Pay and grading structures: the 12 steps for implementing a new framework

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Implementing a new pay and grading structure or adapting an existing framework can be a challenging task and requires careful planning.

We look at some of the key steps to success, from preparation of a project team , costs and expectations, through to analysing jobs, setting pay ranges and assimilating employees to the new structure.

The 12 key steps to consider:

1. **Plan ahead**

2. **Review current arrangements**

3. **Allocate a project manager and team**

4. **Consider costs**

5. **Communicate early**

6. **Conduct a job evaluation exercise**

7. **Choose a pay and grading structure**

8. **Allocate job roles within the structure**

9. **Link pay to grading**

10. **Progression**

11. **Ensure fairness**

12. **Implementation**

About Cendex

Cendex delivers advanced, live reward data solutions to help organisations of all sizes **recruit**, **retain** and **motivate** talent with absolute confidence.

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1. Plan ahead

Your organisation should outline clear targets of its pay and grading review. However, this will need to include some flexibility to accommodate any changes in priorities; the outcome of any consultations; or any unforeseen events. Any possible risks in the project should be identified and ways of mitigating against and managing them considered. In addition, the scope of the project should be agreed, including whether the new pay and grading structure will cover the whole organisation or just apply to some parts of it.

2. Review current arrangements

It is important to establish the current situation in terms of pay rates, job roles and progression, as well as any reward strategies that are in place, ahead of developing a new system. This should include looking at the pay and grading structures already in use and deciding whether or not they effectively meet your organisation's needs.

3. Allocate a project manager and team

To manage the implementation of the new pay structure a project manager should be assigned to oversee the process, with a team for support. This could be a member of the HR team or an external consultant who will work closely with senior management to design the framework.

4. Consider costs

Introducing a new or revised pay and grading structure will have cost implications and these need to be considered in advance. Firstly, there may be costs associated with staff involved in the project; external consultants that are used; or market research or salary data that needs to be purchased during the planning process. Secondly, there may be higher initial costs associated with moving employees up to new minimum salaries, and pay protection for employees whose pay is above the new salary scales.

5. Communicate early

Consideration needs to be given to how employees will be consulted on the new pay structure. This may be directly or via a recognised trade union or employee forum. Transparency from an early stage, together with clear and consistent messages, can help to make employees feel involved in the process and encourage acceptance.

6. Conduct a job evaluation exercise

Carrying out a job evaluation exercise is a key element crucial when designing a new pay and grading structure. This process of assessing roles by reference to factors such as skill, effort and responsibility enables decisions to be made about their relative value and the reward that they should attract. Once the jobs have been evaluated they can be placed in a hierarchy, which can be used as the backbone of a pay and grading structure. Conducting a job evaluation exercise also demonstrates transparency around how your organisation values jobs and relates them to the market. This allows you to demonstrate fairness in pay; can provide protection against equal pay claims; and can make it easier to carry out an equal pay audit.

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7. Choose a pay and grading structure

When thinking about the type of pay and grading structure to introduce, your organisation needs to consider the framework that will best meet its requirements. The structure will depend on factors including the size of the organisation and the type of people it employs. Decisions will need to be made about the number of grades in the structure; the width of the pay ranges within each grade; the level of overlap of salaries between different grades; and how employees will progress through the structure.

There are several different types of pay and grading structure:

◊ single-grade/individual job structure: there is a single salary or pay range for each job;

◊ narrow-grade structure: narrow salary range applied to each grade, with probably 10 or more grades;

◊ broadbanding: a smaller number of grades or bands, ie, four to six, which are broader;

◊ job families: there are separate pay and grading structures for different families of occupations or functions;

◊ career families: there is a common pay and grading structure across all job families, which are made up of jobs in a particular function or occupation; and

◊ pay spine: a series of incremental pay points that cover all jobs with grades attached to it.

In addition, any local or regional pay variations may need to be taken into consideration, for instance, in London and the South-East where the cost of living is higher. If there is to be a separate pay structure for directors or senior management this may also need to be factored in.

8. Allocate job roles within the structure

When a decision has been made about the type of pay and grading structure that will be introduced, each job role needs to be allocated to a position within it. First, all the jobs are placed in rank order according to the job evaluation score or other method used. Then, grade boundaries are drawn to separate the jobs in one grade from another. This may be difficult if there is just a single evaluation point separating one job from another. It is good practice to draw any boundaries where there are several job evaluation points separating the highest scored job in one grade with the lowest scored job in the next grade.

9. Link pay to grading

Once the grading structure has been designed, spot salaries or salary ranges are allocated to each grade. In addition to information on jobholders' current salaries, a benchmarking exercise needs to be conducted in order to assess the rates of pay in relation to the external market. Benchmark jobs are common job roles for which comparable market data is available. The salary data gathered for these benchmark jobs can then be used to determine the median salary for the grade.

There are a number of ways in which this information can be obtained, from looking at salary surveys to commissioning an external consultant. However, you should be clear about what information is required, which organisations to compare against and the advantages and disadvantages of the different information sources used.

10. Progression

Employees' salaries can be increased in two ways and employers can apply one or both of them to their pay and grading structure. Firstly, via an uprating of the whole scale (usually at the annual pay review) to ensure that the salaries are worth the same over time. Secondly, via individual movements within the structure, which can be linked to performance or via a standard increase over time.

When it comes to promoting employees to a higher grade in the structure, you need to ensure that the difference in pay between each grade is high enough to reward employees for accepting the higher level of responsibility.

There should be a procedure in place for when a current jobholder has taken on increased responsibilities. In these circumstances, the role should be re-assessed via a job evaluation. The outcome of this process may be the allocation of a higher job evaluation score but this may not necessarily result in a higher grading. The employer could decide that an increase in job evaluation points results in an increased salary within the current grade in order to recognise the increased responsibility. This needs to be implemented carefully to ensure fairness in relation to other jobs within the band.

11. Ensure fairness

Your organisation needs to ensure that any new pay and grading structure introduced does not perpetuate or introduce discrimination on any grounds and that opportunities for pay progression are unbiased and fair. A robust, non-discriminatory job evaluation process must be used when designing the pay structure and the employer should ensure that there are no discriminatory elements in the job descriptions used during the job evaluation process.

Any market data used should be taken from reliable sources and any differences must be able to be objectively justified. When re-grading employees as a result of a new pay and grading structure, no particular groups of employees should be disadvantaged by the methods used to do this.

12. Implementation

Your organisation should ensure that sufficient time has been allocated to implement the new structure. This includes identifying any training needed for line managers. It might be worth piloting the new structure in part of the organisation before rolling it out fully to ensure that any issues can be resolved in advance. Your organisation should put together detailed information and guidance, including the procedures that underpin the structure, to ensure that managers and employees understand how the structure operates.

As part of the move to a new pay structure your organisation will also need to write to all employees advising them of how the new structure affects their grade and pay and also their terms and conditions of employment if these have changed. In addition, the employer may need to liaise with trade unions and staff forums about the changes. The letter should also include details of the appeals procedure. This gives employees a structured way of voicing any concerns that they may have about any part of the process or outcome.

Create and optimise pay grading structures aligned to your reward strategy

Ease and flexibility – design and optimise your pay structures to reach your organisation's objectives and reward strategy

Align to the latest market rates – the freshest, most robust market data, so you can keep pace with the changing market

Automated job matching – save time matching your employees to grades and have peace of mind that they are placed within the relevant structures

Unlimited updates – model updates at a click, so your pay structures evolve with your organisation

In-tool analysis – inform reward decisions and support employee career advancement by modelling the impact of your proposed structures

Best in-class customer support – the Cendex team will be on hand to get you up to speed with job levelling and data integration throughout your pay grading journey

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