



SALARY SCALES:

Everything You Need to Know

Every employer has given a fair amount of thought to employees' salaries and what percentage of salary increase you should give your employees. Perhaps you've also talked with managers about what salary to offer a candidate they want to hire or what a new salary should be for someone who has shifted into a new role within the company. These are all common compensation conversations that happen in every business over time.

Rather than doing all this constant wondering, It's essential to put in the time and effort to develop a formal salary structure along with salary ranges, which will pay off in the long run. A salary structure helps inform all compensation-related decisions your business goes through and allows you to approach them in a market-based, internally equitable, intuitive, and efficient, timely manner.

What is a Salary Range & Salary Structure?

As the name suggests, a salary range is the range of pay for a specific job or group of jobs. It will usually involve the minimum pay rate as well as the maximum. It is used as the minimum, or maximum a company is willing to pay when hiring a new employee. It's also used to indicate the level of experience and qualification which might be considered essential for a role while also leaving options open for individuals to apply who might usually be above or below the average salary.

A **salary structure**, also known as a pay structure, is an organization's hierarchical group of jobs and salary ranges. Salary structures often are expressed as pay grades or job grades that reflect the value of a job in the external market and/or the internal value to an organization. The system is used to determine an employee's compensation and help when calculating raises. For this to be done, each salary structure is broken down into levels, also known as pay grades.

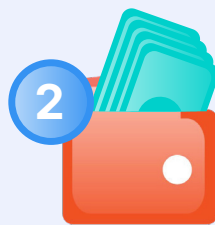


Types of Salary Structures

There are three main types of salary structures businesses use:



TRADITIONAL



BROADBAND



MARKET-BASED

The type of structure you use depends on your industry, business size, business location, and employee classifications. Keep in mind that you can change the salary structure you use; you don't have to stick with the same type of structure, especially as your business grows.

To choose the one that works best for your business, let's break down the main types of salary structures.

1 Traditional Structure

Traditional salary structures are divided into numerous pay grades. Salary increases are relatively small jumps between pay grades. Decide what an employee needs to do to move on to the next pay grade. You may use a variety of metrics to determine a pay raise, such as performance and length of employment. Set the minimum and maximum salary range for each employee or employee group. Then, determine the number of pay grades within the structure.

2 Broadband Structure

Broadband structures are more flexible than traditional salary structures. These salary structures utilize fewer pay grades. And each pay grade has a wider salary range than traditional structures. If you use the broadband structure, you have more leeway when deciding an employee's salary, and you aren't limited by a narrow salary range like a traditional structure.

3 Market-Based Structure

Market-based structures are based on what other employers pay employees. Under a market-based salary structure, conduct an external pay audit to determine your salary ranges for each position. Put together a list of positions and their descriptions before collecting market data. That way, you can better compare positions. Market-based structures are a combination of traditional and broadband salary structures. The salary ranges can be high, like broadband structures, but the ranges are generally narrow and consistent.

How to Develop a Salary Structure

1. Look at Other Companies' Salary Structures

Even if you are not using a market-based salary structure, it's still a good idea to see what other companies in the same industry are paying their employees in similar positions. By doing your research, you'll better understand how competitive your pay is and if you need to make any changes based on your findings.

This can also help you decide how competitive you want to be, compared to other companies. Consider paying more than the market average if you want to attract high-quality candidates, retain your current employees, and keep them happy.

2. Decide How to Handle Salary Rate Increases

Decide how you'll handle future salary increases for promotions and yearly raises. Choose what you want to base these raises on, whether that's employee performance or how long they've been at the company. You can also decide how often you'll offer raises. Most organizations have a yearly review process where managers decide the percentage pay increase for each employee. With market knowledge, you can also choose if the raises you offer will be higher than average, which will help you stand out.

3. Evaluate Your Current Salaries

As you develop your salary structure, evaluate your current salaries to identify any employees or departments making more or less than they should. You may unintentionally pay one department's employees more than the market rate for the same job and every other employee in the organization around the average for their position. This inconsistency can frustrate employees, leading them to apply elsewhere for better pay.

4. Start Building Your Salary Structure

Once you've done your research, seen the market rates, and understanding how you're currently structuring pay, you can create salary ranges for each position within your company, including a minimum and maximum rate. When developing your structure, you can choose how many pay grades you want to offer for each salary range.

5. Look at Current Employees' Salaries

Having salary ranges for each position will provide you with the opportunity to evaluate where current employees fall within the range. You can look at each employee to see who is getting paid too little and who is getting paid too much. Employees should fall between the minimum and maximum salary rate for their position; anything outside of that, and you may want to explore ways to correct this, so you're adhering to the new salary structure.



Benefits of Having a Salary Structure

A faulty pay framework can have a huge knock-on effect on the rest of the business, impacting retention, employee engagement, organizational design, and much more. That's why it's essential to have concrete salary ranges and a complete structure in place. Here are some of the major benefits of developing a salary structure:

1

FAIRNESS

Creating a pay structure ensures that you are **treating all employees fairly**. They understand where their role fits into the organization and that a **fair process exists to determine both job level/grade and pay**.

2

MOTIVATION

Understanding the avenues open to **progress in career** and pay is hugely motivating for employees. It allows for conversations about what is required to progress pay or grade within the business and **prevents less productive discussions** between employees and line managers with no real focus.

3

TRANSPARENCY

Sharing your pay structure and the process of developing it with employees and potential employees inspires confidence, and it creates **an open and trusted conversation about pay**.

4

MOTIVATION

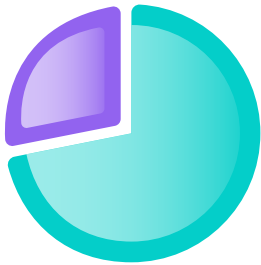
Some key components to creating **employee engagement** are feeling fairly treated, understanding how to progress your career, knowing where you sit in the organization and how your contribution adds to the overall effort. A clearly communicated pay structure supports all those things.

5

PAY BUDGETS

A pay structure creates a basis for pay decisions and allocation. Understanding where your employees fit against the pay structure – within, above, or below the band – informs your pay decisions and allows for the **effective allocation of pay budgets**. If not always saving you money, it ensures you get the most value from it.

Salary Scale Statistics You Should Know



72% of surveyed companies have
BASE SALARY RANGE STRUCTURES.

93%

**USE COMPENSATION
SURVEY MARKET DATA**
when designing salary
structures.



82% **USE TRADITIONAL
SALARY STRUCTURES**
while only **7% broadband
structures**

55%

**HAVE MULTIPLE
STRUCTURES**
varying by job &
geographic location





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