Using Market Data to Develop Salary Grades

Q: **What is the best approach to developing a salary grade structure for a family retail business employing more than 1,000 people? We have about five levels of employees, including top management, middle management, supervisors, non-supervisors, and support staff.**

--- Wondering what to pay, HR manager, retail jewelry, United Arab Emirates.

A: Begin by asking: "what objectives am I seeking to accomplish by implementing a formal salary structure for the organization?" Determine how this project ties to the overall objectives of the business, as well as how it will support your human resources strategy and initiatives. The answers will help you set the parameters and objectives for this project and will provide necessary information to define your company's compensation philosophy.

Once you've determined your compensation philosophy and the project parameters, you'll define your specific labor markets and select (or create) the salary surveys to use in the analysis. Here are a few of the questions you'll want to answer with this part of your project:

- Who do you compete with for talent?
- How are you organized?
- Are you more internally or externally focused with respect to pay levels?
- Does it make sense to create pay structures for each function or business unit? This will be answered in part by the actual data analysis.
- What are your relevant labor markets for the types of positions in the company? Different groups will have different labor markets; the higher the job, the broader the geographic market.
- Are you dealing with any unions where wage and benefit changes must be negotiated?
- What type of pay system allows you to effectively reward and promote talent?

The answers to these questions enable you to determine the type of salary structures, the number of grades or bands, range spreads, and other compensation factors. They also will provide a guideline for the methodology to use for the analysis. For example, if you're externally focused, you will select a set of benchmark jobs (those that have good market data), do the market analysis, develop the structure, and then reconcile non-benchmark jobs to the new structure.

Typically, you will follow several project steps, although not necessarily in this order:

- Managers and employees update job descriptions.
- Evaluate/re-evaluate all jobs/changed jobs if you are using a formal, internal job evaluation system.
- Select and market-price benchmark jobs; analyze the data.
- Internally evaluate non-benchmark jobs if you are using pure market pricing.
- Reconcile internal and external differences.
- Decide on the final number of levels and assign jobs to those levels.

You also will need to develop a comprehensive cost analysis showing who is affected, why, and by how much. There are always costs involved with projects of this nature, and management will want an accounting of these costs. That's another reason why this initiative needs to be tied directly to your business strategy: it becomes much easier to justify.

Finally, don't forget a communication plan. A poorly communicated program can sabotage an otherwise well-planned initiative. You want a plan that begins at the top, and provides for updates to both management and rank-and-file. When the final impact is known, managers need detailed information on how each staff member is affected, and they should be provided with the tools to communicate it their staff.

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Originally published by Workforce Management on June, 2003. Workforce Management delivers the latest news, trends and tools for managing your workforce. Please go to www.[Workforce.com](#) for information and subscriber access.