Code: 0413-4102

Compensation Management

Designing Pay Levels and Pay Structure:

Pay Level

Pay level refers to the average amount an organization pays its employees compared to competitors in the labor market.

Pay Level = Organization's Overall Salary Position

Pay Model

Company	Average Monthly Salary for Marketing Executive
Company A	Tk. 35,000
Company B	Tk. 42,000
Company C	Tk. 50,000

Company C follows a high pay-level strategy.

Strategic Pay Level Choices

Organizations generally choose among three strategies.

1. Lead-the-Market Strategy

Employees receive salaries above competitors.

Advantages

Attracts talented employees

Reduces turnover

Higher motivation

Disadvantages

Expensive

Increases labor cost

Example

Google pays software engineers significantly above the market average.

2. Match-the-Market Strategy

Organization pays approximately equal to competitors.

Advantages

Competitive

Cost-efficient

Example

Many commercial banks in Bangladesh follow this strategy.

3. Lag-the-Market Strategy

Employees receive below-market salaries.

Advantages

Low labor cost

Disadvantages

High turnover

Difficulty attracting talent

Example

Many start-up companies initially adopt this strategy because of limited financial resources.

Pay Structure

Pay structure is the systematic arrangement of different salary grades within an organization.

It defines:

Minimum salary

Maximum salary

Midpoint salary

Salary progression

Objectives of Pay Structure

A good pay structure should:

- ❑ Ensure fairness
- ❑ Reward performance
- ❑ Support business strategy
- ❑ Control compensation cost
- ❑ Encourage career growth

Internal Equity

Internal equity means employees are paid according to the value of their jobs. Employees performing more complex jobs should receive higher salaries.

Position	Job Complexity	Monthly Salary
Office Assistant	Low	Tk. 22,000
Office Assistant	Low	Tk. 22,000
Office Assistant	Low	Tk. 22,000

Employees perceive this as fair because salary reflects job value.

External Equity

External equity compares salaries with competitors.

Example

If competing companies pay

Tk. 50,000

but your company pays

Tk. 28,000

the company may lose talented employees.

Steps in Designing Pay Structure

Step 1

Conduct Job Analysis

- ✓ Duties
- ✓ Responsibilities
- ✓ Skills
- ✓ Working conditions

Example

HR interviews employees and supervisors.

Step 2

Job Evaluation

Determine relative worth of each job.

Methods include

- Ranking
- Classification
- Point Factor Method

Step 3

Conduct Salary Survey

Compare salaries with competitors.

Example

Survey five private banks.

Step 4

Determine Pay Policy

Decide whether to

- ❑ Lead
- ❑ Match
- ❑ Lag

Step 5

Develop Pay Grades

Group similar jobs together.

Grade	Jobs
Grade 1	Cleaner
Grade 2	Office Assistant
Grade 3	Receptionist
Grade 4	Accountant
Grade 5	HR Executive
Grade 6	Manager

Step 6
Create Pay Ranges
Each grade receives

Grade	Minimum	Midpoint	Maximum
1	18,000	20,000	23,000
2	24,000	28,000	32,000
3	34,000	38,000	44,000
4	46,000	55,000	64,000
5	65,000	75,000	85,000

Factors Affecting Pay Structure

Internal Factors

- Organizational strategy
- Financial capability
- Company size
- Productivity
- Job value

External Factors

- Labor market
- Inflation
- Government wage regulations
- Union influence
- Industry competition

Case Study

Case: XYZ Pharmaceuticals Ltd.

XYZ Pharmaceuticals is expanding rapidly. The company is losing experienced sales executives to competitors because competitors offer higher salaries. Employee surveys also indicate dissatisfaction with salary progression.

Discussion Questions

Should XYZ adopt a lead, match, or lag pay strategy? Why?

How can job evaluation improve internal equity?

Should the company use broadband pay or a traditional pay structure?

What external factors should influence the company's compensation decisions?