



Compensation Matters™: Creating a Job Hierarchy

Job Hierarchy Definition: *The process of listing and/or grouping jobs in a continuum from entry-level through the most senior level job in the organization. This may be done informally by listing jobs from low to high based on current pay, or through a formal process known as job evaluation, or by marketing pricing, or by using a combination of these two approaches.*

As much as we might want to believe otherwise, we know that all jobs are not created equally. While it's obvious that you wouldn't pay an entry level employee as much as the boss, there are also a lot of jobs in between. Where do they fit in and how can you make distinctions in pay among jobs that are similar but require different knowledge, skills, and abilities? This is where having a formal job hierarchy makes life a lot easier. But what is a job hierarchy and how do you go about creating one?

A Job Hierarchy is simply a progression of jobs from low to high that is based on their overall level of responsibility and value to the organization, beginning with the most entry-level job and proceeding job by job to the highest-level job which is the CEO in most organizations. Ideally, the job hierarchy should also reflect and coincide with the organization's job title hierarchy that we'll talk about later.

Although you may not think of it this way, you already have an informal job hierarchy. If you arrayed the salaries of your workforce from high to low, you'll find that you're not paying everyone the same and there may even be a fairly consistent progression from one job to the next. Your decisions about your current pay were probably based on what each individual brought to the job: their knowledge, experience, skill level and other tangible and intangible qualities, as well as how the job was "valued" by the marketplace. Once the individual began to work for your organization, decisions around pay may have been influenced by job tenure, performance, market adjustments or a combination of these factors.

It's possible to manage with an informal hierarchy of jobs/pay when your organization is small, but when you grow to more than about 50 employees, you'll need to put some structure around your jobs and pay. If your organization has far more than 50 employees, the process may take longer but it's not too late to get started.

The first step is to think about how jobs relate to one another. In our previous article on Job Descriptions, we discussed the importance of job titles, and why it's critical to apply them consistently throughout the organization. Job titles are typically made up of two parts: a department designation (i.e. Human Resources, Marketing, Finance, etc.) and a descriptive noun (i.e. Manager, Supervisor, Assistant, etc.). One way to bring the two concepts of job titles and pay together is to look at your list of job titles and develop a brief definition for each descriptive noun or "job label" that you're using. such as: a **manager**: manages the work of others and is responsible for HR decisions such as hiring, firing, training and development, and compensation, and may also manage through others, including supervisors. Whereas a **supervisor**: supervises the work of others, provides input into HR decisions, and may do similar work to the individuals supervised. And a coordinator: **coordinates** work flow and activities of others and may perform similar duties to those individuals but at a higher level.

The job label examples above are fairly straight-forward, but there will be others that may require some thought. For example, how do you define the difference between a Manager and a Senior Manager? What's the difference

between a Senior Manager and a Director, or a Director and a Senior Director? It is likely that the differences will be based on a combination of responsibility, scope and experience. For jobs that may not be on the supervisory/management continuum, how would you define an Administrator, Specialist, Assistant, Technician, or Analyst? The good news is that there are only so many titles that can be used to describe jobs, which is also the bad news. Sometimes it seems like we don't have enough unique labels to describe the differences that we need. This is why the process of defining, implementing and monitoring the consistent use of your job titles is so important to maintaining the integrity of your organization's job structure. In order to be truly useful, job titles need to mean something both inside the organization, and externally to clients, vendors, suppliers and others.

Once you have your initial title definitions, the second step is to overlay your current job title hierarchy on your pay hierarchy and look for consistencies and outliers. What you find may surprise you. Ideally, what you're striving for is a progression where job titles group themselves around a pay band, and that you see a clear progression of titles and pay.

Here are a few examples of jobs arrayed from high to low according to their base salary:

Title	Base Salary	Title	Base Salary
Senior Manager of Finance	\$150k	Accounting Supervisor	\$85k
Senior Manager of HR	\$147k	Operations Supervisor	\$84k
Senior Manager of Operations	\$145k	Help Desk Coordinator	\$82k
Manager of Accounting	\$120k	HR Supervisor	\$65k
Manager of Recruiting	\$118k	Facilities Coordinator	\$55k
Manager of Facilities	\$115k	Office Support Supervisor	\$45k

On the left, there is a consistent use of titles and pay and you can actually draw a line between the Senior Managers and the Managers based on title and pay. If you were creating a salary structure (see article on Salary Range Development), these two groups of jobs could be easily accommodated by salary ranges or bands as they are only \$5k apart from highest to lowest paid.

On the right however there is a mixture of job titles and pay with the Supervisor and Coordinator titles being used throughout the structure. While all Supervisors may not be the same or might end up in different job levels, you would want to look into why the lowest and highest paid are \$40k apart in salary. It could be that the Office Support Supervisor is actually a coordinator, and that the Help Desk Coordinator is actually a supervisor. While you shouldn't change any titles just yet, you should compare what these jobs are actually doing to your job label definitions for coordinator and supervisor and mark any outliers for further review. Being aware of your organization's informal job hierarchy can help prepare you for creating a more formal job hierarchy structure.

There are two primary methods of creating a formal job hierarchy. The first is by using an internal system such as a point factor job evaluation method, and the second is by allowing the market to determine the value of your organization's jobs. These two methods are covered in separate articles: *Internal Job Evaluation* and *Market Pricing & Paired Comparison*. There are also combinations of the two systems which can be the most cost effective and efficient. Choosing a method to create a formal job hierarchy is a matter of personal preference and there is no right or wrong method. Be guided by your organization's culture and precedents, as well as by the very real demands upon your time and budget. These systems are an investment in your organization's future and since they form the foundation for other HR programs, they will be around for years to come. Like all of your organization's HR programs, they will need to be reviewed regularly and kept up to date in order to maintain their effectiveness over time as your organization changes and grows.