

**Long-term incentives:** Rewards given to employees who achieve long-term performance objectives; rewards could include stock options, restricted stock and cash long-term incentive plans.

**Annual incentive:** Usually a lump-sum payment (cash or stock) made in addition to an employee's normal pay for a fiscal or calendar year, based on achievement of annual objectives (individual, business unit and/or company). Examples of annual incentives are bonuses and profit sharing.

**Annual bonus:** This is generally non-discretionary and not based on predetermined performance criteria or standards (which distinguishes an annual bonus from an incentive).

**Cash profit sharing:** A plan that provides for employee participation in a company's profits. The plan normally includes a predetermined and defined formula for allocating profit shares among participants, and for distributing funds accumulated under the plan. But some plans are discretionary. Funds may be distributed in cash, deferred as a qualified retirement programme or distributed in cash/deferred combination.

**Recognition awards (cash and non-cash):** An amount of cash, a prize, a symbol or an intangible reward given as a form of recognition. Awards can be in the form of money, prizes, plaques, public commendation, etc., and often are highly publicised within an organisation.

**Non-cash incentives:** Payments that are not readily convertible to cash – for example, extra time off, meal or merchandise awards, reserved parking space, membership in a luncheon club.

## Pay structures

Pay structures or salary structures refer to the hierarchy of job grades and pay ranges established in a company. They may be expressed in terms of job grades, job evaluation points or pay lines.

Pay structure is a critical factor in any successful compensation strategy, and companies need to carefully consider several factors while creating a competitive remuneration package that will help them both optimise their human capital and sustain a competitive advantage.

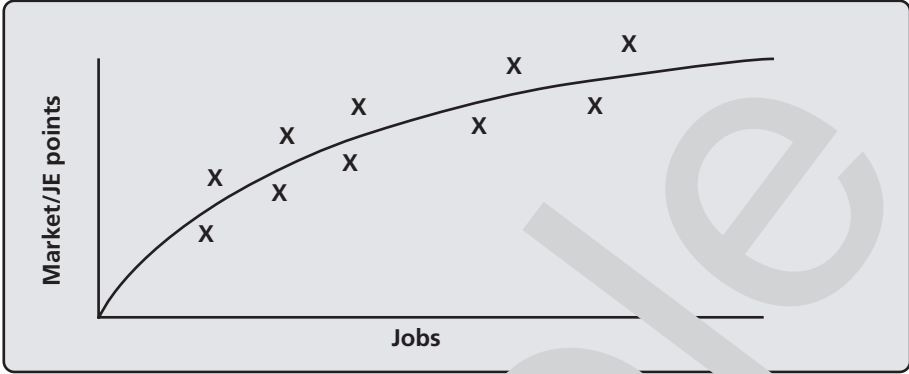
The recent economic slump has resulted in employers striving to reduce costs while maintaining a skilled workforce. This is perhaps their biggest challenge, as human capital as well as its associated costs is one of the major components of any business. Employers must find the right balance between the need to pay and offer attractive benefits plans to their employees and develop innovative incentive plans if they are to achieve long-term goals and sustainable success.

Common pay structure approaches:

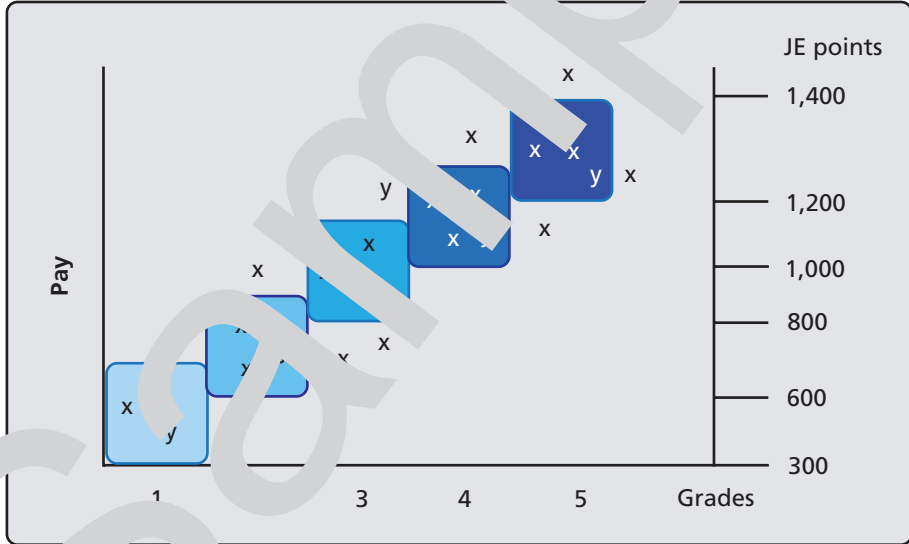
1. Using survey data based on market pricing/position matching
2. Job evaluation ("JE" in the charts below) and market pay lines
3. Traditional grade structure based on job evaluation
4. Broadbanding

### Example of pay structures

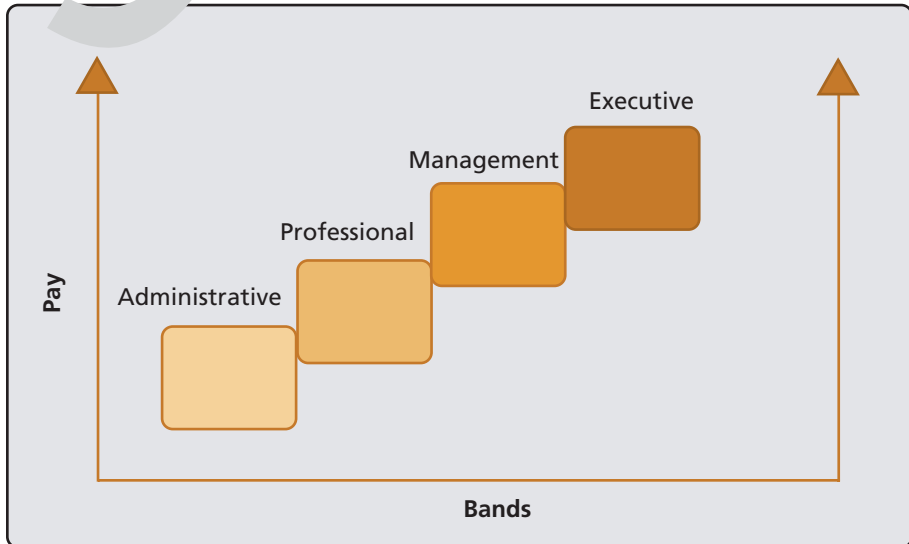
#### 1. Spot salaries



#### 2. Multiple banded structures



#### 3. Broad-banded structures



## Salary structure alternatives: Traditional vs. broad-band vs. step structures

Traditional, broad-band and step pay structures have differing intended effects on a company's compensation programmes. The table below shows the most common design benefits for traditional, broad-band and step structures.

Characteristics of traditional, broad-band and step structures			
Characteristics	Traditional pay structure	Broad band structure	Step structure
<b>Flexibility</b>	Flexibility with controls	Flexibility with guidelines	Increased flexibility
<b>Type of organisation</b>	Works well in relatively stable organisations.	Works best in dynamic, constantly changing organisations; quite common in global organisations	Works best when it is difficult to differentiate performance levels, and internal equity is important
<b>Career movement</b>	Typically upward movement	Can facilitate lateral progression and cross-functional movement	Job rate is typically maximum of range and attained within 24-30 months or less
<b>Market alignment</b>	Market rates and midpoints closely aligned	Market rates used for reference	Market rate is typically the maximum of range, but in some cases "longevity steps" may be added
<b>Manager discretion</b>	Limited freedom; typically managers provided with salary administration guidelines	Maximum freedom; typically, managers are provided with salary administration guidelines	Limited; typically based on longevity/tenure only
<b>Range width</b>	Commonly 40-100%	Commonly 100-200%	Commonly 10-30%
<b>Ease of understanding among managers</b>	Easier	Harder	Easier

## Features of the types of pay structure approaches

### Position matching method

- Matching is done by conversion to the generic position description
- The method is simple, low-cost and easy to explain
- It does not handle unique positions
- There is no organisation-wide comparison
- Useful in smaller, less-complex organisations
- It addresses market “hot spots”

### Job evaluation and market pay lines

- Job evaluation is used to assess work value
- Matches are by work value
- This method handles unique positions
- It does not address market “hot spots”
- Useful in larger, more diverse organisations
- The method derives a relationship between remuneration and work value scores

### Traditional grade and salary structures

- Job evaluation is used to group positions of similar work value
- The mid-point value of a grade is matched to market rates
- This method promotes internal equity
- It is easy to communicate and manage
- It does not address market “hot spots”
- It allows organisation-wide comparison

### Broadbanding

- Broadbanding is done in response to changing structures and work practices
- Positions are grouped on “value to business” criteria
- There is greater flexibility to support managers managing
- Central control is less
- The method supports rapidly changing organisations and performance culture
- There are two types of broadbanding:
  - Broad grades: This includes streamlined administration and internal focus
  - Career bands: This comprises career development and market focus