All organizations need to take a critical look at their compensation architecture every several years to determine if it should be refreshed or redesigned. Compensation architecture is a hierarchy of work value and pay opportunity that enables an organization to effectively manage and deliver compensation to support its business strategy and model while achieving internal consistency and external alignment. It is the foundation of many other key people processes, including talent management, performance management and pay delivery.

An organization’s compensation architecture typically consists of a:

- **Job and Pay Structure**: A formally ranked group of job levels, base salary ranges and annual and long-term incentive targets and opportunities.

- **Job and Work Valuation Process**: A method and set of criteria for determining the value of a job — a defined bundle of work — and for assigning the job to a level and compensation range that is appropriate relative to other jobs internally and externally.

- **Base Compensation System**: The pay programs, guidelines and administration policies that enable an organization to deliver and manage base salary increases within the structure’s constraints to ensure that pay progression occurs in a manner that is internally consistent, performance-based and linked to the external marketplace.

**Time for Change**

Most organizations start to wonder if it is time for a change in their compensation architecture after they have experienced a significant shift or change in strategy, business model and/or lifecycle. These organizations often find that their compensation architecture is not effectively supporting the attraction, retention, development, flexibility and mobility of employees, especially key employees or top talent. In some cases, elements of the architecture actually may be barriers to the effective delivery of precious compensation dollars, sub-optimizing the organization’s return on its compensation investment.

Common symptoms of a broken architecture include uncompetitive pay levels or practices, the overuse of vertical promotions for delivering pay, inconsistency and confusion in how jobs are leveled and a proliferation of titles.

In determining the need for change, an organization is typically confronted with and explores one or more of the following questions:

- To what extent do the organization’s compensation opportunities align with the nature and impact of the jobs and the work?

- To what extent is the current pay structure competitive with the external market?

- How many different pay structures are there and how complex is the overall architecture?
To what extent does the compensation architecture align with the organizational structure?

How many job titles are there for how many employees and how consistently are they used?

How effective are the current job evaluation and salary administration processes?

To what extent are the right jobs in the right levels with the right salary and incentive opportunities?

To what extent is the internal talent market fluid with people moving internally into new organization units and/or functional areas?

How clearly defined are pay progression, promotional advancement and career paths?

To what extent is the organization effectively balancing pay flexibility with consistency?

Defining Objectives and Outcomes

Once they have diagnosed the issues and challenges with their current structure(s), many organizations build a business case for change, clarifying and defining the desired outcomes of a new architecture. There are a variety of reasons organizations invest significant resources in ensuring their compensation architecture supports their business models and strategies. Ultimately, these objectives and outcomes should improve the attraction, retention and performance of people. Organizations that want to make a fundamental change to their compensation architecture often do so to accomplish one or more of the following goals:

- Reduce structural barriers to strategic talent movement,
- Improve the competitiveness of compensation practices and policies,
- Improve employee development and productivity,
- Attract and retain talent through greater pay flexibility and differentiation,
- Simplify, streamline and reduce structural complexity and burdensome salary administration,
- Formalize compensation policies, practices and structures,
- Find the right balance between consistency and flexibility in managing compensation, and/or
- Achieve a greater return on their compensation investment.

Fundamental Design Questions

Once the business case for change is established, with clear objectives and outcomes, an organization is then ready to determine the degree to which the elements of the compensation architecture require moderate or significant change and the general characteristics of an optimal structure for the future.

There are several fundamental questions and considerations to examine when reviewing and/or redesigning the architecture to ensure that it will effectively support the organization’s business model and strategy:

- To what extent is work defined in terms of narrow jobs or broad roles?
- What work is critical to strategy execution and competitive advantage?
- How should jobs and work be valued?
- What is the desired link to the external labor market?
- What job and career “families” make sense, given the organization’s structure?
- What should a level represent in the organization and how many levels are needed?
- What are appropriate structure dimensions: number and range width of levels?
What is the desired degree of job movement and flexibility across internal labor markets?

What reward programs and decisions will be tied to level (e.g., incentives and equity)?

How important are titles and how should they be used?

Answers to these questions — even preliminary ideas early on — provide valuable insights and help set the stage for either modifying the current architecture or building a new one.

The Compensation Architecture Continuum

Organizations use various “types” of compensation architectures; no two are exactly alike. Unfortunately, over the past ten years or so, many organizations have not taken enough of a critical or strategic approach to determining the optimal kind of structure, jumping too quickly into trendy “broadbanded” structures or off-the-shelf “grading systems.” Instead, architecture design alternatives should be thought of as a continuum of key characteristics, ranging from traditional, highly structured, narrow salary grades to very flexible, broad and “open” compensation bands. No single architecture is inherently better than another and some organizations apply concepts from various places on the continuum in designing the architecture that fits best.

How then should an organization objectively view the types of structures and determine what is best? Although this decision may appear daunting, the table below provides a framework for defining directionally the optimal type of compensation architecture. Once the optimal characteristics and features are defined, an organization is ready to begin the (re)design process.

Determining the Optimal Architecture: Experiences in Four Organizations

As discussed above, diverse organizational strategies, models, and structures warrant different architectures. Below are four case studies from organizations that determined a substantive redesign of their compensation architecture was needed.

These organizations made a number of choices in determining the optimal compensation architecture and selected the type of structure to best meet their needs and objectives:

- A multinational biotechnology and medical device company wanted to create a globally consistent and market-aligned approach to leveling jobs and defining incentive targets, while also retaining local pay delivery flexibility. They implemented a non-traditional structure, allowing them to simplify their global job evaluation process and manage pay relative to regional market practices while maintaining a one-company philosophy worldwide.

- A leading consumer products company wanted to develop a more straightforward, manageable and market-aligned compensation structure and streamlined job-leveling...
process to support the attraction and retention of staff in challenging economic times. Since they operate under a cost- and efficiency-driven business model, they designed a more traditional structure to enable them to closely manage pay relative to the desired market position and manage cost through the use of structural control points.

- A graduate school of a prestigious university system under significant cost pressure wanted to create a clear and consistent approach to valuing and leveling jobs. To achieve the goal of transparency, the institution is eliminating redundant and confusing structures and is implementing a single traditional/hybrid structure for all staff, emphasizing fairness and consistency in defining pay opportunities for each job.

- A high-growth bio-pharmaceutical company wanted to develop a simpler, flexible, consistent and integrated career and compensation architecture. They are designing a hybrid/non-traditional structure to support their growth-oriented and fast-evolving organization. It encourages cross-functional job movement, creates more fluid internal job markets and strongly links advancement and promotion with competency and contribution.

**Conclusion**

Determining the optimal compensation architecture is a critical endeavor in any organization. Failing to examine the architecture periodically can lead to serious problems in attracting and retaining staff, executing business strategy through people and generating the desired return on compensation investment. Designing the optimal architecture begins with a fact-based diagnosis of the current situation, a clear understanding of the need for change, a set of well-defined objectives and a compelling case for the type of architecture that will best support the organization in the future.

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