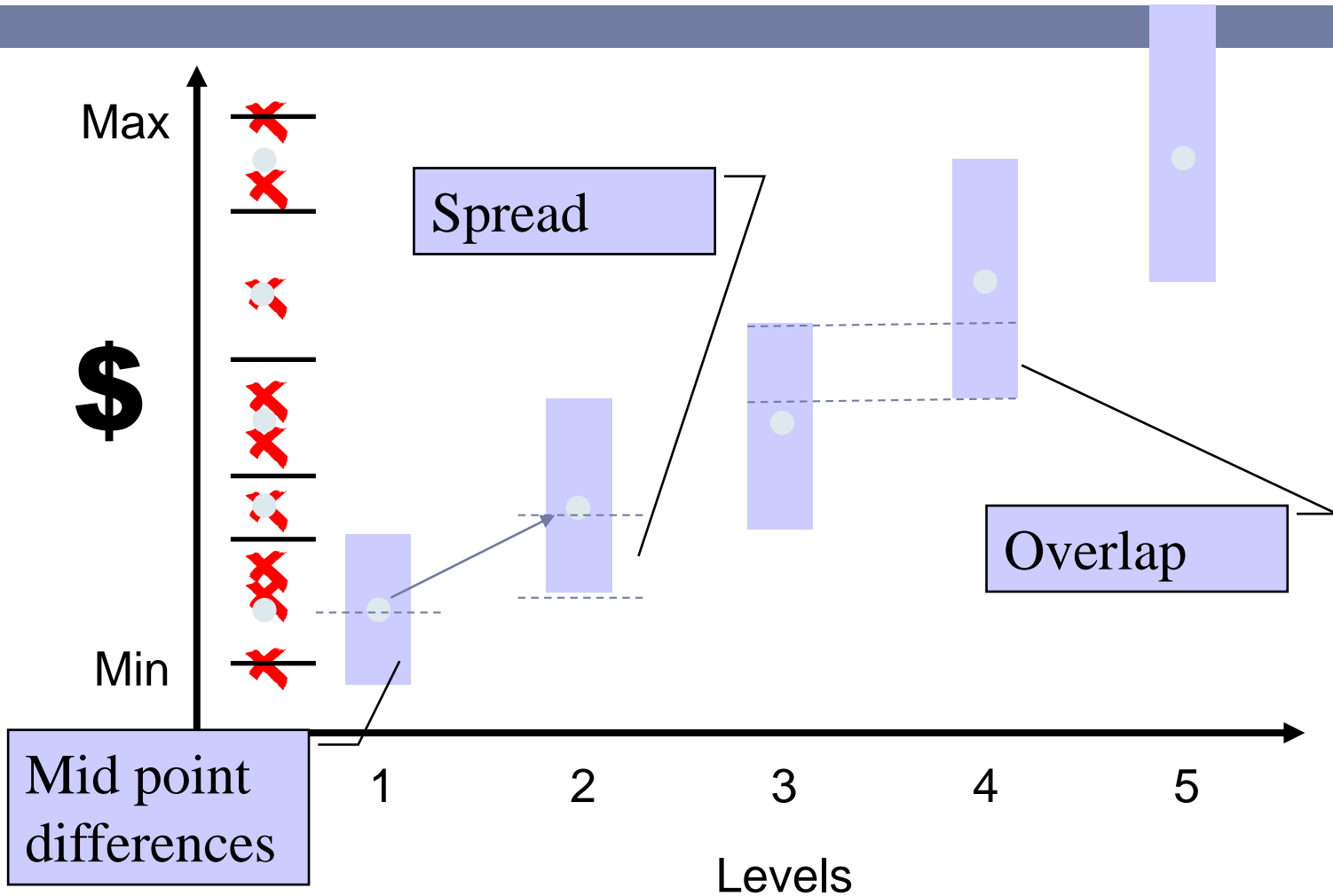
Regression

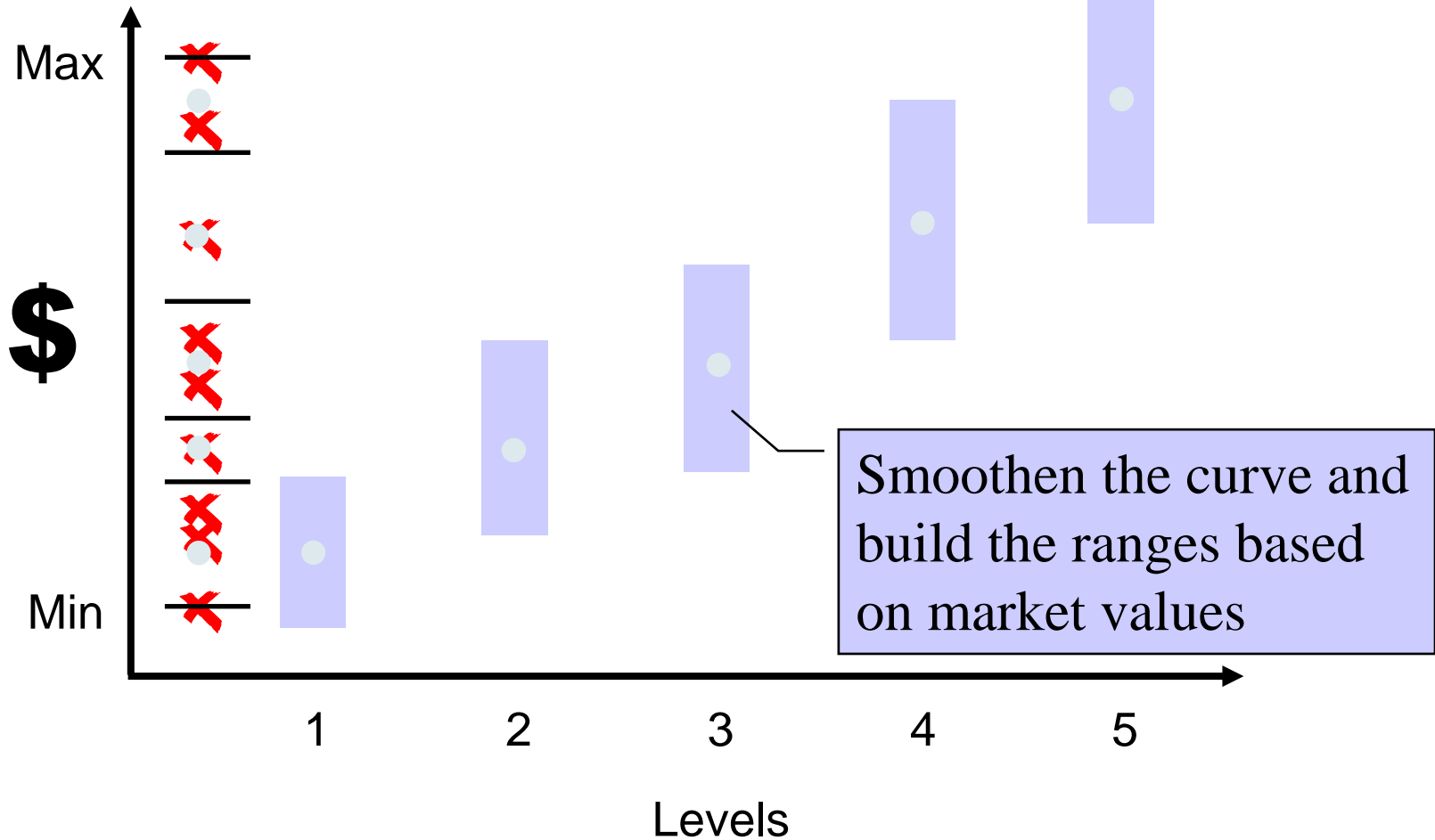| X	Y
1	12
2	17
3	15
4	22
5	35
6	43

Regression

Typical Structure methodology

Determine Spreads, Mid to Mid differentials and overlap

Typical Structure methodology

Smoothen the curve and build the ranges based on market values

Develop a structure

Typical Structure methodology

Plot the actual amounts received

Min / Max — $ — Levels (1, 2, 3, 4, 5)
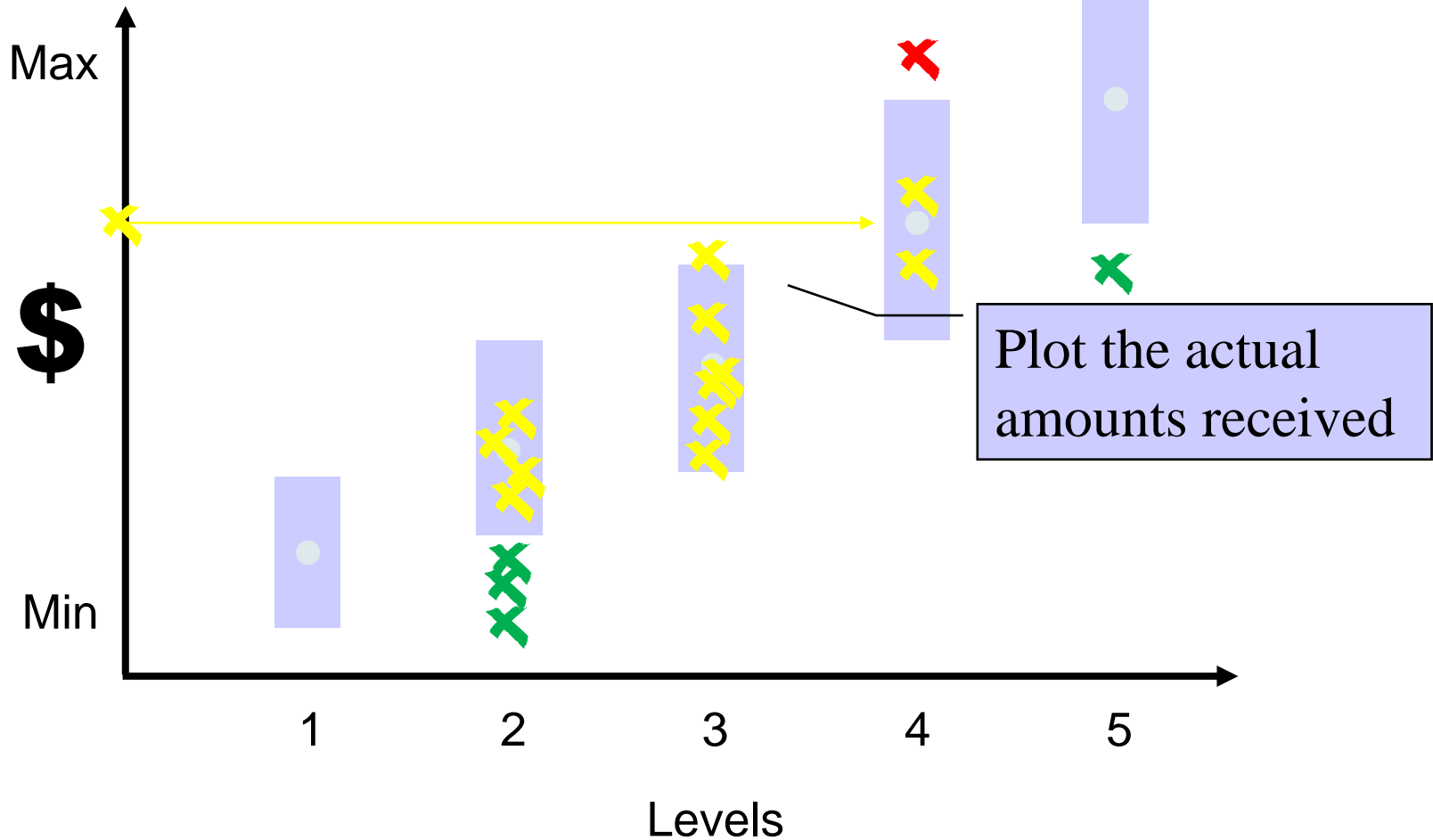
Assign actual amounts to structure

Typical Structure methodology

Highlight high and low lights

$

Max

Min

1 2 3 4 5

Levels
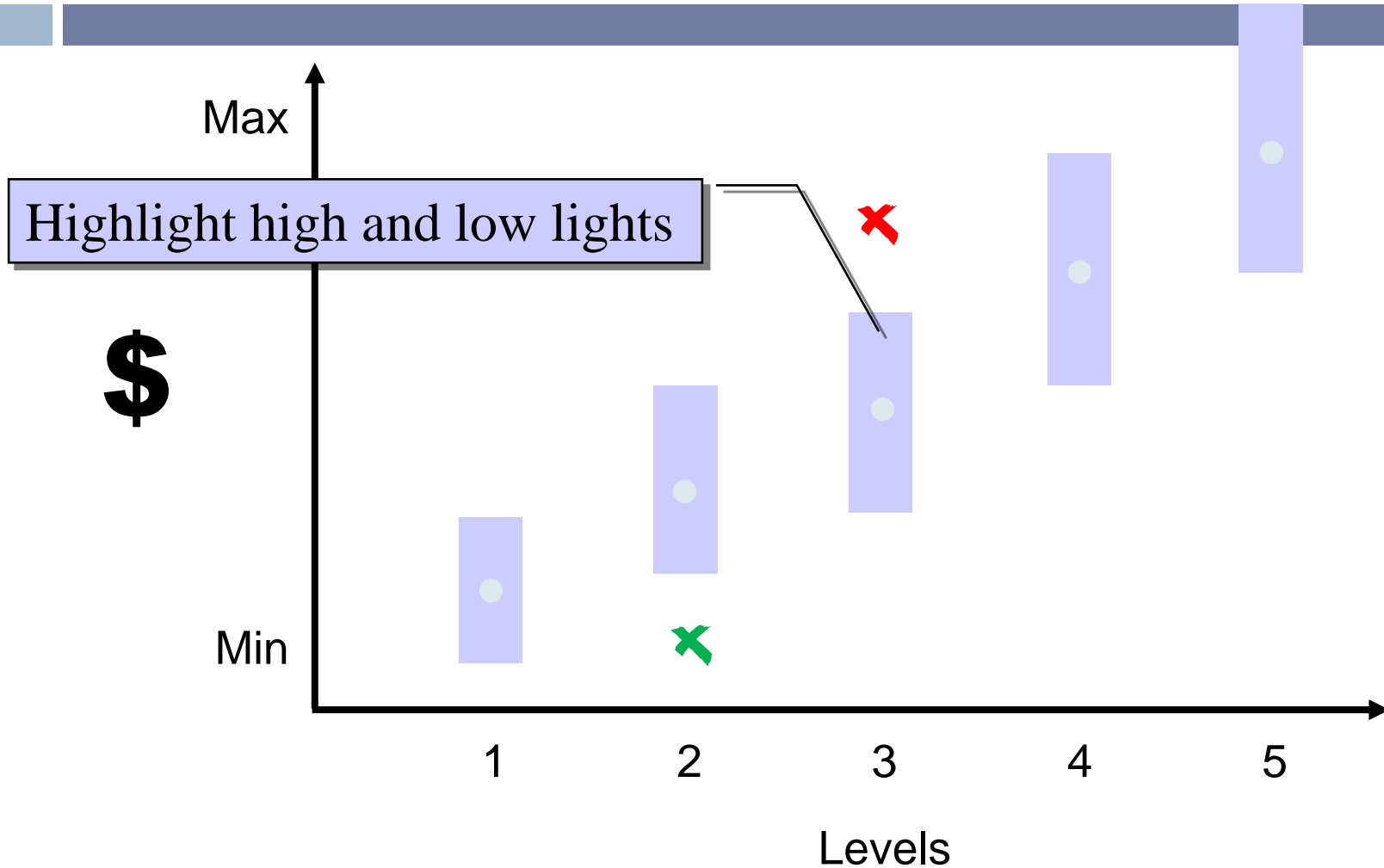
Heywood cases

How we do that… (our case study)
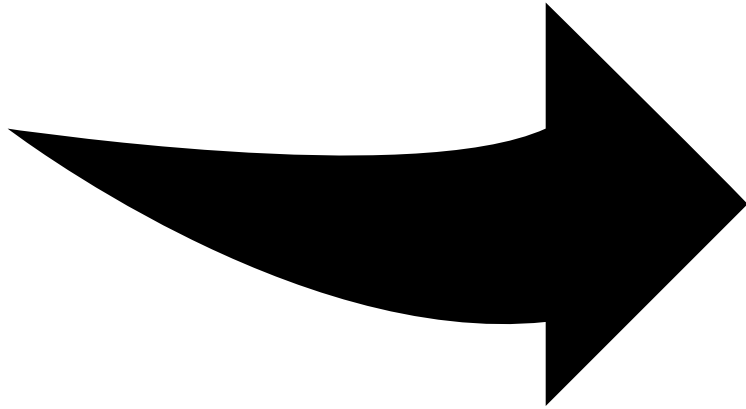
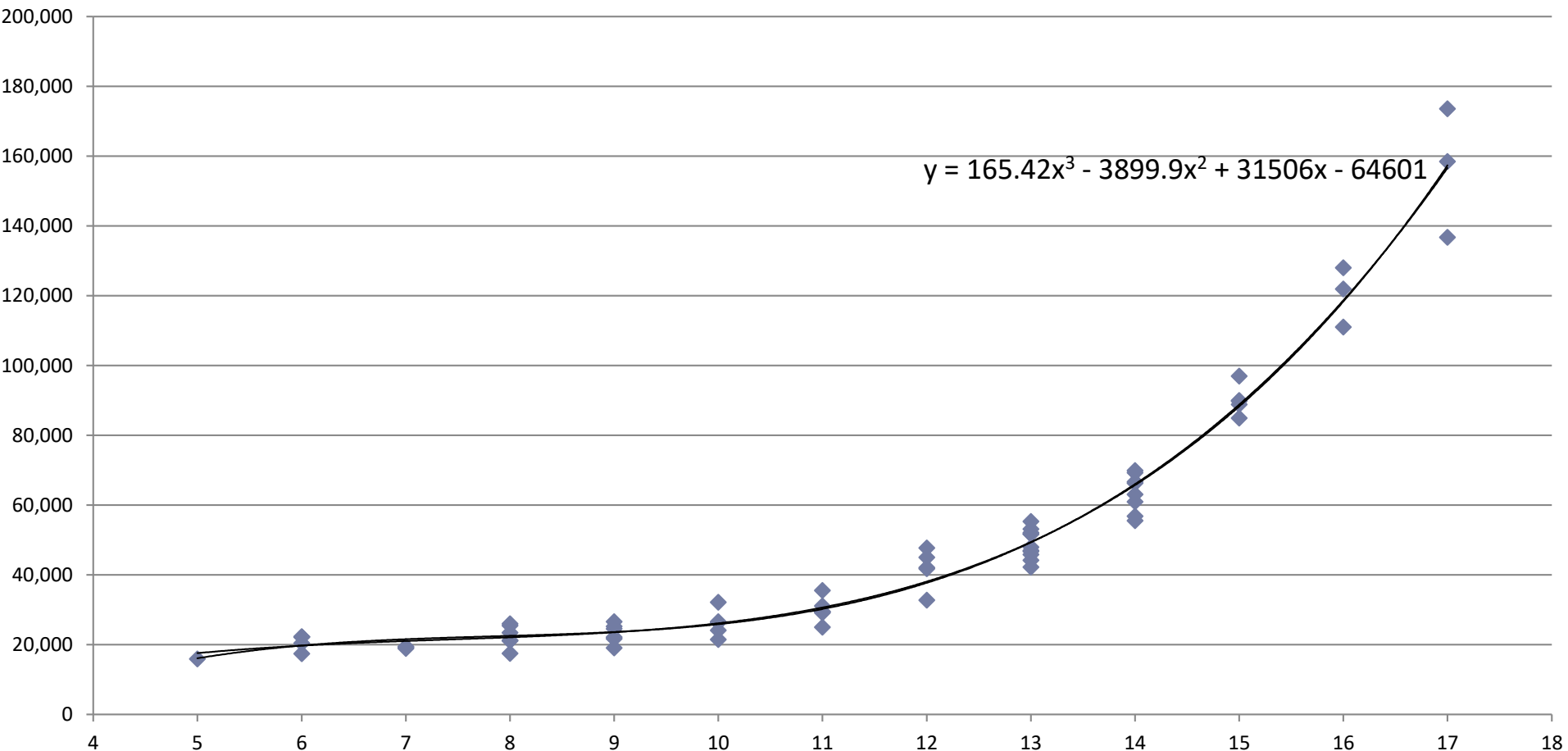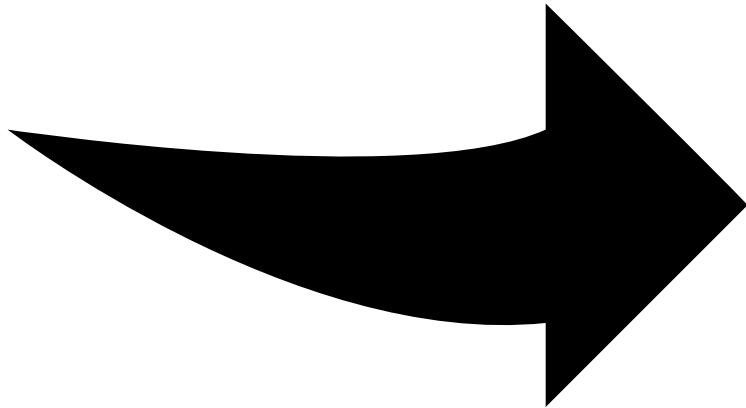- If we used a global system→ compile all market median regressed salaries per grade

- If not a global system → compile all market median salaries per job family

How we do that… (our case study)

Εξίσωση εξαγωγής midpoint (market data)

$$y = 165.42x^3 - 3899.9x^2 + 31506x - 64601$$

How we do that… (our case study)

- Define the midpoint per grade (market midpoint)
- Determine the spread (depending on the strategy)
- Define the upper and lower boundaries per grade or job family
- Highlight Mid-Mid differentials and overlap
- Chart upper, Mid, Lower and Actual Salary for each job holder
- Decide what to do next

How we do that… (our case study)

| Mid*(2/(2+Spread)) | | Lower*(1+Spread) | | (Mid αρχικό / Mid τελικό)/ Mid αρχικό % | |

	Lower	Midpoint	Upper	Differential	Spread	Overlap
5	14,008	16,109	18,210		30%	62%
6	17,191	19,769	22,348	23%	30%	28%
7	18,770		24,400	9%	30%	14%
8	19,607		25,490	4%	30%	16%
9				%	30%	12%
10	21,574		30,204	9%	40%	36%
11	25,209		35,293	17%	40%	50%
12	31,443		44,020	25%	40%	59%
13	41,101		57,542	31%	40%	63%
14	55,013		77,018	34%	40%	45%
15	71,043		106,565	35%	50%	50%
16	94,945		142,417	34%	50%	48%
17	125,311		187,966	32%	50%	

Market average (depending on the grade)

How we do that… (our case study)

Annual Salary vs grades παραδοσιακή δομή
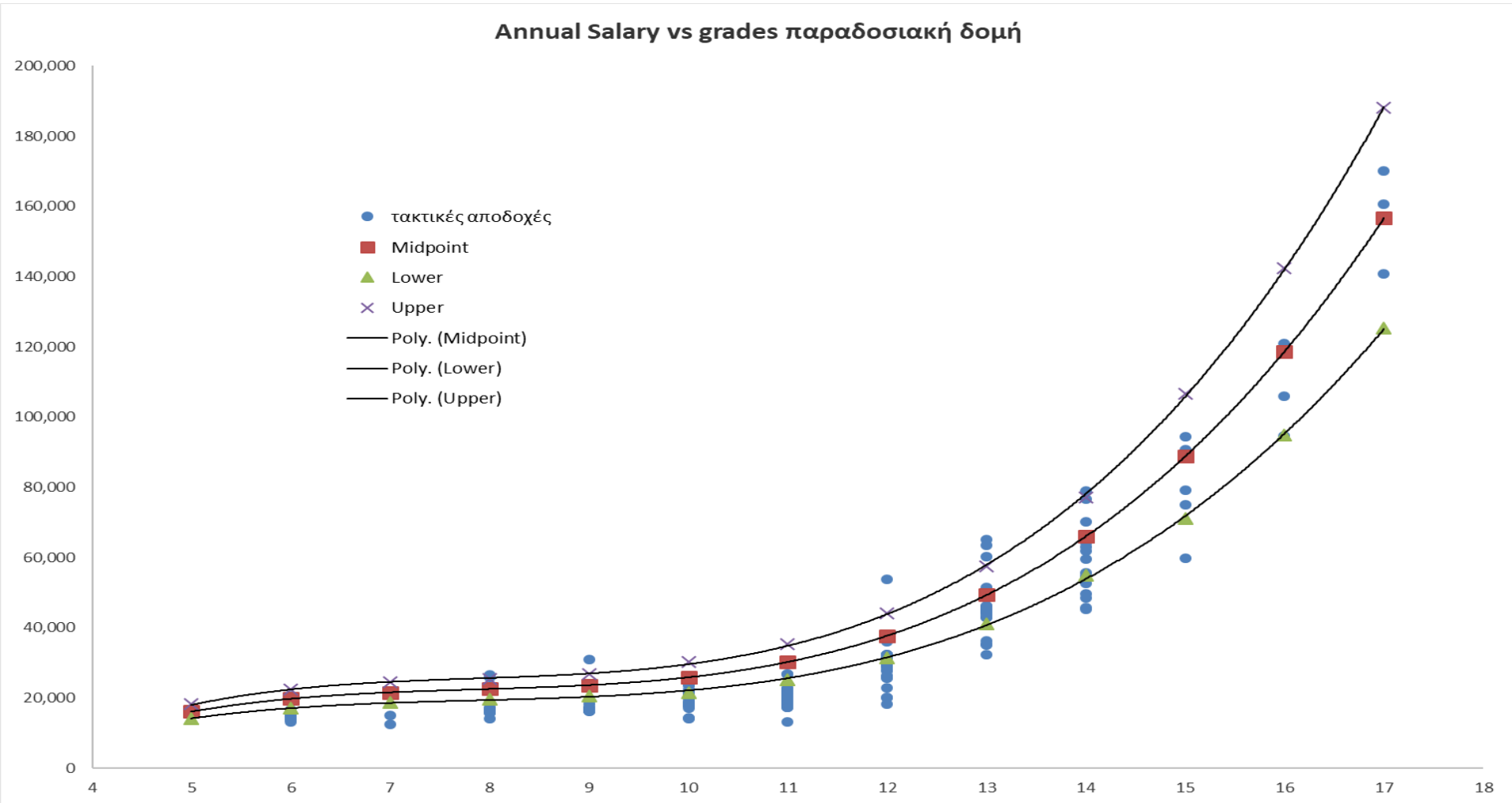
Outliers

- Salaries that fall outside of the formal pay range
  - For those below -see equity adjustments
  - For those above - often referred to as red circled
  - Traditionally - lump sum merit bonuses were provided instead of base pay increases (to employees that meet performance expectations)
  - Broad banding allows more flexibility to match employee demonstrated skills and performance to pay
    - In many cases this eliminates need to red circle
    - However, in competency systems, employees with pay above competency demonstration may not receive any type of monetary reward

Final structure-how to handle outliers

- If above or below (± 10 or 15%) / compa ratio/ outliers
- Need to take some action
- Low and upper level of each grade
- Increase of base pay based on performance
- Freeze for some cases depending on the performance
- Re evaluate the roles that deviate → maybe change grade, or get a promotion or undertake more responsibility
- HOT ROLES
- Not easily decrease ....
- Check always the budget

Questions??????

- References:

1. Armstrong, M. & Cummins, A. (2011) The Reward Management Toolkit: A Step-by-Step Guide to Designing and Delivering Pay and Benefits. Kogan Page, London.

2. Armstrong, M. & Murlis, H. (2007). Reward Management: A Handbook of Remuneration Strategy and Practice. Kogan Page, London

3. Brown, D (2001) Reward Strategies; From intent to impact, CIPD, London.

4. Heneman, R. L. (2007). Implementing Total Rewards Strategies, SHRM

- Insurance Ltd (our case study)