SDX

Management Insight

Job Roles & Salary Bandwidths

A Just and Transparent Model

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Introduction

This Insight has been on my mind (and in my drafts) for several months. Partly because I was busy with other things, but mostly because I was trying to identify the best suited criteria for creating a model, which is fair, flexible and understandable. You can find the results below.

Most of what I am saying here stems from the needs and pains of Small and Medium Enterprises (SME). Large enterprises usually have a similar or more complex system in place and more than enough people to maintain it properly.

As always I don't claim this to be a miracle recipe for everyone but I strongly believe it to be a good and useful basis, which can be used and adapted by any company. Neither would I like to imply to have invented all the content in these pages. Rather than trying to do so, I gathered my experiences and aimed to distill the essence in a way that I hope to be useful to the reader.

The Challenge

Resources and especially manpower are a valuable good for any company, even more so for SMEs. Hence they need a simple and efficient system for making sure that their employees get paid fairly – and helping them understand why.

The Model

The proposed model is supposed to classify each and any employee in one of three levels within her role. While the roles vary, the levels and the rules for being in one level or another remain the same. For each role and level there is a defined salary bandwidth.

In order to do this classification quickly, transparently and objectively the model uses three criteria, each of which will be measured and quantified.

Between each level there are thresholds. This makes it easy for employer and employee to see, what needs to be done or achieved in order to move from one level to the next.

Criteria & Rating Scales

The following criteria and related rating scales are used for assessing an employee's level within her respective job role.

Skill/Education

If you have an experienced employee with years of experience, you will want to put more weight on her skills rather than the formal education. With a beginner, who might have her first job at your company, you will have to rely on her school and college education and grades for determining this value.

Of course it is always a good idea to have objective tests at hand for assessing a person's actual skills rather than relying on second hand information.

In our model this criterion can be rated on a scale from 1 (worst) to 10 (best). This is a common range for assessing skills, will give you enough room for placing any candidate or employee and at the same time avoids the infamous middle ground of a scale with an odd amount of steps.

Experience

Experience gets measured in years. This does not mean years at your company only. It refers to years of overall experience in the chosen field

In our model I provide a scale from 0 to 50 for this criterion. This assumes that you won't work long enough for gathering more than 50 years of experience in a single field of expertise, and if you do, your salary will be accordingly.

Performance

The value for the performance criterion ideally comes from the performance reviews, which you are doing in your company.

As this model is supposed to work with the performance review approach described in an earlier Management Insight, the scale for this criterion ranges from 1 to 4 because the same is also used in the performance ratings.

Overview

If we summarize this we get that table below

Criteria	Scale
Skills/Education	1-10
Experience	0-50
Performance	1-4

Levels & Thresholds

Now it is time to take a look at the levels. As mentioned above, these levels are the same for any job role although the salary bandwidth per level does depend on the job role.

In this model I propose to have three levels – the names are arbitrary and can be changed to suit your needs – as listed below:

- Junior
- Normal
- Senior

With some minor adjustments you can of course have more levels or add sub levels for each of these. In my experience it is sufficient and easier to manage to work with three levels only.

For each level there has to be a threshold per criterion, which defines clearly where an employee has to be on the respective scale in order to qualify for a certain level.

Once again these thresholds can be adjusted as you wish to make them suit your needs. In this model I defined them already. Combined with the criteria described above, we could now have a table like this one, which also shows the thresholds for each level in each criterion:

Criteria	Junior		Normal		Senior	
	Min	Max	Min	Max	Min	Max
Skills/Education	1	4	5	8	9	10
Experience	0	3	4	5	6	50
Performance	0	1	2	2	3	4

The overall level is defined by the lowest individual (criterion) rating. E.g. if somebody is "Senior" in two criteria, but "Normal" in one, the overall level would be "Normal". See the examples below for more details.

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Salary Bandwidths

While the actual salaries and the margin of the salary bandwidths per level are entirely up to you and your company, the basic principle applied in this model remains the same. You will have a minimum and maximum salary for each level in each job role.

I start by defining the minimum salary for the "Junior" level and from there I calculate all others based on the following multipliers:

Level	Min	Max
Junior	1.00	2.00
Normal	0.90	2.00
Senior	0.90	2.00

- Junior Min = 1 (base value)
- Junior Max = Junior Min * 2.0
- Normal Min = Junior Max * 0.9
- Normal Max = Normal Min * 2.0
- Senior Min = Normal Max * 0.9
- Senior Max = Senior Min * 2.0

Assuming a minimum "Junior" salary of 1,000 EUR as basis, the bandwidths would look like this:

Level	Min	Max
Junior	1,000	2,000
Normal	1,800	3,600
Senior	3,240	6,480

As you can see this also allows lower levels to have a higher maximum salary than the minimum salary on the next higher level. This is to give the employer some flexibility to accommodate for other influencing factors, which may – and usually do – pop up.

If this is not needed or wanted, it can easily be avoided by adjusting the multipliers accordingly. Of course you don't have to use the same values for each level. It would be appropriate to give the "Senior" level a higher bandwidth and allowing for a higher maximum salary.

Note: like all models, this one will easily cover 90% of all cases but there will always be extreme circumstances (e.g. excellent skills, no experience) and as usual use your common sense to see, if the result really fits the situation.

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Examples

Let's take a look at some sample calculations.

Employee A

This employee is a developer with excellent skills in several programming languages and several years of experience. However, his performance review shows that he is more of a lone wolf and not a natural team player.

Criteria	Rating	Level
Skills/Education	9	Senior
Experience	6	Senior
Performance	2	Normal
Overall Level	Normal	

As the model suggests, the overall level is defined by the lowest level per criterion. In this case he would be classified as "Normal". Using the salary bandwidths above, the employer can now set a salary between 1,800 and 3,600. Based on the excellent skills, he may want to move toward the top third of this range.

Note: The overall level is defined by the lowest individual level for a criterion.

Employee B

This employee joins your marketing team fresh from college, has no experience and all you know about his skills are his grades and the projects he did during college. He scored an average grade on you assessment test and of course he did not have a performance review, yet.

Criteria	Rating	Level
Skills/Education	3	Junior
Experience	0	Junior
Performance	2	Normal
Overall Level	Junior	

Being a newbie and not knowing how his skills are in real life, you will judge him to be a "Junior" in the Skill/Education area. Experience is zero, so also "Junior". For his performance you give him the benefit of the doubt and rate him in the middle of the scale. In total this will of course result in a "Junior" level.

As for the his position in the salary range you may want to put him in the first third for a couple of months and depending on his performance increase to some mid-range salary for "Juniors"

Ok, but …

Like all tools, this model has its advantages and disadvantages. Let me try to tackle some of the most common questions and concerns here.

Should the model be publicly announced and explained?

Absolutely. It is an inherent core principle of this model to be known by everyone. Introduce it, explain it and use it openly. The less room there is for interpretation, the better people will understand it and the easier it will be for employer and employees to work with and within this model.

Should each employee's level be public or remain secret?

I strongly recommend making them public for a few simple reasons:

1. The model is the same for everyone. It is fair, simple and transparent. Hiding it or parts of it, will only instigate rumors and wild "conspiracy theories".
2. Let's be honest: you will never be able to keep them secret. People talk at the office, they go out, drink and talk even more. Sooner or later everybody (or at least enough people) will know who is in what level. When this happens, the situation gets awkward. They know. You know that they know. And still nobody can discuss it openly, because it's all "secret".

If the employee levels are public, what about the salaries?

Interesting topic. In an ideal world we would be able to share this information freely, nobody would be offended or envious and all would strife to improve rather than to make others look bad. Unfortunately we don't live in this world.

In my opinion, the specific salaries should remain confidential between employer and employee. Yes, some will still share them with their colleagues, but most will not.

What if an employee insists on a salary outside his model bandwidth?

This can happen in two scenarios.

1. The employee was not properly assessed.
   If so, then this needs to be rectified and adjusted accordingly.
2. The assessment is correct from the employer's point of view, but the employee does not agree.
   In this case it is up to the employer to explain, why he assessed the employee as he did and – VERY important – what the employee would need to do/change/improve to qualify for a higher salary and/or reaching the next level.

Why are there no "soft skills" included in the model?

They are, though not explicitly. Soft skills are extensively covered in the actual performance review. So whatever qualities an employee has or lacks in these areas, will become clear there and consequently be reflected in the rating for the "Performance" criterion in this model.

How to apply the model to already overpaid employees?

If you have not been using a model like this until now, chances are that some of your employees turn out to be overpaid, when assessed based on this model. These are usually people, who have been with the company for a long time and/or are generally considered "stars" or "gurus".

Very often legal implications will not allow you to reduce the salary unilaterally – not to mention what this would mean for the employee's motivation. So you really need to talk to these people and agree on what they need to do, change or improve in order to justify this salary and help them to do so.

I do not recommend to just accept this quietly as it would be grossly unfair to all other employees and puts you in a difficult situation should you ever have to explain yourself. Be it to employees, shareholders or your board of directors.

What if a person's field of expertise changes?

Extreme cases like an accountant with twenty years of experience suddenly deciding that he wants to move to product marketing are obviously not covered by such models and need to be treated individually.

The much more likely scenario is that an employee slightly shifts or expands her field of expertise. This could be a move from being a senior team member to becoming a team leader or a senior software developer learning a new programming language.

Naturally these people would need to be considered "Juniors" if you rate only the new area of activity. Hence I recommend taking a look at the whole person and their activities. In no case should an employee be punished for being interested in and motivated to learn new things or evolve into a new role.

The model allows for this with the overlapping salary bandwidths and by using common sense you should be able to come to an agreement with these employees. Learning something new does not necessarily bring an immediate salary increase with it and neither does an organizational promotion. Define and agree on a path, which the employee has to take and a goal, which includes a new and higher salary based on the model.

Conclusion

I hope you can see, how such a system can not only help you with assessing people and putting them in the proper place in your organization wide salary scheme, but also allows you to make it very clear, why any given employee is in which level and – more importantly – what an employee has to do if she wants to move to the next level or even get a higher salary in the current one.

Using this model in combination with the aforementioned performance review gives you two very efficient, clear and low-effort tools with far reaching consequences for both, the employer and the employee.