The Going Rate:

Paying for Specialist Skills

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1 Introduction

Every organisation has its 'specialists': those individuals or groups of employees who provide specific knowledge or skills. Deciding on the amount of pay they receive will largely depend on whether or not the organisation can attract suitable specialists in the labour market and the level of remuneration such individuals can typically get elsewhere. However, there may be occasions when the organisation has to offer substantially more to secure the services of the right individual, as Rees (2006) explains: 'If the business is operating in a tight market, it may be that the organisation has to pay whatever it has to pay to secure the services of a highly talented or specialist individual. Pay structures should never be forced on an organisation to the detriment of its success in recruiting and retaining key individuals.'

How much attention is paid to specialists' remuneration depends upon on whether the organisation positions itself high or low in the external labour market, and the degree of difference between specialists' pay and this market alignment. And clearly there is likely to be a spectrum of specialists' external relativities.

Rewards for specialists, therefore, tend to be closely linked to developments in the external job market. This raises a number of issues, not least preserving internal equity within the organisation, ensuring equal pay for work of equal value and accessing quality pay data on specialist groups. Paying one individual or group significantly more than others – via a salary supplement or salary adjustment, for example – or outside the existing pay structure can disrupt well-established internal relativities that value specific jobs and underpin a belief in 'distributive justice' ('Did I get the right amount for my expectations in relation to people I consider equal to me?'). Market-linked pay may also fall foul of equal pay legislation. 'Pricing to the external market carries the danger of importing into pay structures any gender and other discriminations that exist in the wider labour market,' warns the CIPD (2006a). Often the problem is a lack of transparency, while poor comparisons can undermine the process. Data from salary surveys tends to be a common way of accessing the 'market'. However, appropriate data can be hard to locate; jobs that share the same title may, in fact, differ considerably in content, while the uniqueness of some jobs may make it impossible to construct valid comparisons. Also, the quality of the data can be questionable. Gomez-Mejia and Balkin (1992) suggest that interpreting or using such pay data is more 'art than science'.

Individual or spot pay rates allow detailed market alignment for all jobs, including specialists. Remuneration can also be adjusted to take account of individual contribution. Often, salaries are based on the market rate at the time each individual is hired. Although this provides flexibility and allows important pay decisions to be made during the recruitment process, such arrangements tend to create a complex system of market supplements and discretionary bonuses, which are confusing and can trigger jealousies and discontent as they have no relation to either existing job evaluation points or grading structures. This can lead to upward pay drift, with other employees demanding pay comparability.

Alternatively, pay is adjusted to handle the pay problems of existing staff. This may be because of high resignation rates, threats of leaving or general discontent with salary levels. Such adjustments may be done in a structured manner to meet changing market conditions. In other circumstances, much discretion is left to managers to judge what is needed. If they are sensitive to the dynamics of reward management (ie they look at the external picture as well as the internal), this approach may work well. Riskier are 'special deals' between managers and individual employees, particularly where the criteria for the deals are, at best, opaque. If this situation is not carefully managed, certain groups or individuals are favoured with no objective justification.

Job-family-based pay structures are a much discussed method of handling differences between occupational groups and incorporating market rates of pay. The 'families' tend to have different, market-based pay ranges and sometimes totally separate pay structures for jobs of a similar size, but in different functions or occupational groupings (Reilly and Silverman, 2004). The concept allows organisations to treat occupational or functional groups differently from each other in terms of reward, career paths or development needs. Yet, the problems that exist generally with market-based pay also apply to job-family-based pay systems. A common difficulty is managing pay relativities between job families, which may, for example, lead to equal pay problems (Reilly, 2004). Although job family arrangements tend to overcome the problems of transparency, and, therefore, may assist in defending equal value claims, disclosure of pay information means that staff are more likely to compare their pay with others, both internally and externally, which may be divisive. Developing a job family pay structure is also time consuming, and arguments may ensue over the allocation of roles to families or where to place hybrid/specialist roles. Job families also require substantial ongoing maintenance, with regular and extensive benchmarking of market rates in order to justify why an organisation pays some jobs more than others, which as IDS (2004a) points out 'can become a considerable administrative burden for HR staff'.

Nonetheless, job family arrangements offer employers greater flexibility in making and administering pay decisions. They can accommodate most jobs, so allow employers to afford special treatment to groups of staff with a high market value, such as specialists.

2 Background

2.1 Overview

There are three main factors that affect the level of pay of individual employees: the value of the job in the organisation, the value of the person to the business, and the value of the job or person in the external marketplace (Armstrong, 1999). Organisations tend to rely on specialists' skills and knowledge, so these roles and the people that fill them are of great value. Such individuals are also likely to be highly valued in the external market. Pay communicates a sense of how much the organisation values an employee (Gardner, Van Dyne and Pierce, 2004). Individuals will compare pay levels both inside and outside the organisation, believing that comparable jobs should attract similar levels of compensation.

Internal equity has, until relatively recently, been the driving force in determining pay levels in organisations. It is now much less important than in the past. Zingheim and Schuster (2000) suggest that companies are increasingly relying more on market value rather than internal (job-evaluated) value to set pay levels. The 2007 annual reward management survey from the CIPD (2007) confirms their prognosis, at least in the private sector, concluding: 'Private sector employers do appear to be more focused on the external market, while voluntary and public sector employers are concerned with internal equity.' However, there is also evidence that market-driven pay is becoming more popular in the public sector. The increasingly tight labour market has forced the public sector to mimic pay systems in the private sector, with local government, for example, paying more attention to the external market, both for senior appointments and for hard to fill vacancies (Reilly, 2003).

Although he admits that it is often impossible to attain, Armstrong (1999) says that an organisation's pay practices should be 'internally equitable and externally competitive'. This is hard to reconcile, and often market forces tend to be given greater importance than internal equity considerations, particularly when people with highly sought after, but scarce, skills need to be recruited. Internal equity should not be ignored, however. Defaulting automatically to the market without considering potential internal issues is a mistake: both are important. Rees (2006) says that by 'blending together a perspective on internal equity and (the) market, it is possible to create a pay structure which creates an appropriate environment for a specific organisation.' Getting the balance right between internal and external equity is crucial. US consultancy 3c (2002) say that balancing equity across disciplines, for example, is usually less important than balancing it within the same discipline or job family. This is more easily achieved in circumstances where pay information is confidential rather than open and shared. Increasingly pay equity is established within broad job functions with market rates determining pay levels for these different functions.

Irrespective of whether an organisation's pay system is rooted in the principles of internal equity or based solely on external relativities or, more likely, a mixture of the two, there needs to be an effective way of evaluating jobs and their relative worth to the enterprise. Traditional job evaluation (JE) schemes are changing so they are more flexible, business-aligned and market–driven (Brown, 2001). Brown says the point weighting for JE factors in some organisations now relate to their correlation with market data, while others use market value as a factor in itself. Others still, use market pricing to evaluate 'worth'.

2.2 Pay determination

Most organisations have a clearly defined pay structure, covering the whole organisation or groups of related occupations. Pay rates and ranges will often be determined by job evaluation, which assesses the relative internal worth of the job, and market pricing, which assesses external relativities. Traditionally, one pay structure covers managerial, technical, sales and administrative, with manual employees and senior executives each treated separately. There have been attempts through 'single status' and 'pay harmonisation' to integrate different pay systems, though often with executive pay dealt with separately. Some organisations, however, have relatively unstructured and flexible pay systems, with remuneration decisions for individual jobs made informally and almost always with reference to market rates.

According to Armstrong (1999), there are three main factors that determine the level of pay employees receive. These are:

1. Internal job value – organisations generally relate pay to the relative contribution levels or internal value of jobs, with pay based on factors to do with the job itself, such as the breadth of responsibility given, the amount of resources controlled, the level of authority, or the degree of autonomy they have to make decisions. Basically, the 'bigger' the job the more people are paid.

2. External job value – market rates for jobs will determine pay levels, usually assessed by reference to what similar organisations pay for comparable jobs. The laws of supply and demand tend to determine the external market rate with hard to fill or specialist roles attracting higher levels of pay.

3. Value of the person – individual contribution and/or performance, competence, knowledge or experience can be factors in determining pay levels.

Against these factors is ability to pay – how much the organisation can afford to pay employees in general and individuals in particular. The increasingly competitive business environment has made it essential that organisations control their costs. One of the biggest costs to an organisation is its expenditure on labour, so controlling the size of the annual pay budget is an important goal of many reward strategies.

2.3 Evaluating jobs

Job evaluation has traditionally been used to determine the relative worth of jobs, particularly white-collar posts, and develop an effective pay structure. Originally, JE was used to establish internal pay relativities, so jobs deemed more important attracted a suitably higher rate of pay and grading than one considered less important. Over the past couple of decades there has been greater focus on market rates of pay, with employers keen to ensure salaries are competitive in the external labour market in order to attract talented employees and fill hard-to-fill vacancies with suitably qualified staff, such as specialists. IDS (2003) reports that the introduction of a bespoke JE scheme covering staff in Prudential UK & Europe – essentially a JE questionnaire linked to the company's capability framework – alongside a shift to a broadbanded pay structure involves the evaluation of factors using market pay data. According to IDS, the insurance company has 'weighted the JE questionnaire in favour of those sub-factors (which measure the core outputs of the role) most closely related to the market pay data.'

JE retains its popularity because analytical approaches, at least, provide a potential defence to equal value pay claims as it enables an employer to demonstrate that he or she has systematically compared jobs. Increasingly, it is also seen as an effective way of underpinning new pay and grading arrangements (Suff and Reilly, 2005). Research by e-reward (2003) found that the five main reasons for using JE reasons were to:

1. provide a basis for design and maintenance of a rational and equitable pay structure
2. help manage job relativities
3. assimilate newly created jobs into the structure
4. ensure equitable structure
5. ensure the principle of equal pay for work of equal value.

Analytical JE schemes break jobs down into their core components or elements, which are referred to as factors. Considering jobs as a series of parts rather than as whole, allows employers to look at each factor to be measured individually and given a value or points score to indicate the relative importance of each one. Adding together all the points or values allocated to each factor gives the total score, indicating the overall value of a job in the organisation. According to Brown (2001), JE systems are becoming more flexible, business-aligned and market-driven. He claims common changes to JE schemes include:

- abandoning fixed pounds-for-points linkages in favour of placement into fewer bands and market-aligned ranges
- moving to simpler job classification approaches, which are the fastest growing variant now used by almost a third of companies
- removing traditional job input factors, such as qualifications and emphasising measures of job accountability and impact.

Today, the most frequently used factors are:

- Knowledge and skills – eg work experience, qualifications, specialist training, length of service
- Communication and contacts – eg social skills, enthusiasm and diplomacy
- Decision-making – eg judgment, initiative and analytical ability
- Impact and influence – eg efficiency, impact on customers, responsibility and results of errors
- People management – such as human relations skills, ability to deal with work pressure and supervisory responsibility
- Freedom to act – eg depth of control and supervision received
- Working environment – eg knowledge of special working practices and breadth of management skill required
- Responsibility for financial resources – eg budgeting.

2.3.1 Market pricing

Market pricing is an alternative to JE as a way of developing an effective pay structure. Armstrong (1999) says it takes two forms: it establishes external relativities; and can act as a form of job evaluation by using relativities or differentials between market rates of pay for comparable jobs as the basis for establishing internal relativities. The effectiveness of market pricing to set pay levels rests on the quality of the benchmarking information obtained, usually from a salary survey. One problem, particularly with regard to highly specialist positions, is the absence of reliable market data. 'Such cases have to be slotted into the pay structure, and a more conventional evaluation scheme can help to show where they should be placed in relation to already evaluated benchmark jobs,' says Armstrong.

Market pricing evaluation usually consists of the following stages:

1. Identify jobs to be evaluated – benchmark jobs are those that are not unique to the organisation and should be roles that can be readily matched to comparable jobs in the external market. One estimate says that the benchmark group should cover at least half of an organisation's jobs. Analyse the jobs and describe them in terms of job content and characteristics. The organisation also needs to decide what it wants to benchmark: Basic pay? Total rewards (including variable pay and benefits)?
2. Identify the most appropriate surveys to use – based on survey participants, the jobs and, if appropriate, the geographical spread of the data. Ideally, an organisation should use data from several surveys comparing and contrasting the findings even if the basis for the data in one survey closely matches its requirements and is ultimately used to determine pay decisions.
3. Develop a pay/grading structure, incorporating pay ranges or spot salaries for all the jobs, with market rates determining the minimum and maximum rates (or the specific rate in a spot scheme) for the jobs. The number of grades between these limits will depend on the size of the organisation. It may be necessary to establish more than one structure to cover different market groups where jobs are subject to special market pressures.
4. The benchmark jobs are slotted into the structure with reference to market data.
5. Examine outcome to ensure allocation of jobs has not upset well-established and appropriate internal relativities.
6. The remaining jobs are slotted into the structure by comparing them with the jobs that were benchmarked.

Among the drawbacks of market pricing is that it can perpetuate discriminatory pay decisions. Discrimination is likely to be even more of a possibility when comparing pay for specialist roles, as there is a greater likelihood that are fewer genuine comparators in the external market. Armstrong (1999) warns that even if the approach is non-discriminatory, organisations should remember that they might be building their pay structure on the 'shifting sands of a number of doubtful assumptions about what are the true market rates.' By definition it is likely to be harder to establish market rates for specialists than for generic roles, except where competitors employ the same type of specialists. The risk is that the specialists bid up their pay exploiting the fact that they may be few on the ground, not many trained, and/or long in the training/accreditation process.

2.4 Equity

> *'Internal equity is nice to have – but it is second.'* (Armstrong and Brown, 2001)

Whatever framework an organisation decides to adopt to determine pay levels, it needs to achieve equity, fairness and consistency in managing rewards. Equity in pay terms refers to both internal and external equity – that is, comparisons between pay levels within the organisation, and comparisons between an individuals' rate of pay and their perception of their market worth (Brown and Armstrong, 1999). Equity, particularly internal equity has played a central role in pay determination for many years. Zingheim and Schuster (2002), for example, report that for 'most of the history of pay' there has been a 'nearly singular emphasis on internal equity'. Organisations have, until relatively recently, been wary of setting pay levels outside of established norms, preferring to base salaries levels in relation to what other employees earn. Indeed, the most recent CIPD (2007) reward survey reveals that almost half (48 per cent) of participating organisations still regard internal equity as an important goal for their reward strategy – surprisingly up from 41 per cent in 2006.

Reilly and Silverman (2004) say internal equity is complex: it may relate to staff wanting to be paid the same as immediate colleagues, within the same location for the same type of job, or it might be for parity with those in different business units doing analogous work. In other words, the reference point may vary with circumstances.

The equity theory developed by Adams (1965) suggests that people are better motivated if they feel they are being treated equitably and consistently, and demotivated if they perceive that the opposite is occurring. According to Adams, there are two forms of equity: distributive equity – individuals' perceptions about how they are treated and rewarded compared to others; and procedural equity – individuals' perceptions of the fairness of the process of setting pay. In a similar vein, Jacques (1961) developed a 'felt-fair' principle, which means a pay system will only be considered fair if employees feel it is. His approach is based on the following assumptions (Brown and Armstrong, 1999):

- an unrecognised standard exists of what is fair pay for a given level of work
- a workforce has an unconscious knowledge of the standard
- pay is only 'felt fair' if it matches the level of work and the capacity of individuals to do it
- employees feel pay unfair when they receive less than they deserve by comparison with their colleagues.

Heneman and Judge (2000) looked at various studies of pay satisfaction in the US and concluded that employees tend to compare their pay both within the organisation and outside it to judge whether they are being treated equitably. Another, sector specific, US study found that external equity was somewhat more important than internal equity when it came to pay satisfaction amongst the university academics they researched, but both were less important than procedural justice and employees receiving their just rewards in relation to their contribution (Terpstra and Honoree, 2003). In the UK, Brown (2001) demonstrated that the market was the most important comparator for employees and had the greatest impact on levels of pay satisfaction among workers.

Heneman and Judge also discovered that the process of setting pay was more important than the actual level of pay. Armstrong (1999) notes that an 'equitable reward system ensures that relative worth is measured as objectively as possible, that the measurement processes are analytical, and that they provide a framework for making defensible judgments about job values and grading.' Brown and Armstrong (1999) make it clear that transparency is crucial, believing that people are more likely to feel they are rewarded fairly if they understand the basis upon which pay decisions affecting them are made. Where pay decisions are based on a transparent and objective process differences can more easily be justified and are more likely to be accepted. This, however, presents the challenge that the basis of pay decision making has to be robust and defensible – relating back to the quality of the data.

2.5 Market driven

> *'From a pay determination and reward management point of view, the significance of labour market theory is that a firm must be fully aware of the external markets in which it is operating in order to make decision about pay levels in light of market intelligence.'* (Armstrong, 1999)

The latest annual CIPD (2007) reward management survey reveals that 54 per cent of the 466 organisations responding say they 'link pay to the market', while the reward strategies in 58 per cent aim to 'achieve/maintain market competitiveness'. IRS (2006a) reported that more than four in ten (44.4 per cent) of organisations participating in its annual pay prospects survey make comparisons with pay levels in competitor organisations to ensure their reward mix is attractive for potential employees. It also found that more than 39 per cent of respondents reported that they planned to up their pay award in the coming 12 months in order to keep salaries in line with other companies vying for staff. The 2007 CIPD results show that market rates are the most important factor in determining salary rates in the private sector, with 63 per cent of organisations in both private sector services and manufacturing and production placing it top of a list of potential ways of setting salary levels. Additionally, market rates are increasingly key in determining pay progression. Whilst these are significant proportions engaged in market pricing, they also beg the question of what the other 40 to 60 per cent are doing!

Compared with the rigid hierarchical pay systems of the past, which had little link with changes in the supply and demand for labour, market rates give employers flexibility to establish different levels of pay. According to a report from a US consultancy, there are two main reasons why employers are increasingly favouring market-based arrangements to determine pay levels rather than internal equity systems (3c, 2002). These are:

1. Market pay systems are easy to understand and flexible enough to respond to changes that directly impact an organisation and its industry.

2. Today's typical employer–employee affiliation tends to be shorter and grounded in the here and now as opposed to the career length affiliations of past generations that elevated the importance of internal equity over external competitiveness.

Yet, it is flexibility that has made market rates popular: organisations can target rewards in areas where labour is scarce or to attract staff with the necessary skills and competencies, while controlling the pay of staff who are less mobile or do not have skills that are in demand. A market approach also provides the organisation with the opportunity to decide whether it will pay above or below, or match, the median – the mid-point in the range of salaries, or the market rate.

Armstrong and Murlis (2004) say that, as well as providing more flexibility to set pay rates, using market comparisons can benefit organisations by helping them:

- set starting salaries
- design and modify salary structures
- determine acceptable rates of pay progression, including the level of increases necessary for salary levels and individual employees' pay
- identify special cases where a market-equivalent rate of pay is necessary, regardless of the existing pay structure.

Table 2.1: Pros and cons of market pay

Advantages	**Disadvantages**
Easy to administer	Does not take into account individual performance in the role
Completely flexible	Can be difficult to establish realistic market figures or salaries for top performers
Meets market conditions	Can be susceptible to high levels of internal upward drift
Culturally compatible with other countries, such as the US	Not a defensible equal pay position
	Can lead to problems with internal pay equity

Source: Rees, 2006

2.5.1 Different markets

Organisations will look at various markets to assist in setting pay levels. In organisations where there are strong functional groups, then market-driven pay is more likely to be oriented around occupations or professions. This enables organisations to treat groups of staff differently, with the pay scale for key groups higher than for other comparable employees. Some organisations may seek to ensure their remuneration is in line with others in their same sector. Often, it easier to match jobs, because organisations in the same sector have almost identical roles and, where job evaluation is used, the grade tend to be distributed in the same way (Reilly and Silverman, 2004). An alternative is to align salaries with pay levels in the local market. Local pay avoids having to work on the basis of a national pay system that may only imperfectly match the various labour markets within which the organisation operates, preventing it from suitably rewarding key groups, such as specialists, that are located in one area, say the head office. Really local pay works best with those who can only afford a short travel to work distance (ie the lower paid). Aggregation to regional level may blur local differences, (for example, take Manchester and the North West region). For specialists, regional, national or even international markets may be the appropriate reference point.

Matching the market on the basis of pay grades or points is logical (Reilly and Silverman, 2004). If the organisation is trying to match the market it has to do this on the basis of comparing job hierarchies, otherwise like is not compared with like. Yet, there are is an important point to note when using pay grades as the basis of market rates of pay: grade groups are made up of a number of occupational groups, each may have very different labour markets from each other. Most pay benchmarking uses a basket of jobs thereby producing an average market position. This may or may not fit the position of specialists, where the labour market may be international or cross-sectoral in a way that contrasts with positioning the rest of the organisation.

Some employers monitor all the different labour markets. IRS (2006a) reports that almost 55 per cent of organisations responding to its annual pay prospects survey compare levels in the same industry, while 29 per cent also, or exclusively, benchmark against pay levels in the same occupational group, and nearly 28 per cent claim to compare pay levels in the same locality.

2.5.2 Pay data

> *'The proliferation in the quantity of market data has been matched by the decline in much of its quality.'* (quoted in Brown, 2001)

There are the problems associated with collecting and maintaining up-to-date information about market rates of pay. Brown (2001) maintains that there is no single market rate of pay out there for a given job – there is only a range of pay. Armstrong and Murlis (2004) also contend that a definitive market rate for any job does not exist, and say that 'no market information source is designed, or indeed, should be designed to show that one salary is the "correct" rate for a given job.' Reilly and Silverman (2004) note that external labour markets offer a range of different pay rates for a given job because:

- Organisations' policies differ in the amount they need to pay.
- People have their own individual market rate. This will depend on their experience, competence, lifestyle choice and the extent to which they are in demand.

- Individual market worth is variable, and judgements concerning value can, and often are, more to do with perception than truth.
- The bigger an organisation is, the more it is likely to pay.
- Rates of pay are higher in some local labour markets than in others.

The CIPD (2006a) says there are four main sources of pay data:

1. Published data – salary surveys provide an indication of going rates. Though helpful for periodically checking levels and movements, there usefulness is limited because it is difficult to compare like with like.
2. Pay clubs – involves employer groups regularly exchanging information on pay levels (access generally limited to participants).
3. Special surveys – bespoke data gathering by a specialist pay consultancy for an individual organisation.
4. Consultants' pay databases – data collected on a systematic or ad hoc basis, often gathered from JE exercises in client organisations. To be viable the factors must measure common job/role characteristics and enable comparisons to be made across different roles and organisations. The data also needs to be based on an adequate sample and the job analyses carried out systematically and conscientiously.

The CIPD (2006b) reported that one of the most popular ways of linking salaries to market rates was to use pay surveys (job adverts were also used) to determine the 'going rate'. The pan-European reward survey by Towers Perrin (1999) found that 97 per cent of organisations regarded external market pay surveys as essential to managing their reward strategy.

Salary surveys suffer from perennial problems, says Wright (2004). She claims that few pay surveys are founded on structured samples, only including data that firms are willing to contribute. The quality of some of the pay data available to benchmark is suspect. According to some commentators, as the number of pay surveys being conducted in the UK has increased, so the accuracy of the data has fallen (Brown, 2001). Accuracy problems are exacerbated when it comes to specialist roles: there may be very little relevant market pay information for the role in question and using pay data for more generic roles to establish a 'going rate' may not reflect the skills, knowledge or experience required for the role. Armstrong (1999) makes that point that pay information, particularly for specialists, is often hard to access. Where an organisation employs specialists or operates in a relatively unique market there may be very few external jobs with which to make comparisons. It may also be unable to properly define its market. And, just because a position in another organisation has the same job title, the role is unlikely to be exactly the same, so it is very difficult to achieve a meaningful comparison. Also, as with all surveys, the results are only a snapshot of what is in place when it is conducted, meaning that the data is often out of date when published.

The proliferation of pay data, particularly on the internet, means that individuals, especially those employees, like specialists, whose market worth is high and who are in demand by other employers, will increasingly be in a position to compare their reward package with what is on offer elsewhere. Brown (2001) quotes the following prediction by a participant at a CIPD reward forum:

> *'Mainstream professionals will soon be comparing their pay rates in the same way as footballers and company directors.'*

Employers that rely on job adverts for their pay data may inadvertently be inflating their pay bill. Since adverts are by definition designed to attract, they may give a false impression. Organisations will only present selective information, putting their position in the best light. As a result adverts tend to overstate the market. The problem is that employees and their managers may use adverts to argue their case for a rise.

Transparency of pay rates for specialist job markets means that such workers are more aware of their market worth, raising the specter of individuals selling their services to the highest bidder and producing an inflationary spiral in pay rates that only benefits the individual and none of the organisations competing for staff. Brown (2001) contends that this happened with footballers in the English Premier League:

> *'The weekly wages of Premier League footballers in England … may be taken as a demonstration of either the complete triumph, or the ultimate failure, of a totally market-driven approach to rewards. How can you ever establish a true market rate for a position, with such massive variations depending on the individual player concerned?'*

The other problem with over-reliance on market data is that it might be given greater prominence than other key information, especially recruitment and retention statistics. Is the employer able to attract and keep the staff they want? If not, how important is pay in this context. What do exit surveys say? Why do applicants reject job offers?

In reality, market pay data should only be used as an indication of the current or going range for establishing salary levels or setting pay structures ad define which factors affect the distribution of individual salaries within it (Armstrong and Murlis 2004). US consultants 3c (2002) warn that data alone will not provide all the answers, and say that good judgment is required when using market pay information to determine levels of pay.

3 Paying Specialists

3.1 Overview

Deciding on the amount to pay a specialist or group of specialists largely depends on whether or not the organisation can attract suitable employees in the labour market and the level remuneration such individuals can typically get elsewhere. Rewards for specialists, therefore, tend to be closely linked to developments for their skills in the external job market, with the market used as a way of establishing the worth of the individuals concerned. Specialists whose skills are in high demand tend to attract high salaries, greater incentives and more widespread benefits than other employees because organisations need to secure their loyalty against the attractiveness of a competitor.

There is evidence that retaining such individuals is becoming increasingly difficult. An international survey of technical professionals by consultants Blessing White (2006) found that more than half (55 per cent) of European respondents describe retaining key technical professionals as extremely or very challenging. Traditional pay systems that reward employees for the size of their job – measured, for example, by the number of direct reports a manager had and/or their length of service – or for their performance tend to be inappropriate for some professional and technical roles. Such specialists may have few direct reports and the length of their tenure may be less important than the knowledge and skills they bring to the job, while it can be difficult to measure of the performance of some specialists because of the intangible nature of much of their work. Paying for what the person is worth rather than what the job is worth may therefore be the preferred option (Gerhart, 2000).

In some cases, rewards for specialist roles may be excluded from the pay structure, though most organisations will pay some heed to existing internal relativities when setting rates for such employees, and many are adopting pay systems – such as job family arrangements – that provide sufficient flexibility to incorporate the whole workforce. Individual pay rates or spot salaries, and job family arrangements, are popular ways of managing the rewards of different groups of staff, including that of specialist groups, as each provides the necessary flexibility to allow employers to adjust pay levels to attract and retain individuals of the right calibre.

The most recent CIPD (2007) reward management survey, for example, found these were the pay structures favoured by employers for some specialist groups, such as senior management, managers and technical/professional staff. For example, 44 per cent of survey organisations opt for individual pay rates/ranges/spot salaries for senior managers, while 22 per cent prefer job family arrangements; and 31 per cent have adopted a job family structure for technical/professional employees, while a quarter use individual pay rates/ranges/spot salaries.

Some organisations may use market supplements for positions that require specific skills and are hard to fill or where there is evidence – usually from independent sources, such as salary surveys – that the salary for the role is lower than for comparable jobs elsewhere. The amount will be set by reference to the difference between what the organisation would normally pay (such as the evaluated salary) and the external ‘going rate’. Other companies provide incentives, often offering employees the opportunity to greatly increase the overall level of reward by awarding share options that can be exercised some time in the future.

According to Storey (2005), in a paper on HR policies for knowledge workers, such employees tend to give a high value to personal growth and to personal development opportunities at work because they realise that this is how they will grow their own human capital. Non-financial rewards, therefore, are often very important to professional and technical staff. Control over their working arrangements, ongoing career development opportunities, and recognition for their accomplishments and successes should be part of the overall reward mix for specialists. Indeed, research among professional knowledge workers for the CIPD (2004) found that the reward and recognition strategies for such workers featured both financial and non-financial aspects.

3.2 Individual/spot pay

Individual pay arrangements provide a separate pay range for each job, including specialists. The rates and the relativities between them tend to be determined by market rates and/or individual contribution, and, at times, ‘special deals’ between managers and individual employees. Often, salaries are based on the market rate at the time each individual is hired. Increases are typically at the discretion of management, often as a result of changes in market rates for the job. This can be more or less structured – a formal, annual process or as needed in the eyes of the line manager.

Spot rates or salaries is one the simplest pay structures, providing employers with considerable flexibility in paying staff. Spot rates allow organisations to pay the ‘going rate’ or the ‘market rate’ for the job. In its purest form, there is no structure at all, with each job assigned a rate of pay at the decision of the manager, based on a perception of the pay market (Watson). Where a structure does emerge, pay grades that are roughly set, rather than determined via a job evaluation exercise, are often the outcome. Consequently, employees are assigned to the grade that is closet to the market-rate for the job, even though the job might be evaluated the same as a lower grade position by a job evaluation system.

Although individual pay rates or spot rates provide flexibility and allow employers the freedom to strike deals with individuals during the recruitment process, such arrangements tend to create an overly complex system of different pay rates, market supplements and discretionary bonuses. Such systems typically lack transparency and any objective criteria for setting pay levels, so no-one is clear how pay levels are determined, which can trigger jealousies and discontent, even among specialists themselves. Individual pay systems can also lead to upward pay drift, as other employees demanding pay comparability. And, individual rates will almost certainly be threatened by equal value legislation.

US academics have used the term ‘pay inversion’ to describe the situation where new recruits are paid more than existing staff without having any discernable advantage in experience, skills or qualifications (Mc Nutt et al., 2007). This produces a clash between the economic realities of supply and demand and the motivational requirements of operating a fair and equitable pay system. One solution to this dilemma is to hold down the pay of the new recruits until existing employees catch up. As a financial services company found, this can be very demotivating for the new recruits, especially when the hope is that they will bring fresh impetus to the work of the organisation. The harmonisation process can also be slow if pay adjustments are small and the gap significant. Closing the gap by use of performance related pay, as Mc Nutt et al. (2007) advocate, is again of limited help if base pay performance progression is slow. The alternative, tried by a public sector organisation, is to increase the pay level of the incumbents to match the starting pay of the new recruits, assuming there is a match in their attributes. Naturally, this can be a very expensive solution, though it has the merit of managers being careful in their hiring decisions.

Firms do not necessarily have to pay over the odds for specialist knowledge workers. The organisation can emphasise the non-financial benefits of the work (eg job content, location, environment, etc.) as the plus point rather than the pay. In the private sector existing employees may benefit from the grant of stock options, not available to new starters. However, these devices may paper over the cracks: is the real issue that existing staff are not good enough or that managers see fresh faces through rose tinted spectacles? In other words, it may be managers’ poor assessment of quality that is the issue, more than the dynamics of the market.

Cisco Systems

Pay decisions are devolved to line managers at Cisco Systems in the UK, which employs a high proportion of graduates and professionals (Suff, 2001). Although guidelines are provided which outline the criteria that should be considered when deciding pay awards, pay decisions are very much on an individual and performance basis. When making a judgment on the level of increase, the individual will be assessed from the perspectives of current performance and market prices. Every manager is allocated a pool of money for the annual salary increases. The budget is determined by market practice and positioning. Line managers have the discretion to reward an individual with a considerable increase for exceptional performance as long as the overall pay allocation remains within budget. Managers are assisted in this process by a range of sophisticated software tools that present different 'what if' scenarios.

3.3 Job families

Job family structures fit jobs that have broadly similar characteristics into the same group. Jobs within families can be linked in various ways, including the nature of the work, type of occupation or function. Each job family will operate its own pay arrangements, with grade structures divided into a number of levels reflecting the range of work within the group. Pay levels are generally based on market rates for the different roles within each family.

The popularity of job family structures has grown as the labour market for specialists, such as professionals and knowledge workers, has expanded (Suff, 2001). This is mainly because such arrangements allow organisations the flexibility to adjust remuneration in line with market pressures. According to Reilly (2004), the principle reason to introduce job families from purely a reward perspective is the need to reflect different market values for different occupational groups. Traditional pay arrangements tend to lack the flexibility to deal with different types of employee groups, making it hard, for example, to recruit a marketing specialist on the same salary as a production manager. Job families allow employers to set entry pay at different levels to reflect occupational market differences. Job families can also reduce the complexity of some existing pay systems that have developed over the years with the award of ad hoc payments to overcome recruitment and remuneration difficulties.

Although job families can be used to successfully accommodate almost all jobs into the structure, even the most specialist roles, and provide employers with the ability to adjust employees' pay to account for labour market pressures, there are a number of drawbacks to such arrangements. The award of market-based rewards can be divisive and, by emphasising market-related rates, the system also runs the risk of raising expectations among staff who will naturally compare what they receive with pay for similar-sounding jobs elsewhere, even though roles with same title can differ widely from one organisation to another. In addition, any system based on market rates can be potentially discriminatory, while tracking external market rates of pay is time-consuming and job families need a lot of administration.

Table 3.1: Pros and cons of job families

Advantages	**Disadvantages**
Helps identify (map) career paths	Can inhibit career flexibility between families
Greater flexibility in making and administering pay decisions	Can be divisive
Can afford special treatment to groups of staff with high market value	Can reduce pay equity
Supports lateral career development and multiskilling	Time-consuming (tracking market rates)
Can accommodate most jobs	Cumbersome to administer
Aids pay progression	May raise expectations when linked to market competitiveness
Can provide structure for a broadbanded pay system	Possible bias, in terms of equal value legislation
Supports concept of employability	

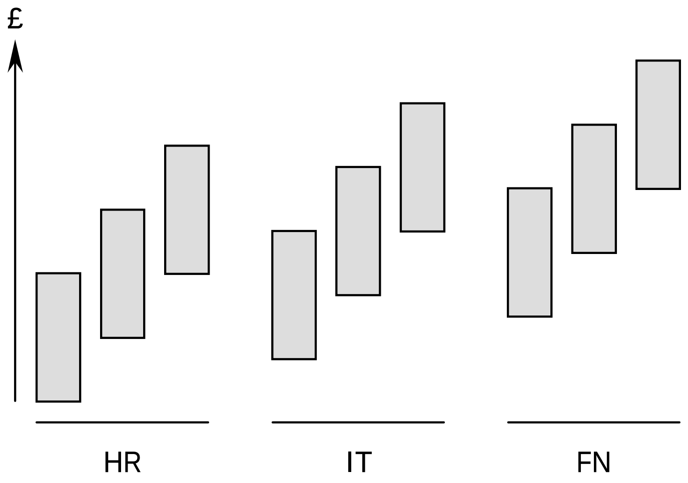
Source: Suff, 2001

3.3.1 Job families in practice

Job families tend to be defined by the roles contained within them, possibly with a brief description outlining the various roles. The structure and number of job families differ from one organisation to another. The number of job families could range from as few as three to as many as forty-plus. Some companies may create a 'professional services' family, which may contain specialists in finance, IT and HR. One of the five job families established by Bracknell-based Siemens Shared Services, for example, is called 'specialist' and describes as roles that provide 'advice and/or a service that draws upon expertise in a professional field' (IRS, 2004). The disadvantage of a small number of job families, especially in heterogeneous organisations, is that there is a conflation of separate functions into one family. So, for example, a professional services family is trying to deal with the different market positioning of HR, Finance and IT – each with their own market position.

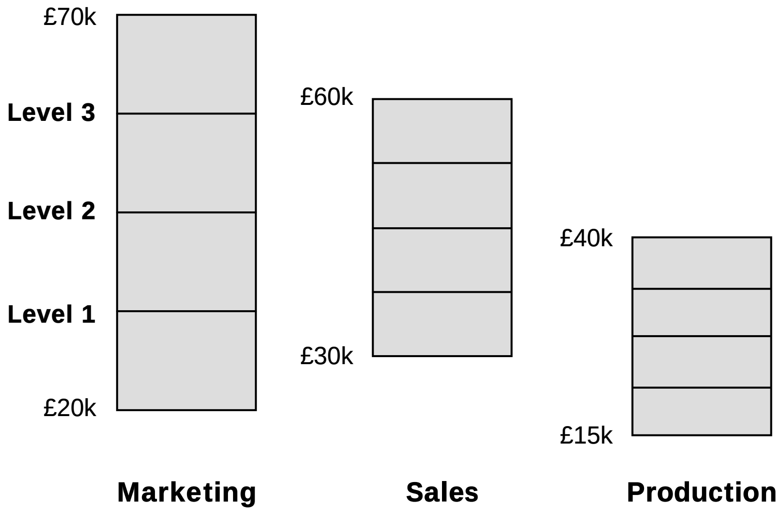
Each job family will be aligned to market rates and usually contain a number of grades or bands that reflect the levels of work within the job family, often defined by job evaluation (Armstrong and Brown, 2001). Reilly (2004) says job families may appear in either conventional or broadbanded pay structures (as illustrated in Figures 3.1 and 3.2). In conventional systems the key difference between the job families is the asymmetrical nature of the pay levels and, in some cases, the different grade criteria used to distinguish between levels. In broadbanded systems – an approach that is increasingly common for job family arrangements – the different occupational groups many have range lengths/minima/maxima that diverge from each other.

Figure 3.1: Job families in a conventional pay structure



Source: Reilly, 2004

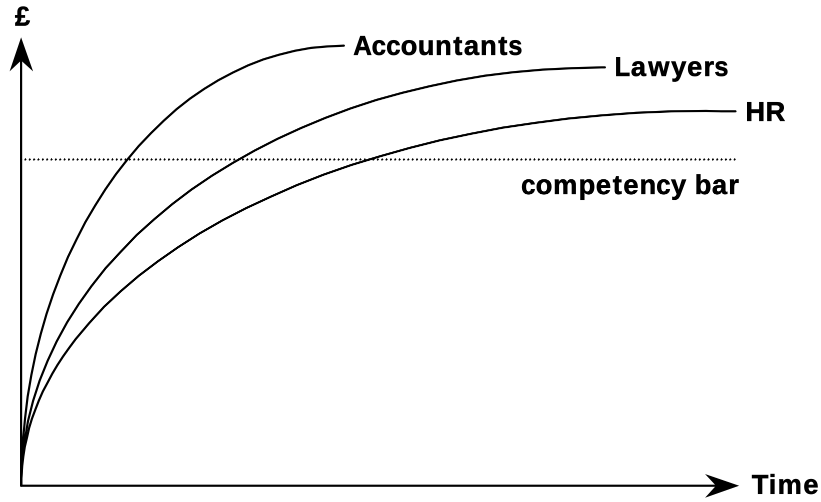
Figure 3.2: Broadbanded job families



Source: Reilly, 2004

Pay progression may vary with job families. In the following illustration, Reilly (2004) sets out how the various occupational groups may have their own pay trajectories. Despite starting from the pay point, lawyers, for example, move faster than HR staff, and to a higher pay maximum.

Figure 3.3: Different pay trajectories for different families



Source: Reilly, 2004

3.3.2 Case studies

Citizens Advice Bureau

Although the new reward structure adopted by the Citizens Advice Bureau (CAB) refers to 'pay groups' rather than job families, it is a broadly similar approach (IRS, 2006b). The organisation had found that its existing broadbanded structure had been too flexible to ensure consistency in salary levels, plus it experienced difficulties relating to internal equity, with new staff sometimes leapfrogging existing staff because they were being appointed on higher salaries.

CAB began developing its new approach by undertaking a wide-ranging job evaluation exercise. It adopted a dual approach to JE, making reference to both internal (using the Croner Reward JE system) and external relativities (assessing pay rates against those in comparable organisations). Once a JE score for a post was established, the next step was to take account of the market salary range, based on information from within the voluntary sector. CAB benchmarked around half of all jobs within the organisation, with the remaining posts slotted around the salary benchmarks. CAB has established three pay groups – called administrator/organiser, professional/specialist and executive management.

The pay bands contain 21 benchmarks, the clear majority of which fall into the 'professional/specialist' category, which was logical considering the high proportion of these types of roles within CAB. For example, 'benchmark job seven' contains the role of finance business analyst as well as the following cluster of similarly ranked roles: financial accountant, management accountant, business support accounting manager, IT business support manager, IT service delivery manager and IT implementation manager.

Job holders were appointed at or below the 'proficient' rate of pay, with new recruits typically at 90 per cent or 95 per cent of the proficient rate. However, there is scope for an advanced salary level, which is paid at five per cent above the proficient rate.

Nationwide Building Society

Nationwide operates a 'total reward' approach – consisting of basic salary, flexible benefits and variable pay – that is underpinned by a system of job families and broad responsibility bands that were first introduced in 1999 (IDS, 2004b; IRS, 2004b). Nationwide opted for a job family structure for a number of reasons, including allowing it flexibility to cater for individual or functional requirements. Under the previous structure, adopting the market rate for a particular job sometimes meant an employee's salary would be pushed outside the grading system. Also, job families enabled the organisation to accommodate all its employees, including the specialists that advise across a range of functions, such as legal and purchasing (IRS, 2000).

Jobs are grouped into 11 job families, including 'specialist services' and 'specialist advice', spread over five responsibility levels. Each level has clearly-defined accountabilities and a typical time span in which work will be completed. Each role within the building society is matched against corporate job descriptions to determine the relevant job family and level.

Within responsibility levels, basic salary levels are dependent on three factors: job size; market matching to determine target rates of pay (linked to the median in the market); and internal comparability measured by job evaluation. Target rates provide an anchor for competent employees, around which there is a maxima (120 per cent) and minima (80 per cent).

Progression through the salary ranges is dependent on individual performance. Each job is accompanied by a performance agreement, which covers accountabilities /objectives, knowledge, skills and experience, as well as behaviours linked to the Nationwide's statement of values. Individuals achieving the required level of contribution should move from the minima to the target salary in around three years. Progression the maxima depends on achieving consistently excellence or exceptional contributions.

NFU Mutual

Insurance business NFU Mutual began reviewing its existing reward arrangements in 2003, putting forward to the board a recommendation to introduce job families and a broadbanded pay structure (IDS, 2006). After agreeing the changes, the firm identified six broad job families, two of which were called 'specialist' and 'technical specialist'. The former is defined as roles that provide 'professional services to (NFU) which are non-industry specific', and the latter as roles that focus on 'creating value for existing customers, for example, through the development and interpretation of company policy, product or procedure.' Roles in the technical specialist family are likely to be specific to the finance sector, says the firm.

There are eight levels of seniority, underpinned by the Hay job evaluation system, ranging from director level '8' to level '1'. None of the individual job families contain all eight levels. Once the job family structure was in place, HR carried out research to establish the current market salary values for a representative group of roles. Broad pay ranges for each job level were determined based on the market data. HR provides line managers with additional market guidance for specific types of work within their teams, so they are able to make more practical and meaningful comparisons of roles with external market rates. Staff also receive the information. To illustrate how the market guidance might work in practice, the salary range for job level '5' (senior specialist professional roles and managers) stretches from £32,000 to £64,000. The market guidance, however, shows that within the 'specialist', 'technical specialist', 'sales and business development' and 'leadership and management' job families, the salary range is narrower, from £39,000 to £52,000. And, more detailed guidance for the 'technical specialist' job family further indicates that the salary ranges for investment and actuarial staff, for example, is narrower still, from £45,000 to £60,000.

The new job family structure is accompanied by a revised pay progression system. Rather than awarding single across-the-board increases, NFU has adopted a system based on the equal weighting of four factors: personal contribution, personal and role development, market guidance, and peer relativity.

Zarlink Semiconductor

Zarlink has adopted a job family approach for grading its global workforce (IDS, 2006). The scheme began rolling out in 2002 with the aim of aligning its salary structure more closely with external market pay rates. It also wanted a simple approach that would avoid the necessity for an analytical job evaluation process. There are currently 16 core job families, with the majority divided into six levels: entry, developing, working, senior (team leader), specialist (manager) and principal (director). These levels are defined in terms of knowledge and skills, responsibility, decision-making, complexity and contacts. For example, the 'specialist' level in the research and development job family involves, among others, conducting independent research into highly complex engineering problems and serving as the recognised technical authority for a particular engineering discipline.

The new job family structure enables the company to easily benchmark pay levels for particular jobs against market rates. Each job family has its own salary scale, with separate pay ranges that correspond to each level. A midpoint exists for each salary range based on market rates, with the breadth of the range set to within 12 per cent of the midpoint. In some circumstances, however, individuals may be paid more than the maximum for their level.

3.4 Other rewards

3.4.1 Market supplements

Rather than establish completely new pay structures, such as job family arrangements, some organisation prefer to maintain their existing system but introduce market supplements to provide the necessary flexibility in setting salaries to enable it to attract suitably qualified staff. University College London (2006), for example, has introduced a market pay policy, which details when market supplements are applicable. The policy notes that there are occasions when the grading for a particular post – which has been determined via a job evaluation exercise – does not enable the organisation to successfully recruit or retain staff. 'In such cases it may be appropriate to pay a market supplement in addition to the salary to ensure the post is filled,' states the policy.

As long as there is evidence to justify that market factors are the 'material reason' for the post attracting a higher rate of pay than other similarly graded positions, awarding a market supplement should not fall foul of equal pay legislation. According to the UCL policy, the evidence must be objective and verifiable, and could include:

- evidence of two unsuccessful recruitment attempts in the preceding six months
- evidence (from exit interviews, for example) of skilled staff leaving the organisation, or being approached, for similar jobs with a higher level of pay elsewhere
- tangible market information (for example, job adverts from at least two similar posts) on the salary being paid for similar posts in other organisations.

Agenda for Change in the NHS is the pay system for all staff, except doctors, dentists and very senior managers. It was introduced in October 2004. It contains provision for national recruitment and retention premia to be paid where it is judged there are national problems with recruitment or retention. These have been applied to qualified maintenance craft operatives and technicians who have full electrical, plumbing and mechanical craft qualifications. Some premia are pensionable because the market problems are seen as long term and structural; others are not pensionable. The justification for these market supplements is regularly reviewed against market information. This also allows consideration to extending the premia to other groups.

3.4.2 Incentives

Offering key personnel share options, which give the recipient the opportunity to buy shares at a pre-set price at some future date, or the chance to purchase shares from personal savings is fairly common for specialist employee groups in some industries, such as the computer/internet sectors. In a competitive labour market, share schemes can help to match remuneration packages elsewhere, particularly among people with scarce and highly sought after skills. Equity schemes tend to greatly enhance the level of reward. As well as assisting in attracting high-calibre recruits, share schemes tend to have a positive effect on loyalty because, as Pett and Moss (1994) note, the longer the employee stays, the 'disproportionately greater will be the reward he/she ultimately receives.' According to one US consultancy, the offer of share options in tight labour markets 'can make a significant difference as employers compete to recruit and to keep a high-quality workforce' (quoted in Suff, 1999).

Both Apple and Microsoft operate a share purchase plans that enables staff to buy discounted equity. Apple's employee stock purchase plan, for example, offers employees the opportunity to purchase Apple shares every six months at a 15 per cent discount, while Microsoft allows employees to buy equity in the Seattle-based company at a ten per cent discount.

3.4.3 Non-financial rewards

> *'Using recognition as a reward is often viewed by knowledge workers as one of the most powerful motivators, especially if their first loyalty is to their professional area of expertise rather than the organisation.'* (Harman and Brelade, 2000)

Research for the CIPD (2004) found that knowledge workers are not so much concerned with financial reward as with various non-financial rewards. For example, the reward of redundant time or of the opportunity to attend a training course or a conference was often highly valued. As a result, reward and recognition for such workers tended to be a combination of both financial and non-financial incentives. Edvardsson (2003) also suggests non-financial rewards, such as the freedom and time to work on knowledge-building projects, going to conferences and spending time on interesting projects will motivate them. Horwitz et al. (2003) claim that the presence of non-financial rewards for knowledge workers – such as fulfilling work and participation in decision-making – can significantly lower staff turnover.

Peer recognition, is a widely used to 'reward' knowledge workers. The Blessing White (2006) survey put 'recognition for their professional accomplishments and successes' top of a list of common characteristics of technical professionals. IRS (2000) reports that DERA, the Ministry of Defence's technical support agency, describes peer recognition as a 'key enabler' among its mainly scientific community.

4 Conclusions

Specialists are likely to be highly sought after in the labour market, so their reward package needs to be in line with what the market is paying such workers. Organisations have often found it difficult to incorporate specialists into conventional pay structures, preferring to strike individual deals with such personnel when they are hired. Although this provides flexibility and enables the organisation to make important pay decisions during the recruitment process – so it gets the 'right person' – such arrangements can create a complex reward system that is confusing, lacks transparency and undermines long-established internal relativities.

Equity and fairness in setting pay will always be an issue with the workforce and, until fairly recently, internal equity has underpinned most pay systems. There is evidence that people are better motivated if they feel they are being treated equitably and consistently, and de-motivated if they perceive the opposite is occurring. Because employees consider 'distributive justice' very important, it is common for individuals to compare their pay within both the organisation and outside it to judge whether they are being treated equitably. And, as well as the actual level of pay, employees assessing whether or not their compensation is 'fair', will also judge the process for setting salaries. So, where pay decisions are based on a transparent and objective process differences can more easily be justified and are more likely to be accepted.

In order to retain, at least, some recognition of internal equity alongside a market-driven approach, an increasing number of organisations have established job family pay structures. Importantly, such arrangements can fit almost all occupations, including the most specialist roles, into a clearly defined structure. It also affords the organisation the flexibility to adjust remuneration in line with market pressures. Typically, one (or more) of the job families will be for 'specialists'. Where specialists are lumped together into one group, this does not ease the problem of market comparison. Looking at each specialism independently gives more precision but at the cost of a higher administrative burden to operate the system.

Salaries tend to be determined with reference to the market and an internal comparability exercise, such as a job evaluation (JE) scheme. Although JE is not a necessity for job-family-based systems, using an analytical approach does provide both the transparency and objectivity required to defend an equal value claim as well as provide staff with the reassurance that pay decisions are based on impartial criteria.

Basing pay decisions on the market assumes that benchmark data is available. As the popularity of market-based pay has risen, so the quantity of pay data has also increased, though the quality is sometimes questionable. Accuracy problems are exacerbated when it comes to specialist roles. There may be very little relevant pay information for the role in question. As a result, organisations may find it hard to effectively benchmark salaries for specialist roles. And, as more pay data becomes available, so specialists will be more aware of their market worth. Ultimately, organisations may find themselves in a bidding war for staff to fill their specialist positions.

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