OBHR 413: Pay Structure

University of Calgary: Audrey Farrier

Ian Veilleux

30062795

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**1.) Pay Policy Line:**

To determine the equation for the pay policy line, we must consider the strategy that the organization is targeting. Since they would like to exceed mean market pay by 5%, the organization is using a ‘lead’ strategy, in which the mean pay across all pay bands within the organization should exceed the market price by 5% (Yap et al., 2021, p. 160). As an equation, this looks like:

Where is the pay in dollars, and is the median job evaluation points for each pay grade. The *‘1.05’* is the increase to represent the organization’s 5% lead strategy. The *‘12000’* is the point where the market dollar value crosses the *y* axis at *x=0*, and the *‘62’* reflects the slope of the line. If the line is steep, this means the job evaluation points are associated with higher employee pay (Yap et al., 2021, p. 160). Effectively, this equation models the relationship between market rates, and internal compensation structure. The mean market rate is determined through market survey data, and the points for each grade are internally established. To determine the range minimum and maximum values, we can expand this equation to:

Where is equal to the percentage above or below the midpoint. First, we find the median evaluation points for each pay grade, to determine the range midpoint. We can then apply this formula to the midpoint to determine the range minimum and maximum.

**2.) Compensation Table:**

With this information, we can complete the pay policy compensation table as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Pay Grade** | **Job Evaluation Points** | **Median Evaluation Points** | **Range Minimum** | **Range Midpoint** | **Range Maximum** | **% Above/Below Mid-Point** |
| 1 | 200-399 | 299.5 | $ 28,887.71 | $ 32,097.45 | $ 35,307.20 | 10% |
| 2 | 400-599 | 499.5 | $ 38,349.83 | $ 45,117.45 | $ 51,885.07 | 15% |
| 3 | 600-799 | 699.5 | $ 46,509.96 | $ 58,137.45 | $ 69,764.94 | 20% |
| 4 | 800-1000 | 900 | $ 53,392.50 | $ 71,190.00 | $ 88,987.50 | 25% |

**3.) Structure Analysis**

For the organization to develop a pay structure that will be accepted by employees, it must ensure that the external basis for comparison is appropriate to the organizations industry, and geographic location. Similarly, the market survey it develops or utilizes must be relevant and accurate and must be cross-referenced between multiple market surveys. In addition to this, overlap between pay grades should be kept to a minimum, as employees may struggle with reconciling the differences between compensation, and the ‘prestige’ of being placed into a higher pay grade. This incongruency can cause employees to lose motivation to pursue a higher pay grade and can cause employees to negatively compare themselves with their co-workers (Yap et al., 2021, p. 153). For this reason, I believe the pay grades should be reworked to reduce overlap between grades.

The market analysis must consider the same occupation or skills required, the same geographic region, and the same products and services (Yap et al., 2021, p. 139). Generally, a national scope is considered for managers and professional positions, whereas a local or regional scope is more appropriate for clerical and production positions, as pay rates have much more variation based on geographical location (Yap et al., 2021, p. 139). Ensuring that these factors are considered will help to define the most appropriate labour market for the organization, which can inform the basis of the compensation structure, and can help clearly rationalize the selected pay policy to employees.

Despite the organization’s 5% lead strategy, employees will likely still feel unfairly compensated it the internal pay structure of the organization is not logically consistent. Employees will not be sufficiently motivated if they are arbitrarily grouped into pay bands with other employees doing drastically different work with very different responsibilities (Yap et al., 2021, p. 158). The organization’s current pay band structure will likely not effectively address this since there is a high degree of overlap in pay between the bands, especially between the ‘3’ and ‘4’ level bands. Since these are the higher paying positions, the organization should be aiming to motivate the employees in level 3 to achieve promotion to level 4, but with the current degree of compensation overlap there is likely not sufficient incentive for employees to achieve promotion to level 4.

Since “jobs learned quickly may have minimums much closer to the midpoints,” the organization must ensure that pay grades have clearly defined competency differences that justify pay disparity (Yap et al., 2021, p. 153). Generally, these differences are much more drastic at the higher pay grades, where competencies and qualifications make a large difference. This is the case in this organization, since the differences between maximum and minimum pay increases as the pay grade increases.

**References:**

Yap, M., Newman, J., Gerhart, B. (2021). *Compensation*. McGrawhill.

**Evaluation:** This assignment is graded out of 20 points using the following rubric and is worth 15% of the final grade.

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| Criteria | Exceeds Expectations 4 | Meets Expectations 3 | Partially Meets Expectations 2 | Does Not Meet Expectations 1 |
| **Required Components** | Response includes and exceeds the requirements indicated in the instructions. | Response includes all components and meets the requirements indicated in the instructions | Response is missing/does not address some of the required components indicated in the instructions. | Response is missing/does not address required components indicated in the instructions. |
| **Support for Ideas** | Substantial and logical development of new ideas and insights. Connections between ideas logical and coherent. Conclusions are original, compelling, and topical. | Ideas are supported by appropriate examples that lead to logical conclusions. Consistent connections between ideas. 3.5 | Ideas are partially supported/relevant, too broad, or repetitive. Includes some examples. Inconsistent connections between ideas. | Offers simplistic or little support for ideas. Ideas are irrelevant to course. Connections between ideas are unclear. |
| **Quality of Analysis** | Broad and in-depth comprehension of concepts presented in course materials and relevant external resources. | Thorough comprehension of concepts presented in course materials. Includes course materials and relevant external resources- minimum 3. 3.5 | Cursory comprehension of concepts presented in course materials. Includes course materials and external resources with limited relevance. | Superficial comprehension of concepts presented in course materials. Includes irrelevant external resources and/or few or no course materials |
| **Writing & Presentation** | Organization and visual choices fully and imaginatively support purpose. Well-constructed paragraphs/slides & headings or conjunctions/transitions. No grammatical, spelling, or punctuation errors. | Organization and visual choices support purpose. Well-constructed paragraphs/slides. Almost no grammatical, spelling, or punctuation errors. | Some signs of logical organization of components/slides. Minimal visual appeal. A few grammatical, spelling, or punctuation errors. | Unclear organization of components. Lacking visual appeal.  Many grammatical, spelling, or punctuation errors. |
| **APA Style** | The entire document/power point follows APA style; all sources are properly cited in APA. | Most of the document/power point follows APA style. Most sources are cited in APA with few errors. | APA style is followed sometimes in the document/power point. Some sources are missing (or not cited in APA). | APA style is followed a few times in the document/power point. No sources or mostly not cited in APA. |

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Well done! You’ve read the text and have a clear understanding of calculating the pay range based on a pay policy. The implications of overlapping pay bands as they relate to employee motivation need a bit more clarity:

The pay structure is reasonable (but not perfect). Top-level management positions commonly have ranges 30% to 60% above and below the midpoint; entry to mid-level professional and managerial positions, between 15% and 30% office and production work, 5% to 15%.” Obviously, there is no overlap between Pay Grade 1 and Pay Grade 2. However, there is overlap between Pay Grade 2 and Pay Grade 3 – the maximum of Pay Grade 2 is $51,885.07 and the minimum of Pay Grade 3 is $46,509.96. Likewise, there is overlap, but a greater overlap, between Pay Grade 3 and Pay Grade 4. This falls in line with this pay structure, as the pay grades are within the above ranges, with the exception of pay range 4 being 25% instead of between 30% and 60%. Furthermore, these pay ranges need to have large enough gaps to encourage employee development and promotions, which it does. Additionally, there is some small overlap between certain pay grades, which is beneficial as it allows “managers to reinforce a promotion into a new grade with a larger pay increase. The pay structure will likely be quite effective in motivating employees who are motivated by money and the perceived status associated with a higher pay grade. It is clear that for one who wants to make a lot of money in this organization then moving up in pay grades will be quite important and motivating.