Rationale for Grade and Pay Structures in Nigerian Organizations for Effective and Improved Human Resources Compensation

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Abstract: Grades are attached to jobs not persons, but there may be more flexibility for movement between grades than in a conventional grade structure when, for example, a person has expanded his or her role and it is considered that this growth in the level of responsibility needs to be recognized but it is not appropriate to upgrade the job. This paper has examined the rationale for grade and pay structure in Nigerian organizations. The paper starts with theoretical framework of grade and pay structures, and goes on to a discussion of their rationale and the criteria for assessing their effectiveness. The different types of grade and pay structures are then described and the choices between them and the design options are examined. Consideration is then given to the design of grade and pay structures, and what needs to be done to introduce them. The paper argued that grade and pay structures are needed to provide a logically designed framework within which an organization’s pay policies can be implemented.

Keywords: Grade, Structure, Pay, Rationale, Human Resource, Organizations.

I. INTRODUCTION

Grade and pay structures provide the framework for managing pay, although grade structures are increasingly used as part of non-financial reward processes, by mapping career paths without any direct reference to the financial implications (Okere, 2011). The usual outcome of a formal job evaluation programme is a new or revised grade structure which, together with market rate intelligence, provides the basis for designing and managing pay structures.

Theoretical Framework

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed (Armstrong, 2000a). There may be a single structure with a sequence of narrow grades (often 8 to 12), or relatively few broad bands (often four to five). Alternatively, the structure may consist of a number of career or job families, each divided by typically into six to eight levels. In the words of Armstrong and Long (1994) a career or job family structure groups together jobs with similar characteristics.

Pay structures provide a framework for managing pay (Kohn 1993). A grade structure becomes a pay structure when pay ranges or brackets are defined for each grade, band or level, or when grades are attached to a pay spine. In some broad banded structures, reference points and pay zones are placed within the bands, and these defined to each band (Armstrong 2000a). There may be a single pay structure covering the whole organization, or there may be one structure for staff and another for manual workers. Executive directors are sometimes treated separately.

There are two main types of pay structure. Grade, broad banded or family structures contain the organization’s pay ranges or scales for jobs grouped into grades, bands or family levels. They define the different levels of pay for jobs or groups by reference to their relative internal value as determined by job evaluation, to external relativities as established by market rate surveys, and where appropriate to negotiated rates for jobs. In Addition, they provide scope for pay progression in accordance with performance, competence, contribution or service. Pay spines consist of a hierarchy of pay or spinal column points, between which there are pay increments, and to which are attached grades.

Rationale for Grade and Pay Structure in Nigerian Organizations

Grade and pay structures are needed in Nigerian Organizations to provide a logically designed framework within which an organization’s pay policies can be implemented. According to Armstrong and Murlis (1998) they enable the organization to determine where jobs should be placed in a hierarchy, define pay levels and the scope for pay progression, and provide the basis upon which relativities can be managed, equal pay achieved and the processes of monitoring and controlling the implementation of pay practices can take place. A grade and pay structure is also a medium through which the organization can communicate the career and pay opportunities available to employees.

Criteria for Grade and Pay Structures in Nigerian Organizations

In Nigerian organizations grade and pay structures should;

1. Be appropriate to the culture, characteristics and needs of the organization and its employees;  
2. Facilitate the management of relativities and the achievement of equity, fairness, consistency and transparency in managing gradings and pay;  
3. Be capable of adapting to pressure arising from market rate changes and skill shortages;  
4. Facilitate operational flexibility and continuous development;  
5. Provide scope as required for rewarding performance, contribution and increases in skill and competence;  
6. Clarify reward, lateral development and career opportunities;  
7. Be constructed logically and clearly so that the basis upon which they operate can readily be communicated to employees;  
8. Enable the organizations to exercise control over the implementation of pay policies and budgets.

Types of Grade and Pay Structure

French and Bell (1990) believe that the main types of structure are single or narrow graded, broad banded, career family and job family.
Single or Narrow Graded Structures

Until fairly recently the most universal type of structure in the private sector was the conventional graded pay structure as illustrated in figure 1. This can be described as a single grade structure to distinguish it from a career or job family structure, or a narrow graded structure to distinguish it from a broad banded structure (Kohn, 1993). Single or narrow graded structures are still the most common, but the trend is to replace them with broad bands, or career or job families.

A single or narrow grade structure consists of a sequence of job grades into which jobs of broadly equivalent value are placed (Coleman, 1990). A pay range is attached to each grade. The minimum of each range is typically between 20 percent and 50 percent above the minimum. For example a ‘40 percent’ range could span from N20,000 to N28,000. Pay ranges are also described as a percentage of the midpoint; for example, the range could be expressed as 80 percent to 120 percent where the midpoint is N25,000 and the minimum and maximum are N20,000 and N30,000 respectively. The midpoint, often referred to as the reference point or target salary, may be regarded as the rate for a fully competent individual, and is usually aligned to market rates, in accordance with company policies on the relationship between its pay levels and market rates for similar jobs.

The advantages of single graded structures are that they provided a frame work for managing relativities and for ensuring that jobs of equal value are paid equally (French and Bell 1990). All jobs are contained within the structure so that it is not divisive, which is a criticism leveled at job family structures. Single grade structures enable the process of fixing of rates of pay and pay progression practices to be controlled, and are easy to manage and explain to employees.

Broad Banded Structures

Broad banded structures are replacing narrow or single grade structures in many organizations (Erez and Zidon 1984). “Broad banding” means that the number of grades is compressed into a relatively small number of much wider ‘bands’, in which pay is managed more flexibly than in a conventional graded structure, and an increased attention is paid to market relativities. Each of the bands can span the pay opportunities previously covered by a number of separate grade and pay ranges. The range of pay in each band is therefore wider than in a traditional graded structure. Research conducted by Armstrong and Brown (2001) established that in organizations with broad bands, 62 percent had bands with widths between 50 percent and 75 percent, while the rest had bands with widths between 75 percent and 100 percent. Typically there are between four and six bands in such structures. The band boundaries are often, but not always, defined by Job evaluation. Jobs may be placed in the bands purely by reference to market rates, or by a combination of Job evaluation and market rate analysis. Bands can be described by an overall description of the jobs allocated to them, (Senior Management and so on) or by reference to the generic roles they contain.

Figure 1: A Single Graded Structure

The pay ranges provide scope for pay progression which is usually related to performance, competence or contribution (Okere et al, 2011). There may be eight or more grades in a structure. Grades may be defined by job evaluation in points terms, by grade definitions, or simply by the jobs that have been slotted into the grades (Armstrong and Long, 1994). Differentials between pay ranges are typically around 20 percent, and there is usually an overlap between ranges, which can be as high as 50 percent (Okere, 2011). This overlap provides more flexibility to recognize that a highly experienced individual at the top of a range may be contributing more than someone who is still in the learning curve portion of the next higher grade. What are sometimes called midpoint management technique analyze and control pay policies by comparing actual pay with the midpoint which is regarded as the policy pay level. ‘Compa-ratios can be used to measure the relationship between actual and policy rates of pay as a percentage (Erez and Zidon 1984). If the two coincide, the compa-ratio is 100 percent.

According to Armstrong and Brown (2001), the original broad banded concept as developed in the United States in the early 1990s allowed for unlimited progression through bands. Since then, however, many organizations have found that lack of structure was unrealistic and unmanageable. They recognized that some method had to exist for controlling progression, otherwise costs would increase unduly, it would be difficult to ensure that rewards matched levels of contribution, and people would have unrealistic expectations of their future earnings. The most common solution to this problem has been to insert ‘reference points’ into bands, which indicate the normal rate for a Job, and are aligned to market rates. Ranges for any progression may be built round the reference point, and these are often referred to as ‘zones’ (Guest 1992b). The erosion of the original broad banding concept has been further advanced by the recognition in many organizations that in the interests of equity and equal pay, Job evaluation has to be used to locate reference points for Jobs within bands, or to define segments within bands into zones are placed (Gratton, 1999).

Figure 2: A Broad-Banded Structure with Zones and Reference Points
Figure 2 illustrates a broad banded structure with Job evaluation segments and pay zones.

**Career Family Structures**

In career structures, as illustrated in Figure 3, jobs are grouped together into ‘families’. Career families consist of jobs in a function or occupation such as marketing, operations, finance, information technology, administration or support services, which are related through the activities carried out and the basic knowledge and skills required, but in which the levels of responsibility, knowledge, skill, or competence needed differ. The successive levels in each career family are defined by reference to the key activities carried out, and the knowledge and skills or competencies required to perform them effectively (Clegg 1976). Typically, career structures have between six and eight levels, which places them somewhere between narrow graded and broad banded structures. The number of levels may vary between career families, and certain families, often those at higher levels, may not be divided. Within each career family there are defined career paths for progressing to higher levels, and routes for pursuing careers in other families.

In effect, a career structure is a single graded structure in which each grade has been divided into families (Armstrong and Brown 2001). Jobs in the corresponding levels across each of the career families are within the same size range, and if an analytical Job evaluation scheme is used, this is defined by the same range of scores. Similarly, the pay ranges in corresponding levels across the career families are the same.

The disadvantages of this structure according to Duncan (1989) are that it defines career paths within career families and so facilitates career planning. It also identifies routes for career progression between career families, by clarifying what individuals have to know and be able to do if they wish to move to a new career path. It can therefore provide the foundation for personal development planning, by defining the knowledge and skills required at higher levels or in different functions, and what needs to be learnt through experience, education or training. Furthermore, the existence of a common grading system, when it is supposed by Job evaluation, facilitates the achievement of equal pay for work of equal value (Equal Pay Task Force 2001). Finally, linking pay and grade management with career development is in accordance with good practice of human resource management in the shape of ‘bunding’ the belief, supported by extensive research, that human resource practices will be more effective if they are interrelated and therefore, complement and reinforce one another.

The disadvantages of career structures are that, whatever emphasis is placed on career development between as well as within career structures, they could be perceived as being divisive and in conflict with the principle of identical treatment for all enshrined in a single grade structure. It may be inferred that progression can only take place in an occupational silo. They may also be more difficult to manage and explain than single grade structures.

**Job Family Structures**

A job family structure, as illustrated in figure 3, consists of separate grade and pay structures for different Job or career families. Typically there are three or four separate families, although some organizations have many more (Gratton, 1999). Each Job family is divided into a number of levels. These can vary between Job families, but typically there are five to seven levels. Job families may have different number of levels depending on the range of responsibility they cover. The levels are usually defined in terms of accountabilities and skills, and knowledge or competency requirements. They can also be defined by a range of job evaluation scores, although this is not a universal feature (Okere 2011). The size of jobs in levels can vary between the same levels in different job families, as can rates of pay—there is no read-across between all of them.

Pay spines are found in the public sector, or in agencies and charities that have adopted a public sector approach to reward management in Nigerian organizations (Okere, 2011). They consist of a series of incremental ‘pay points’ extending from the lowest to the highest paid jobs covered by the structure. Typically, pay spine increments are between 2.5 percent and 3 percent. They may be standardized from the top to the bottom of the spine, or the increments may vary at different levels, sometimes widening towards the top. Job grades are aligned to the pay spine, and the pay ranges for the grades are defined by the relevant scale of pay points. The width of grades can vary, and job families may have different pay spines. Progression through a grade is based on service, that is, by fixed increments, although some organizations provide scope for accelerating increments, or providing
The advantages of pay spines is that they are easy to manage, and because pay progression is service related, it is not based on managerial judgment (Okere, 2011). For this reason they are favoured by trade unions and management in the public sector. The disadvantages are that:

1. Relating pay almost entirely to service means that people are rewarded for ‘being there’ and not for the value of their contribution.
2. Pay spines can be costly in organizations with low staff turnover, where everyone drifts to the top of the scale.
3. Where there are a large number of incremental points in the scale, equal value complications can arise, as men progress to the top, while the progress of women is delayed because of career breaks.

**Choice of Structure**

Choice has always to be exercised when contemplating the design or redesign of a grade and pay structure. There is no such thing as a model structure or ‘best practice’ in the development process. As research by Armstrong and Brown (2001) has established, there is a wide diversity of approaches; every organization adopts its own variety of structure to suit its circumstances. Generally, however, businesses and institutions with formal, hierarchical grade structures have tended to prefer conventional grade structures which permit orderly administration and ease in managing internal relativities. Organizations that want to achieve more flexibility but within a defined framework may opt for a broad banded structure. Those attaching considerable importance to career planning and development may opt for a career family structure, and those who believe that some job families need to be treated differently may prefer a job family structure. Trade unions representing a range of professional, technical or administrative staff may favour single graded structures, while unions representing specialized professions may prefer a job family structure. Perhaps the most important factor is the organizational context (Brewster 1999). Account needs to be taken of the organization’s culture, the type and variety of people employed, and the views of stakeholders that is, management, employees and trade unions, bearing in mind the extent to which they are ready for change and will accept it when it comes. Additionally, the capacity of the organization to design, introduce and manage a different structure, and the funds available to finance the implementation of a new structure, have to be considered. The features, advantages and disadvantages and appropriateness of each type of structure are summarized in Table 1.

**Table 1: Comparison of Grade and Pay Structures**

<table>
<thead>
<tr>
<th>Features</th>
<th>Single graded</th>
<th>Broad banded</th>
<th>Career family</th>
<th>Job family</th>
<th>Pay spine</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Features</strong></td>
<td>A sequence of job grades- 10 or more</td>
<td>A series of often 5 or 6 broad bands</td>
<td>Career families identified and defined</td>
<td>Separate grade and pay structures for job families containing similar jobs</td>
<td>SA series of incremental pay points covering all jobs</td>
</tr>
<tr>
<td>Narrow pay ranges, e.g. 20% - 40%</td>
<td>Wide pay bands typically between 50% and 80%</td>
<td>Career paths defined for each family in terms of key activities and competence requirements</td>
<td>Progression linked to contribution and competence</td>
<td>Progression linked to competence and/or contribution</td>
<td></td>
</tr>
<tr>
<td>Progression usually linked to performance</td>
<td>Progression linked to contribution and competence</td>
<td>Same grade and pay structure for each family</td>
<td>Easy to manage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Advantages**

- Clearly indicate pay relativities
- Facilitate control
- Easy to understand
- More flexible
- Reward lateral development and growth in competence
- Fit new-style organizations
- Clarify career paths within and between families
- Facilitate the achievement of equity between families and therefore equal pay
- Facilitate pay differentiation between market groups
- Easy to manage
- Pay progression not based on managerial judgement

**Disadvantages**

- Create hierarchical rigidity
- Prone to grade drift
- Inappropriate in a delayed promotion
- Create unrealistic expectations of scope for pay rises
- Seem to restrict scope for promotion
- Could be difficult to manage
- May appear to be divisive
- Divisive
- May inhibit lateral career development
- May be difficult to maintain internal equity
- No scope for differentiating reward according to performance
- May be costly as staff drift up the spine
Design Options

Whichever structure is selected, there will be a number of design options. These comprise the number of grades, bands or levels, the width of the grades and pay ranges, the differentials between grades, the degree to which there should be overlap between grades, if any, and the method of pay progression within grades.

In broad banded structures there is also choice on the infrastructure (the use of reference points or zones), and in career or job family structures there are options concerning the number of families, the composition of families, and the basis upon which levels should be defined. In pay spine structures there may be choice on the size of the increment.

Designing a Grade Structure and Grading Jobs

It is best to base the design of grade structures and job grading processes on job evaluation in one of the following three ways (Erez and Zidon, 1984):

1. by dividing the rank order produced by an analytical job evaluation exercise into grades or bands;
2. by validating a ‘matching’ process following the design of a career or job family structure.
3. through the use of a non-analytical job classification scheme which might, however, be validated by the use of an analytical job evaluation scheme.

Grade Design Following an Analytical Job Evaluation Exercise

An analytical job evaluation exercise will produce a rank order of jobs according to their job evaluation scores. A decision then has to be made on where the boundaries that will define grades should be placed in the rank order. As far as possible, boundaries should divide groups or clusters of jobs that are significantly different in size, so that all the jobs placed in a grade are clearly smaller than the jobs in the next higher grade, and larger than the jobs placed in the next lower grade (Berlet and Cravens 1991).

Fixing grade boundaries is one of the most critical aspects of grade structure design following an analytical job evaluation exercise. It requires judgment – the process is not scientific, and it is rare to find a situation where there is one right and obvious answer. In theory, grade boundaries could be determined by deciding on the number of grades in advance, then dividing the rank order into equal parts (Equal Pay Task Force 2001). But this would mean drawing grade boundary lines arbitrarily, and the result could be the separation of groups of jobs that should properly be placed in the same grade.

The best approach is to analyze the rank order to identify any significant gaps in the point’s scores between adjacent jobs. These natural breaks in point’s scores will then constitute the boundaries between clusters of jobs that can be allocated to adjacent grades (Curries and Procter 2001). A distinct gap between the highest rated job in one grade and the lowest rated job in the grade above will help to justify the allocation of jobs between grades. It will therefore reduce boundary problems, leading to dissatisfaction with gradings when the distinction is less well defined (Armstrong and Murlis 1998). Provisionally, it may be decided in advance when designing a conventional graded structure that a certain number of grades is required, but the gap analysis will confirm the number of grades that is appropriate, taking into account the natural divisions between jobs in the rank order. However, the existence of a number of natural breaks cannot be guaranteed, which means that judgment has to be exercised as to where boundaries should be drawn when the scores between adjacent jobs are close.

In cases where there are no obvious natural breaks, the guide lines that should be considered when deciding on boundaries are as follows:

<table>
<thead>
<tr>
<th>When most appropriate</th>
<th>In a large bureaucratic organization with well defined hierarchies</th>
<th>In delayed process based flexible organizations</th>
<th>In organizations where there is a strong emphasis on career development</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>When close and rigid control is required</td>
<td>Where more flexibility in pay determination is wanted</td>
<td>Where different career paths within and between families can be identified and defined</td>
</tr>
<tr>
<td></td>
<td>When some but not too much scope for pay progression related to performance is wanted</td>
<td>Where the focus is on continuous improvement and lateral development</td>
<td>When robust methods of defining competences exist</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>When there are distinct groups of jobs in families</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>When it is believed that career paths need to be defined more clearly in terms of competence requirements</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>When there are distinct market groups that need to be rewarded differentially</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>In a public sector or voluntary organization where this is the traditional approach and it therefore fits the culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Where it is believed to be impossible to measure differential levels of performance fairly and consistently</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Difficult to understand</th>
<th>Equal pay problems</th>
<th>between job families</th>
<th>Difficulty</th>
<th>Defining competences</th>
<th>Grade design</th>
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In broad banded structures there is also choice on the infrastructure (the use of reference points or zones), and in career or job family structures there are options concerning the number of families, the composition of families, and the basis upon which levels should be defined. In pay spine structures there may be choice on the size of the increment.

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Fixing grade boundaries is one of the most critical aspects of grade structure design following an analytical job evaluation exercise. It requires judgment – the process is not scientific, and it is rare to find a situation where there is one right and obvious answer. In theory, grade boundaries could be determined by deciding on the number of grades in advance, then dividing the rank order into equal parts (Equal Pay Task Force 2001). But this would mean drawing grade boundary lines arbitrarily, and the result could be the separation of groups of jobs that should properly be placed in the same grade.

The best approach is to analyze the rank order to identify any significant gaps in the point’s scores between adjacent jobs. These natural breaks in point’s scores will then constitute the boundaries between clusters of jobs that can be allocated to adjacent grades (Curries and Procter 2001). A distinct gap between the highest rated job in one grade and the lowest rated job in the grade above will help to justify the allocation of jobs between grades. It will therefore reduce boundary problems, leading to dissatisfaction with gradings when the distinction is less well defined (Armstrong and Murlis 1998). Provisionally, it may be decided in advance when designing a conventional graded structure that a certain number of grades is required, but the gap analysis will confirm the number of grades that is appropriate, taking into account the natural divisions between jobs in the rank order. However, the existence of a number of natural breaks cannot be guaranteed, which means that judgment has to be exercised as to where boundaries should be drawn when the scores between adjacent jobs are close.

In cases where there are no obvious natural breaks, the guide lines that should be considered when deciding on boundaries are as follows:
1. Jobs with common features as indicated by the job evaluation factors are grouped together so that a distinction can be made between the characteristics of the jobs in different grades. It should be possible to demonstrate that the jobs grouped into one grade resemble each other more than they resemble jobs placed in adjacent grades.

2. The grade hierarchy should take account of the organizational hierarchy: that is, jobs in which the job holder reports to a higher level job holder should be placed in a lower grade, although this principle should not be followed slavishly when an organization is over-hierarchical with, perhaps, a series of one over one reporting relationships.

3. The boundaries should not be placed between jobs mainly carried out by men and jobs mainly carried out by women.

4. The boundaries should ideally not be placed immediately above jobs in which large numbers of people are employed.

5. The grade width in terms of job evaluation points should represent a significant step in demand as indicated by the job evaluation scheme.

The same approach can be used when designing broad banded of fat grade structures, although it is more likely that the number of bands or grades will have been determined beforehand. The aim will still be to achieve clear distinctions between the jobs clustered in successive bands. This may be easier because there will be fewer boundary lines to draw, but unless they can be defined by reference to significant gaps the decision may still be judgmental.

**The Design of Career or Job Family Grade Structure**

The design of a career or job family structure can be based on job evaluation by the grading process described above, following the use of an analytical job evaluation scheme to produce a rank order of jobs. Alternatively, analytical job evaluation can be used in the design of either career or job families, to validate prior decisions on grades and levels, and the allocation of jobs to levels, by matching role profiles to level definitions (Currie and Proctor 2001). In both approaches it is necessary to decide on the families required (usually not more than three or four) and how they should be defined.

When the design of a career family structure follows an analytical job evaluation exercise, the grades or levels determined by reference to the rank order produced by job evaluation are in effect sliced up into families (Duncan 1989). Career ladders are devised by defining the levels for each family in terms of the key activities carried out and the skills and knowledge (competences) required. Each level is also defined by reference to a range of job evaluation points. In the words of Kohn (1993) benchmark jobs are allocated to levels according to their point scores, but once the design has been confirmed, many organizations allocate jobs to levels simply by matching role profiles with level definitions. Job evaluations scores can always be consulted to validate the allocation, and to check that equal value considerations have been met.

When the design of a career or job family structure is based on a priori decisions on the number and definition of levels, without reference to job evaluation scores, the first step is to select benchmark roles, which may be generic, and prepare role profiles defining the key activities carried out and the knowledge and skills required. The role profiles are then ‘matched’ with the level definitions in order to determine the allocation of the roles to levels. The role profiles might readily match one level, but they often fit parts of one level definition and parts of another. In this case judgment is required to achieve the best general fit. It should be noted that unless ‘matching’ is done on an analytical basis, against a defined set of factors, it may lead to pay discrimination and would not provide a defence in an equal pay claim. For this reason, although analytical job evaluation is not always used by organizations that have introduced career or job family structures; it is generally accepted that it provides necessary support to the design process, and rigour from an equal value perspective. An analytical job evaluation scheme will validate the level allocations, define the levels in points terms, and ensure that equal pay considerations are met within and across career families. The allocation of benchmark or generic roles, to levels is accorded, so that at later stages, role profiles prepared for the job to be graded can be matched with benchmark role profiles as well as with the level definition.

**Grade Structure Design Based Upon Job Classification**

The non-analytical job classification method of job evaluation starts with a definition of the number and characteristics of the grades into which jobs will be placed (French and Bell 1990). These a priori decisions are made without reference to job evaluation scores, as is sometimes the case when designing career or job family structures. There are therefore, no problems in defining grade boundaries, as can occur when the structure is derived from the rank order produced by an analytical evaluation exercise.

When the grade definitions have been produced, jobs are slotted into the grades. This should ideally be carried out by means of a matching process, which is analytical to the degree that it specifically compares the characteristics of whole jobs with the characteristics set out in the grade definitions. Job classification is the simplest method of grade design, but when there is no analytical base, grading decisions may be arbitrary and inequitable. Most importantly, no reliable defence will be available in the event of an equal pay claim. The solution to these problems adopted by some organizations is to use an analytical point factor scheme to validate the gradings and check on internal equity.

**Pay Structures for Manual Workers**

Pay structures for manual workers often consist of fixed spot rates for different levels of skill and responsibility, such as skilled, semi-skilled and unskilled (Wright and Snell 1999). These are time based; in other words they are usually expressed as a rate per hour or week. Rates may be negotiated. The trend now is to develop integrated grade and pay structures which cover manual workers and other staff. Term and conditions of employment may be harmonized, in whole or in part.

**Developing Pay Structures**

The pay structures for all the structures referred to above, except broad banded structures, are devised by attaching ranges to each grade or level. Broad banded structures may or may not have bands with defined pay ranges, and they may include pay zones for jobs or clusters of jobs within a band (Worldat Work 2000). In structures other than broad banded structures, all jobs placed in a particular grade will be paid within the range for that grade, and employees will progress through the range on the basis of service, performance, competence or contribution. Progression within
a range may be limited by thresholds that can only be crossed if defined levels of performance and competence have been achieved. The pay ranges are determined by reference to the existing rates of pay for the jobs allocated to each grade and their market rates. An analysis of market rates forms part of the pay structure design programme, but in practice it may not always be possible to get reliable information for all jobs, especially those for which good external matches are difficult to make.

**Designing Pay Structures Other Than Broad Banded Structures**

The following steps are required:

1. Define grades in terms of a range of job evaluation points or a grade description.
2. Establish the actual rates of pay of the job holders.
3. Obtain information on the market rates for benchmark jobs where available.
4. For each grade set out the range of pay for jobs holders, and calculate their average or median rate of pay.
5. Agree policy on how the organization’s pay levels should relate to market rates – its ‘market stance’.
6. Calculate the average market rates for the benchmark jobs in each grade according to pay stance policy, for example the median rates.
7. Compare the practice and market reference points in each range, and decide on the range reference point.
8. Examine the pay differentials between reference points in adjacent grades.
9. Decide on the range of pay around the reference point.
10. Decide on the extent, if any, to which pay ranges should overlap.

**Implementing New Grade and Pay Structures**

The implementation of new or revised grade and pay structures provide a change management challenge. The scale of this challenge will be reduced if employees have a voice in its design, but it is essential to communicate the purpose and features of the new structure and how everyone will be affected (Miller 1991). If, as is usual, the new structure follows a job evaluation programme, it is necessary to manage the expectations of staff. They should be informed that while no one will necessarily get extra pay, no one will lose out. This means that assimilation and protection policies should be discussed and agreed prior to implementation.

**Assimilation Policy**

Whipp (1992) reported that there are essentially four categories of staff to be covered by the assimilation policy.

1. Those staff whose current actual pay and pay potential are both encompassed by the pay range for the new grades to which their jobs are allocated.
2. Those staff whose current pay lies within the new pay range, but whose existing pay potential is greater than the new maximum.
3. Those staff whose current pay is below the minimum for the new grade.
4. Those staff whose current pay is above the maximum for the new grade.

Protection Policies

‘Indefinite protection’, that is, maintaining the difference between current pay and range maximum for as long as the employee remains in the job, is highly undesirable, first because it will create permanent anomalies, and second, because where there are a lot of men in this situation (which is often the case), it will perpetuate unacceptable gender gaps (Opsahl and Dunnette 1996). As stated by the Equal Pay Task Force (2001). ‘The use of red or green circling which maintains a difference in pay over more than a phase in period of time will be difficult to justify’. Because of these considerations, the most common approach is now to provide for red circled employees to receive any across the board (cost of living) increase awarded to staff generally for a protection period which is usually limited to two to three years. They will no longer be entitled to general increases after the time limit has been reached, until their rate of pay falls within the new scale for their job. They will then be entitled to the same increases as any other staff in their grade, up to the grade maximum. If a red circle individual leaves the job, the scale of pay for the job reverts to the standard range as set up following job evaluation. Where there is an incremental pay structure it is usual to allow staff to continue to earn any increments to which they are entitled under existing arrangements, up to the maximum of their present scale.

If there is no limit to the protection period, red circled staff continue to be eligible for general increases for as long as they remain in their present job. They are then on what is sometimes called a ‘personal to job holder’ scale. Throughout the protection period, and particularly at the start of it, every attempt should be made to resolve the red circle cases by other means. If job holders are thought to be worth the current salary, then they may well be under-used in their existing job. Attempts should be made to resolve this by either increasing the job responsibilities so that the job will justify regrading to a higher grade, or moving the person concerned to a higher grade job as soon as an appropriate vacancy arises.

CONCLUSION

Grade and pay structures provide the framework for managing pay, although grade structures are increasingly used as part of non-financial reward processes, by mapping career paths without any direct reference to the financial implications. A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed. Pay structure provide a framework for managing pay. There are two main types of pay structure. These are graded, broad banded or family structures that contain the organization’s pay ranges or scales for jobs grouped into grades.

Grade and pay structures are needed in Nigerian organizations to provide a logically designed framework within which an organization’s pay policies can be implemented. The main types of structure are single or narrow graded, broad banded, career family and job family. Choice has always to be exercised when contemplating the design or redesign of a grade and pay structure. Account has to be taken of the organization’s culture, the type and variety of people employed, and the views of stakeholders. Whichever structure is selected, there will be a number of design options. These comprise the number of grades, bands or levels, the width of the grades and pay ranges, the differentials between grades, the degree to which there should be overlap between grades, if any, and the method of pay progression within grades. It is best to base the design of grade structures and job grading processes on job evaluation. The pay structures for all the structures, except broad banded structures, are developed by attaching pay ranges to each grade or level. The trend now is to develop integrated grade and pay structures which cover manual workers and other staff. The implementation of new or revised grade and pay structures provides a change management challenge.

Recommendations

Based on the summary/conclusion, the following recommendations are made:

1. Pay structures should provide scope for pay progression;
2. Jobs should be allocated to a grade, band or level.
3. Grade and pay structure should be a medium through which the organization can communicate the career and pay opportunities to employees;
4. Grade and pay structures should enable the organization to exercise control over the implementation of pay policies and budgets;
5. A pay range should be attached to each grade;
6. Broad banding should provide a role specific and performance management focus on reward;
7. Career family structures should define career paths within career families and so facilitate career planning;
8. Job family structure levels should be defined in terms of accountabilities, and skills, and knowledge or competency requirements;
9. In making choice of structure, the most important factor to be taken into consideration should be organizational context.
10. Differentials between pay ranges should provide scope to recognize increases in job size between successive grades;
11. Both justice and equity demand that, if someone has been identified as being underpaid, that situation should be rectified as quickly as possible;
12. It is necessary to be aware of the possibility of creating equal pay problems when assimilating staff to their new scale.

References


