



Pay structure development: How the right pay structure can fuel business growth



If you would like to find out more about any of the information contained in this paper please contact us via:

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Foreword

Pay structures are a fundamental cornerstone of a successful reward strategy. Our reliable and practical guide sets out key advice on how to select the right one for your organisation and its people.

Economic uncertainty, affordability challenges, skills shortages and an increased focus on equality and transparency over the last couple of years, has forced organisations to reassess their operation as they examine risks and opportunities. Employers are taking a step back to ensure they have the right foundations in place to overcome these challenges and retain the people they need. Companies are extremely interested in what things they can do now that will future-proof their business.

Digitalisation is transforming HR and reward. Remote and hybrid working has established widespread new ways of working; employers can now easily access a national and international talent pool to overcome skills shortages. With the ongoing rise of AI, organisations are also looking at alternative ways of doing things, streamlining processes and rethinking their approach to reward.

The increased focus on equality and transparency reinforces the need for pay parity. This speaks to fundamental fairness within an organisation and increases employee satisfaction. According to Dan Pink's influential text 'Drive', taking pay off the table as an issue unlocks the effectiveness of the overall reward scheme in place. Pay structures underpin this system and tailored pay structures can drive efficiency across the organisation.

The starting point with pay structure reviews should always be what your organisation wants to achieve in the long-run – what works for you and your business' ultimate vision. We hope that you can use the suggestions in this paper to inform your approach when reviewing your pay structure. If you have any questions at all about any aspect of the paper, we would love to hear from you.



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JOE PRICE

Senior Reward Consultant
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The purpose of pay structures

A pay structure is a system that defines what each individual and job role is paid based on their value to the business and effectiveness in their role.

Before jumping straight into the creation and design of your pay structure, always take a step back first. There is always the need to ask, **‘what are the key business objectives involved that have driven this assessment?’** Identifying the key drivers behind the review of the current pay system will give you the tools to assess its current and future effectiveness.

A STRONG FRAMEWORK

Pay structures provide a valuable reference point across the whole organisation, objectively organising pay. From paving the way for a clear progression path through the organisation to fulfilling equal pay requirements, having a robust methodology can drive employee engagement and lower employee turnover. A transparent system can champion and promote equal opportunities across the business, removing the risk of unconscious bias, as clear parameters are drawn around each role and pay expectations.

Pay structures can encourage employees to exceed any targets they are working towards, increasing productivity and revenue for the business. This is because a clear system can provide a useful reference for line managers, helping them to agree and set in place openness around the expectations for each individual employee. This clarity can motivate people to achieve their immediate targets and objectives, as the progression path is defined and communicated.

SECURE BUY-IN FROM THE OUTSET

Even if you think an existing pay structure can stand up to scrutiny and needs tweaks, take the opportunity to consider what it should be achieving and whether it is sustainable in the long-term. The beginning of the project is the ideal time to discuss the new pay structure in detail with key personnel and iron out any initial queries or issues that may arise. It is important to ensure that senior management is aware, happy and equipped to back the planned changes.

IS THIS BUILT WITH THE FUTURE IN MIND AS WELL AS MEETING EXISTING REQUIREMENTS?

An employer may suspect that they have an area of the business that has grown organically and the pay system has never been scrutinised properly. Turning a blind eye does not mean that the issue will go away. Even if people are currently happy with their levels of pay, the employer could be exposed to equal pay challenges further down the line. Now might be the time to future-proof the business by ensuring a robust pay structure exists and successfully operates.



Don't jump straight to the creation stage – make sure you take a step back and define how to optimise the pay structure as a key part of the overall reward strategy.”

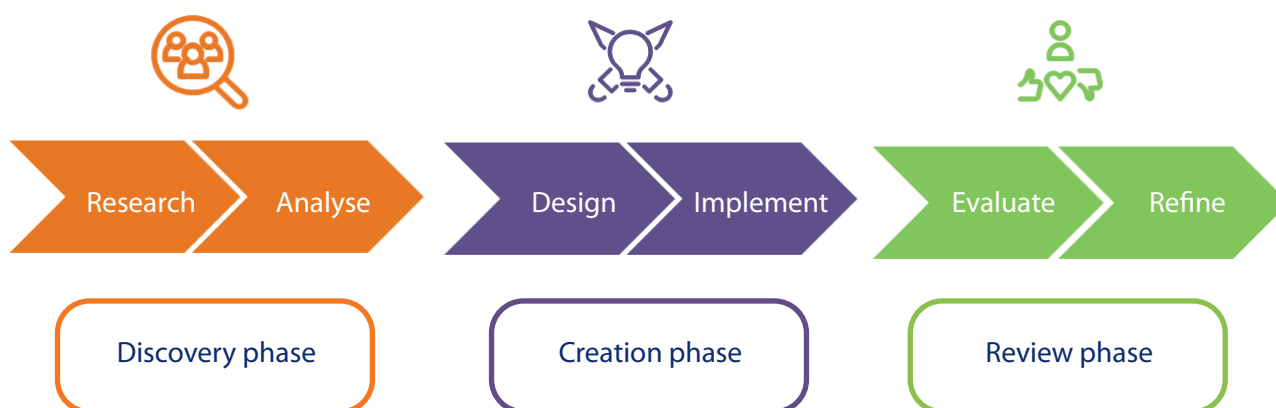
DON'T JUMP TO THE CREATION STAGE

We all like new projects. As tempting as it may be to start talking about the implementation of a new and updated structure that the team is sure will really suit the organisation, the research part of the process cannot be underestimated. The framework must be correctly structured within the wider reward strategy to optimise its impact and to ensure the project doesn't get derailed at a later stage.

This is why we recommended following a three phased approach.

A three-phased approach

Following a methodology ensures your organisation doesn't miss a consideration. We recommend the following three-phased approach:



PHASE 1: DISCOVERY



→ Research

It is through the initial research where we identify what the business values and what it intends to achieve from examining its pay structure. It is important for everyone involved to approach this without judgement or any pre-conceived ideas.

DO YOUR RESEARCH

Take the time to really listen and gather information from the outset and sense check how the pay structure is currently operating – this part is crucial. This will help you to plan your approach from the beginning.

We establish:

- Whether any **internal equity concerns** factor into employee turnover – people want to know that they are working for an organisation that champions equal opportunity and do not feel underpaid for doing the same role as someone else in the organisation.
- Any areas of **equal pay concerns**, identifying any potential areas of risk within the business, where introducing a pay structure may alleviate problem areas.
- The **views of employees** through interviews with employee/managers to gather opinions on what aspects work well and areas for improvement.
- The **market position** in relation to pay practices and whether the company is above or below the standard by competitors.
- **Competitor/market information**, gathering as much benchmarking information about the current market intelligence as possible.

CULTURE IS KEY

There is not an exhaustive list for the research stage, but gather as much information as possible to inform how the pay structure can be designed to activate the overall business and HR strategy. Research from the outset will ensure that the outcome of the best pay structure is evidence-based and suits the current operation of the business. At this stage, we ask as many questions as possible to get a clear picture of how things operate.



Asking the right questions is crucial to understanding what drives the business in reassessing the pay structures in place and identifying the aims of the framework from the outset. This provides strong foundations on which to build the right framework for each business.

→ Analyse

During our analysis, we assess the material gathered at the research stage. Analysis of the current structure must separate the reality of how the pay structure operates from the aspirational objectives of the HR team.

We consider:

- Short and long-term priorities of the organisation.
- Type of talent/skills needed to successfully deliver its business strategy.
- Who the organisation is competing with for talent?
- What do employees want?
- Define the key metrics – what does success look like for a business?
- Other elements of the reward scheme and how they interact with the pay structure.

AFFORDABILITY

We establish the organisation's current and desired market position. Every employer wants to be an upper-quartile paying employer - but this needs to be balanced against considerations around finance and affordability. We establish what the employer can achieve on the market with the budget that they have. The best system balances financial needs with those of their employees.

OPERATION WITHIN THE WIDER EMPLOYEE VALUE PROPOSITION

In addition to the levels set within the pay structure, we examine how the pay structure can create value as part of the overall reward strategy. Pay structures are one element of the reward strategy and one aspect of the wider employee engagement strategy.

UNLOCK THE VALUE OF WIDER INVESTMENTS IN EMPLOYEES

Paying fairly through a solid pay framework can focus employees on other elements of their reward package, bolstering the impact of the remuneration and benefits package that they receive overall. Learning and development, volunteering days and employee perks all need to be considered alongside the question of how pay operates.

This stage should define how to optimise the pay structure's success. This also might be through identifying particularly difficult recruitment markets that the employer faces, which may require different structures to co-exist.



Everyone wants to be an upper-quartile paying employer – but is this achievable with the resources you have and how does this interact with other aspects of the employee value proposition that is unique to your organisation?

PHASE 2: CREATION



→ Design

The discovery stage would have defined the key objectives for re-designing the existing pay structure. Therefore, the creation phase is primarily driven by the key objectives borne out of the analysis phase.

EVIDENCE-BASED APPROACH

The research and analysis stage will have armed you with the information you need and these insights will directly feed into the design. We assess the main pay structure choices overleaf, outlining where they are best utilised. A key aspect of this will be around finance – identifying whether the employer is an upper/lower quartile payer in the market and what is achievable based on affordability.



Employees value a framework that is transparent, easy to understand and awards them accordingly.

→ Select

The selection of the most appropriate pay structure will be based on what will fit your organisation for the most part. We outline key considerations for each 'off the shelf' option below to help assist in making the decision. This forms the bulk of the system that will operate across the organisation, each model having defining characteristics to provide the central shape of the framework.

AN EQUITABLE FRAMEWORK

Reviewing existing pay structures presents an ideal opportunity to standardise pay structures and reward strategies across the business as a whole – particularly if it is a large organisation with multiple departments or offices all working in different ways. It may be a complex job, but the long-term payoff in terms of organisational culture, employee engagement and transparency around pay makes it worthwhile.

It may well be that different frameworks may be required to co-exist. Some businesses may be required to organise pay slightly differently depending on the markets in which they operate and the competitor landscape for certain roles.

→ Personalise

As a rough guide, we consider that 80 per cent will be based on the standard framework and that 20 per cent will be personalised to the organisation. There is no 'one size fits all' solution. It is important to reflect the culture in the final design. Factor in employee opinions around pay and progression into the final shape of the structure.

Pay structures will also require flexibility to accommodate external pressures, such as the National Living Wage which will push up the starting salaries across the business and require all bands to be adjusted to give enough opportunity for pay progression in certain businesses. This will affect certain sectors more than others.

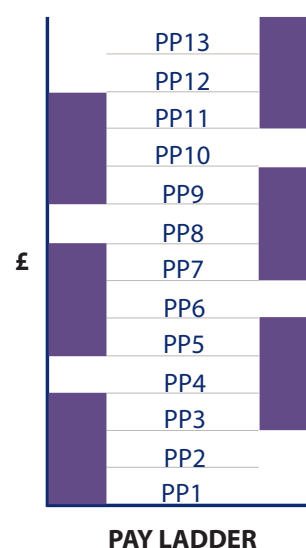
THE MAIN PAY STRUCTURE CHOICES

Pay structures and systems are varied, with some businesses combining structures to create bespoke solutions. Regardless of the nuanced approach that organisations opt for, they can usually be categorised into one of the following four types of pay structure.

PAY LADDER

Pay ladders are the most recognisable type of pay structure, offering a rigid pay system. This type of pay structure may be suited to organisations that:

- Want an easy to manage pay structure
- Want a clear and direct framework within which to manage pay decisions
- Have a public sector background / culture
- Have a strong trade union

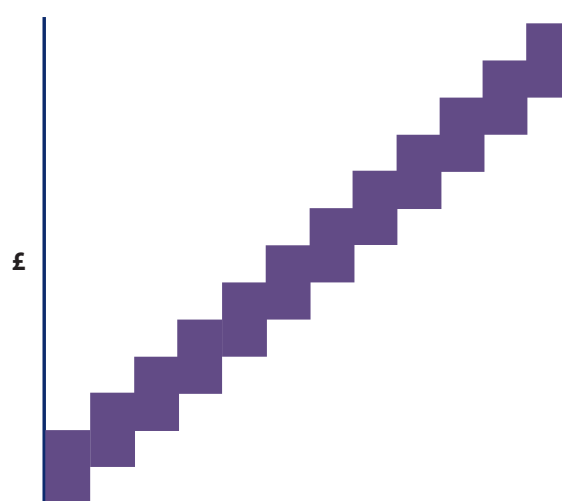


PAY LADDER

NARROW-GRADES

Narrow-grade pay structures may be suited to organisations that:

- Value internal equity
- Want to reward job size
- Want to use analytical job evaluation to make grading decisions
- Want a framework to help manage internal relativities and diversity



NARROW-GRADES

BROAD-GRADES

This is more of a broad brush approach, giving employers more discretion in relation to where people sit in the pay range. This type of pay structure may be suited to organisations that:

- Value market competitiveness
- Want to reward the value of the job holder
- Might not want to use analytical job evaluation to make grading decisions
- Want a framework to help manage external relativities



JOB FAMILIES

This type of pay structure can accommodate multiple cultures and may be suited to organisations that:

- Operate in a diverse range of markets
- Have a diverse range of operating models
- Want a framework that clearly defines career paths within each family
- Have multiple cultures



The best pay structures vary by organisation and industry, so it's essential to choose one that will provide the most benefit to your business. Of course, once you have completed a review of your current pay structure, you may find that it is still the best option for your business. You may discover an alternative or modified version would prove more beneficial.

KEY CONSIDERATIONS WHEN MAKING THE SELECTION

ANALYTICAL VS NON-ANALYTICAL JOB EVALUATIONS

The key choice is not whether to set in place job evaluation or not, it is about which method. Ensuring that the business has a valid, reliable job evaluation method in place enables you to effectively evaluate the comparative value of each employee's role, which is crucial to the operation of any pay structure. It is essential to make sure that every single job role fits into the new pay structure; otherwise, you may incur multiple issues during the implementation period.

Analytical job evaluation

This method of job evaluation breaks down whole jobs into a number of defined factors. It is an approach that can be seen as overly bureaucratic or time consuming. However, following this approach is the only way to know if work is truly of equal value. In itself, this methodology can provide a defence in Employment Tribunal proceedings over an equal pay claim, in contrast to non-analytical job evaluation.



The law does not make the analytical job evaluation method compulsory, but organisations must make sure jobs truly have equal value to ensure they won't run into difficulties around fair pay if their system is scrutinised."

Non-analytical job evaluation

There must be sufficient market data to underpin the rationale behind a non-analytical approach. Non-analytical job evaluation enables whole jobs to be compared to place them in a grade or level. This is a more holistic approach and not a granular process, arguably a quicker process and simpler to use than an analytical approach. Although this system provides structure and guidance, it is not as robust in the long-run to sustain complex organisations.

PAY RANGES VS SPOT RATES

Pay ranges set the minimum and maximum salary for each grade. They are usually developed using market data to inform the midpoint around which a spread is created to form a pay range. Pay ranges offer much more versatility than pay rates whilst still giving businesses a framework on which to base their decisions. Sub-ranges can also be used to manage pay progression more closely.

Alternatively, spot rates set a rate of pay for each job in each grade. They are created using market data to set the midpoint and are heavily reliant on having accurate, up to date data for each role. Comparator ratios manage pay progression. This does increase pressure on market data to inform pay rises, but also gives the organisation a pre-defined approach to wages and salary, enabling easy and accurate estimation of hiring viability and employee value.

MARKET DEFINITION VS MARKET POSITION

Introducing robust pay structures is not a magic wand solution to fix retention issues if the market is not defined correctly. The relevant market would be defined at the research stage – with regards to the different types, including the national market and professional market, e.g. administrative roles. There still needs to be good processes internally. Superstars can still be underpaid if the benchmarking data is not correctly identified and monitored. Having reliable and up to date information is the foundation of the system's success.

Identifying the employee journey is important to the process, so that the benchmarking data is drawn from the correct markets. Employers must consider where they want to sit in the market, which is a strategic decision. What is the sum of the organisation's EVP? A higher market position will increase the pool of people who are attracted by your offer and decreases the pool of organisations who can match your offer. This goes beyond affordability and considers the wider reward and benefits package through the lens of company values and the talent that employers want to attract and retain.

MANAGING PAY PROGRESSION

Once a pay structure is selected, the next key consideration is how to best manage pay progression effectively throughout the organisation. All employees want a clear, understandable path to both career and pay progression. Defined goals and the knowledge that achieving them will result in employees receiving monetary rewards for their efforts provide a framework for motivating the entire workforce. The presence of this clarity is a direct outcome of a business' transparent pay structure.

Appraisal ratings are defined in the research stage which will shape pay progression mechanisms going forward, i.e. whether progression is directly/indirectly linked to performance. Line managers are a decisive factor in the success of pay structures driving employee engagement. Their capability has a bearing on pay progression for individuals. Therefore, this should be both supported through Line Managers being well equipped to nurture talent, whilst also mitigating the impact of any less people-orientated managers by ensuring the reward system works well in its entirety. This links back to the discovery phase where bonuses and non-financial rewards can ensure pay progression is not the be all and end all when it comes to employee retention.

IMPLEMENTATION STAGE

Although this will be largely dependent on factors like the size of the organisation, you will need to agree whether the new pay structure will be rolled out gradually or launched in one go.

Before implementation, it is essential to outline the new pay structure and communicate changes with all employees. Ensure that everyone understands how and why the change is happening, as well as how it may affect their own salary or benefits package. Again, this will vary from business to business, but it may be sensible to include an appeals procedure for employees to query any specifics.

DETAILED PROJECT PLAN

The process will define who needs to be involved. The longer the lead times, the better. This will depend on the structure, but we recommend factoring in between 3-12 months. Employers may decide they want to trial the success of the structure through a pilot phase. The new structure could be tested in a specific part of the organisation.

Communication and involvement should be planned as early as possible. Employers should consider their legal obligations and who they need to involve. For example, if there are changes to terms and conditions, consultation with unions may be required. Organisations should factor in training for Line Managers as this will be an important determination of the success of the structure. A change project plan is important, as 70 per cent* of change projects fail without proper methodology and a strong communications plan.

** McKinsey Research, 2015*



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PHASE 3: REVIEW



Regular reviews of your pay structure are important, particularly if your business is experiencing a period of rapid growth or a large-scale shift in job roles. HR must constantly evolve with the business. It is essential to ensure that you are always getting the best possible benefits for your employees and the company as a whole.

RETURN ON INVESTMENT

Monitor the effects through Pulse surveys and recruitment and retention stats – what story do these figures tell? This can be used to ensure the pay structure is working effectively and is refined to meet the needs of all stakeholders and remains fit for purpose. It is important to identify and resolve any issues quickly by regularly reviewing the market data underpinning the pay structure.

CYCLICAL REVIEW

A competitive pay structure will keep your members of staff motivated as they will feel valued by the business, which will reduce your employees' desire to look elsewhere for other opportunities. When your people are satisfied that they are being looked after and paid what they feel their job role and responsibility demands, they are more likely to remain loyal to the company. This will also help to attract the best talent to the business, as opposed to missing out to your competitors.

However, this relies on the pay structure and overall employee value proposition remaining competitive. The need for evaluation is a continuous cycle of gathering market intelligence and feeding that into the system - this should be an ongoing exercise of actively listening to both the market and your employees to ensure there is no disconnect.

Conclusions

We hope you found this guide useful. Amid ongoing economic uncertainty, pay structures can help ensure that your business has the right foundations in place for the long-term.

Implementing effective pay structures can prove to be a highly valuable addition to the business. A strong pay system will help you to retain employees, promote career development and boost performance. A robust framework can provide a useful incentive for employees to work towards new targets and aspire to advance within the organisation as they seek to move into higher pay grades. Additionally, offering a fair, concise, and competitive pay structure and salary benchmarking process can help to recruit new talent.

It is important to keep adapting and evolving. Pay structures are an essential framework that supports strong relationships and trust between employees and employers, championing fair pay and ensuring everyone is aligned to the vision of the business. Undertaking this analysis can ensure businesses are equipped with a renewed sense of openness and purpose.

The top three findings of our white paper:

- Research must be the starting point – jumping straight in will mean the solution needs more tweaking than necessary.
- Bring the leadership team along with you from the beginning of the project to gain momentum behind the change you're trying to achieve.
- Select the most appropriate model based on the key objectives you define at the start of this process to fuel your business' growth.

Whatever stage of the process you are in, you may benefit from Paydata's support and experience to ensure your chosen route is successful. Our experienced team can provide reliable advice and professional guidance for businesses planning to evaluate, design, and establish effective pay structures.

If you would like any information or help regarding any of these issues, please get in touch.



TIM KELLETT
Managing Director
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JOE PRICE
Senior Reward Consultant
Paydata Ltd



Think about what is driving you to assess your pay structure – the project will have greater success in the long-run if it supports and champions a business' vision and is carefully designed to achieve clear objectives."

Frequently asked questions

CAN YOU FOCUS ON ONE PARTICULAR GROUP WHERE PAY IS AN ISSUE CAUSING THE BUSINESS TO LOSE TALENT?



Targeted pay action may fix the issue in the short-term, but it may kick the can further down the road if there are wider problems in pay structures within organisations. Underpinning one area of the business with a pay system may mask other issues, such as equal pay across the business. We always recommend that you start at the beginning of the process, gathering information across the business to select the right solution. Whilst different pay structures may be required for different groups within organisations, it is always best to look at the whole operation of a business to ensure these frameworks work in harmony.

WHAT HAPPENS IF YOU DO NOT HAVE LEADERSHIP TEAM BUY-IN? SHOULD YOU START THE PROCESS ANYWAY?



Following a recommended process means that there is an evidence-based approach from the outset. Whilst buy-in from the senior leadership team is essential to the wider engagement throughout the business, if this is a project that is not considered business critical, gathering the evidence behind the business need for a robust framework can secure buy-in from early stages of the project. It is more challenging when a pay structure is designed and the executive buy-in is sought at that stage, as the structure should be designed with their requirements in mind. You do not want to be re-pitching to the executive team when you have already invested time and energy in the creation stage.

HOW DO WE KEEP THE MOMENTUM BEHIND THE PROJECT?



Often, the analysis of existing pay structures picks up at speed, labelled as an 'urgent' and 'business critical' project. When the project loses steam to 'business as usual' activity, it risks becoming derailed as a priority item for the team. Here is where the research and scoping stage is crucial to the project's success – the project team needs to link back to the objectives of the project and what the business hopes to achieve from setting up this framework. There must be tangible outcomes that the team hope to achieve beyond embarking on the project because it is what competitors are doing. Achieving buy-in around the business can also help to drive the project forward.

DOES THIS HAVE TO BE A LONG-TERM PROJECT?



Timing can vary greatly depending on the capacity of the team to invest time and energy in researching, designing and implementing. We have projects that need to be turned around quickly, involving timelines of around three months, to those who feel it will be a long-term change management programme where they want to involve the wider business and plan longer timelines of over a year. Timing is often set at the project scoping stage, at the outset of the project and in conjunction with defining objectives.



How can we help?

Committed to making lives better at work, Paydata has over 25 years' experience in helping HR professionals manage their pay and reward practices.

We provide the expertise, insights and tools to help you align your reward management practices with your overall business strategy. We will work closely with you to unlock the full potential of your employees. By understanding your business challenges and your culture, we can identify exactly what it takes to attract and retain your key people and achieve:

- Happier, more motivated staff
- Fair, equitable organisational policies
- Improved returns for your payroll spend



Pay and Benefits Benchmarking



Reward Strategy and Design



Job Evaluation



Pay Review



Pay Structure



Equal Pay Audits



Research and Insights

To discover more and to discuss your requirements, please contact us today on **+44 (0)1733 391 377** or via **info@paydata.co.uk**

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