

HR LEADER'S GUIDE TO

BUILDING A FAIR & SUSTAINABLE PAY FRAMEWORK

A practical, step-by-step guide to creating pay frameworks that drive fairness, performance and long-term value.



PEOPLE
FAIRNESS
FUTURE



6 PRINCIPLES. BETTER OUTCOMES.



FAIR & CONSISTENT

Reward people equitably and consistently



ATTRACT & RETAIN

Compete for and keep the best talent



TRANSPARENT & TRUSTED

Build confidence in how pay decisions are made



SUPPORT GROWTH & PROGRESSION

Create clear pathways for career growth for all



GOVERNED & SUSTAINABLE

Make decisions with rigour and reduce risk



COST EFFECTIVE & AFFORDABLE

Balance investment with affordability and sustainability

“ Fair pay isn't just the right thing to do.
It's smart business. ”



Drive performance and engagement



Reduce risk and improve compliance



Strengthen long-term business resilience



Build trust and a positive culture



STRATEGIC
ALIGNMENT



EVIDENCE
BASED



FAIR &
INCLUSIVE



FUTURE
FOCUSED



SUSTAINABLE
IMPACT

CONTENTS

	1. Why Pay Frameworks Matter: Defining the business purpose	3
	2. Start by mapping your organisation's roles	4
	3. External Benchmark activity	4
	4. Designing Salary Bands and Pay Framework	6
	5. Creating Progression	8
	6. Map Employees into the Bands & Determine the Gap	8
	7. Closing Historic Pay Gaps	9
	8. Pay Governance	10
	9. Running the Annual Pay Review	12
	10. Communicating Difficult Decisions	13
	11. Measuring Success	13

1. Why Pay Frameworks Matter: Defining the business purpose.

When introducing a pay framework, the purpose should focus on solving organisational challenges and supporting strategic goals, not simply creating pay bands.

Start by getting clear with the Executive / Senior Management Team on why this is a necessary business benefit.

Agree why you're doing it: fairness, consistency, retention, recruitment, transparency, cost control, or equal pay risk reduction?

Ultimately the goal is to come up with a clear statement as to the business 'why'. Here's an example:

"To establish a fair, transparent and sustainable approach to pay that enables the organisation to attract, retain and motivate talented colleagues, whilst ensuring consistency, affordability and alignment with our organisational values and objectives. We aim to be the highest paying company in the job market."

The table below provides a helpful framework to start conversations with leadership teams, colleagues and management to determine the 'why'.

A FRAMEWORK TO START THE CONVERSATION

Exploring the 'why' behind your pay framework

PEOPLE
FAIRNESS
FUTURE

1 FAIRNESS AND CONSISTENCY	2 ATTRACTION AND RETENTION	3 TRANSPARENCY AND TRUST	4 CAREER DEVELOPMENT AND PROGRESSION	5 GOVERNANCE AND RISK MANAGEMENT	6 COST MANAGEMENT
<p style="font-size: 8px;">Ensure employees performing roles of similar size and complexity are rewarded consistently.</p>	<p style="font-size: 8px;">Improve the organisation's ability to recruit and retain high-quality talent.</p>	<p style="font-size: 8px;">Provide employees with greater clarity on how pay decisions are made.</p>	<p style="font-size: 8px;">Create clear pathways for career growth.</p>	<p style="font-size: 8px;">Ensure pay decisions are evidence-based and consistently applied.</p>	<p style="font-size: 8px;">Improve workforce planning and budgeting.</p>
<p style="font-size: 8px;">Reduce the risk of perceived inequity and pay-related grievances.</p>	<p style="font-size: 8px;">Position pay competitively against relevant labour markets.</p>	<p style="font-size: 8px;">Explain how employees can progress through salary ranges.</p>	<p style="font-size: 8px;">Link progression to skills, performance and contribution.</p>	<p style="font-size: 8px;">Reduce the risk of equal pay claims and discrimination challenges.</p>	<p style="font-size: 8px;">Ensure reward investment is targeted effectively.</p>
<p style="font-size: 8px;">Support equality, diversity and inclusion objectives.</p>	<p style="font-size: 8px;">Reduce turnover associated with pay dissatisfaction.</p>	<p style="font-size: 8px;">Increase confidence in reward processes.</p>	<p style="font-size: 8px;">Encourage internal mobility and talent development.</p>	<p style="font-size: 8px;">Strengthen oversight of salary decisions.</p>	<p style="font-size: 8px;">Balance affordability with market competitiveness.</p>

FAIR &
INCLUSIVE

EVIDENCE
BASED

GOVERNED &
TRANSPARENT

SUSTAINABLE
IMPACT

VALUE THAT
LASTS

2. Start by mapping your organisation's roles.

Once there's a 'why' established and the leadership team are engaged with the concept of introducing a pay framework, start by mapping the job roles that already exist in the organisation structure.

This step will require the creation of job levels and mapping the company job architecture. It's advisable to start by creating a **full list** of all roles across the organisation.

It's important the current jobs the employees do, match what is on paper! The benchmarking will rely on this (in the later steps, see below). It's important to match jobs on content, not title alone. Refer to the Person Specifications for each role also.

It's a good idea to group similar roles together by function, responsibility, seniority and impact. Build clear levels. Ensure roles are accurately described. This can be done in any format but usually excel or the company HIRS works well.

Prepare the information in your HIRS or a excel spreadsheet and assess each role using consistent criteria. Example of a minimum data set:

- Job titles.
- Key responsibilities and scope (complexity, decision-making, people management, budget ownership, technical expertise and risk).
- Reporting lines.
- Experience requirements.
- Qualifications.
- Job Location.
- Current salary/ pay ranges for each role.

3. External Benchmark activity.

The next step is to conduct an external benchmarking exercise. External pay benchmarking is the process of gathering external labour market data, and comparing your organisation's pay rates. We do this to ensure salaries are competitive, fair and aligned with the 'why' (*point 1*). This can be done by comparing the job roles the organisation has, against recent market pay data.

Using the job levels and your current organisations structure mapped out in the aforementioned point, **identify the roles to benchmark**. Will there be a whole organisation review of all job roles? If not, then priority will need to be determined, i.e. do operational roles first (in year one) and then central support services the following year. If it's the latter, you may want to consider focusing on some of these essential factors:

- Critical roles.
- Hard-to-fill positions.
- Leadership roles.

- Roles with high turnover.
- Benchmark jobs covering all pay grades.

Whether this is something that's managed internally (*or contracted out to an external organisation that conduct independent benchmarking*), this step will require multiple data points for consistency, and to ensure geography is factored in where roles are situated across the UK or beyond. When selecting benchmarking sources, use reliable market data.

Examples:

- Salary survey providers.
- Industry and sector specific reward surveys.
- Professional bodies.
- Reward consultancies.
- Regional salary reports.
- Live job adverts and competitor insights where appropriate.

Look for data relevant to:

- Sector.
- Geography.
- Organisation size.
- Business model.

Match Roles to Market Data. Compare internal roles with external survey roles. Avoid forcing poor matches and aim for validated job matches. Assess:

- Job size.
- Responsibilities.
- Decision-making authority.
- Specialist knowledge required.

Analyse Market Position. Compare where your organisations measures up, against salaries that have been benchmarked. Determine where you want to be. Lower or upper quartiles against your competitors? Compare current salaries against market rates. The desired output from this phase is a benchmarking analysis report. Review:

- Market 25th percentile.
- Market median (50th percentile).
- Market upper quartile (75th percentile).

Calculate:

- Current salary.
- Market salary.
- Variance (£).
- Variance (%).

Example:

Role	Current Salary	Market Median	Difference
HR Manager	£52,000	£56,000	-7.1%
Social Worker	£38,000	£37,500	+1.3%

Determine Market Positioning. Based on the benchmarking activity and the report produced, the information will be needed to share with the Executive Leadership Team, to decide the organisation pay and reward strategy. Where does the company want to pay, relative to market? You may use the positioning, to feed into the original why statement (point 1). E.g. “*We aim to be the highest paying company in the job market.*”

Here’s some common approaches:

Strategy	Position
Market Lag	Around 25th percentile
Market Match	Around 50th percentile
Market Lead	Around 75th percentile

The output we’re seeking is an agreed pay philosophy for the organisation and if possible, by role (*this should align with organisation affordability, talent strategy, the organisations recruitment needs and the organisations values*). While the organisation may not get there in year 1, it can adopt a multi-year plan, to move towards the pay philosophy, in incremental steps.

4. Designing Salary Bands and Pay Framework

Many organisations believe they have a pay problem, when they have a progression problem. Employees often leave because:

- Pay decisions and ranges appear inconsistent or unclear.
- Career pathways are unclear.
- New hires are paid more than existing colleagues.
- Managers cannot explain pay decisions.

A good pay framework delivers:

- ✓ Fairness.
- ✓ Transparency.
- ✓ Consistency.
- ✓ Better retention.
- ✓ Better workforce planning.

In this step, the output will be to design a framework, with salary bands and pay points.

Decide progression rules. Clarify how people move through the band.

If roles are to be 'spot pay' roles, consider the narrower scope of development for capability.

For example, in a pay structure which is progression based, this may be based on performance, skills, competence, qualifications, market movement, or promotion to move up through the band.

For 'spot pay' roles, focus on skill capability and clarifying knowledge and behaviours expected to support career development, and what is needed to progress to a more senior role.

Based on market data, create a salary range for each level. Map proposed salaries into a framework.

Avoid the common mistake of bands that are too wide.

Here's what a good and a bad example look like:

Example 1: Trainer £30,000–£75,000...Nobody understands pay progression in this example.

Example 2: A better example looks like the below table. The benefits of a clear structure like this show clear progression, better differentiation and makes for easier governance.

Job	Grade Level	Minimum Entry point for the role/level	Midpoint Fully competent	Maximum High performer / deep expertise
Trainer	4	£32,000	£36,000	£40,000
Trainer	5	£42,000	£46,000	£50,000
Trainer	6	£52,000	£56,000	£60,000

5. Creating Progression

As the organisation's pay framework is being built, a core fundamental is employee development.

Employees need to understand: "What do I need to do next?"

The framework should be designed by developing learning role requirements for the tiers in the framework, for each job role.

Map the areas skills, qualifications, of knowledge of the job to each tier. Example below for a Machine Operator role:

- Developing = Year 1, (Detail all basic core knowledge areas) = £38k.
- Established = Year 3, (Detail all established core knowledge areas) = £42k.
- Advanced = Year 5, (Detail all advance contributor areas) = £46k.
- Expert Engineer = Year 7, (Detail the expert knowledge needed in all areas) = £50k.

6. Map Employees into the Bands & Determine the Gap.

The aim of this step is to produce a report that shows how employee pay compares with the external market, by mapping employees to pay bands you've now established, and thus identifying gaps.

Slot employees into bands. Map every employee to the relevant point in the pay bands, assimilating each colleague to the appropriate pay point in the framework. Start by extracting your workforce data from your HR system. Suggested minimum data fields for analysis are employee's role, salary, location, hours/ FTE, gender, and length of service in the job role.

Analyse the employee data. Identify who is below, within or above the correct pay range. Look for issues like:

- Pay Compression – lower roles catching up to or pressing up against upper roles and new starters earning close to experienced employees.
- Pay Inversion - Managers earning less than direct reports.
- Regional issues - which aren't being accounted for (London weighting)
- Legacy Differences – especially in organisations built through acquisition, legacy difference can be a common cause of disparities.
- Equality Risks - unexplained gaps by gender or protected characteristic.

Example: Immediate question: Why is there a £5,500 difference?

| Sarah | Supervising Social Worker | £38,500 | Wales | Female | 8 years |

| James | Supervising Social Worker | £44,000 | Wales | Male | 1 year |

Building the Business Case. To justify closing the gap to market, as in, how much would it cost if everyone was aligned to their correct pay, a strong business case will be needed.

Executives rarely invest because HR says something is unfair! They invest when risk is quantified. Explain the risks – what will likely happen, if pay structures are not addressed? Use data to back up your business case points.

Consider the quantitative and qualitative data and factors that demonstrates return on investment, by addressing the pay problems. Credible data sources should be used to illustrate the benefits of investing in employee pay:

- ✓ Turnover.
- ✓ Exit interview data and employee surveys.
- ✓ Gender pay gap report.
- ✓ Grievances or pay claims.
- ✓ Market trends and industry data.

Provide calculated costs, that the executive team can see make sense in supporting the business case. **Example:** Calculate Turnover Cost: Exit interview data shows 20 leavers left last year due to pay alone. $20 \times \text{Average replacement cost } \pounds 7,500 = \text{Total cost: } \pounds 150,000$.

7. Closing Historic Pay Gaps

This is arguably the hardest part. The output in this step, is a report (or at least some findings) to showcase an internal equity assessment that can be presented to the leadership team. In this step, you'd take the finds so far and make recommendations to the Leadership team, with actions identified to close the gaps. The 'how'.

Start with identifying unexplained differences. Which jobs and people are most far away from the bands? (*Don't focus solely on external competitiveness*). Check:

- Pay compression.
- Grade overlap.
- Equal pay risks.
- Gender pay implications.
- Length of service impacts.

Examples of findings and recommendation headings of how you might close the gaps include:

- Increase pay for specific roles.
- Introduce salary bands.
- Create progression ranges.
- Review recruitment salaries.
- Adjust benefits package.

It is recommended to prioritise based on cost and business impact in order to achieve reward recommendations and cost modelling. Provide a clear summary for leadership.

Include:

- Market position.
- Key risks.
- Cost implications.
- Recommended changes.
- Implementation timeline.

The above will be needed, to prepare for Executive approval and an implementation plan. It's recommended that the findings be presented to the Executive / Senior Management Team or Board, as input will be required to determine over what period the corrections will take place, before all gaps can be closed (*it may be that a multiyear approach is necessary*).

Not everything can be fixed immediately. Work with the Executive Leadership Team to prioritise corrections – and agree how you'll do this with a matrix of priority. It may be by job role or principles. The example and table below shows an illustrative scenario of what this could look like.

Example scenario: Employee A earns £36,000 and Employee B earns £43,000. The pay point they should both be at in the Pay Grade Band is £43,000. They do the same role, same capability, same location. Decision: Increase A, over two pay review cycles.

Matrix of Priority example:

High Priority	Medium Priority	Low Priority
Equality risk	Legacy issues	Minor variances
Retention risk	Market alignment	
Significant anomalies		

8. Pay Governance

Consider how pay governance will be established and maintained across the organisation. Create a governance model (*with structures and process*) fitting for your business structure and type.

If this is not in place already, you'll need to set up the systems and structures to enable the governance of pay, such as a REMCO.

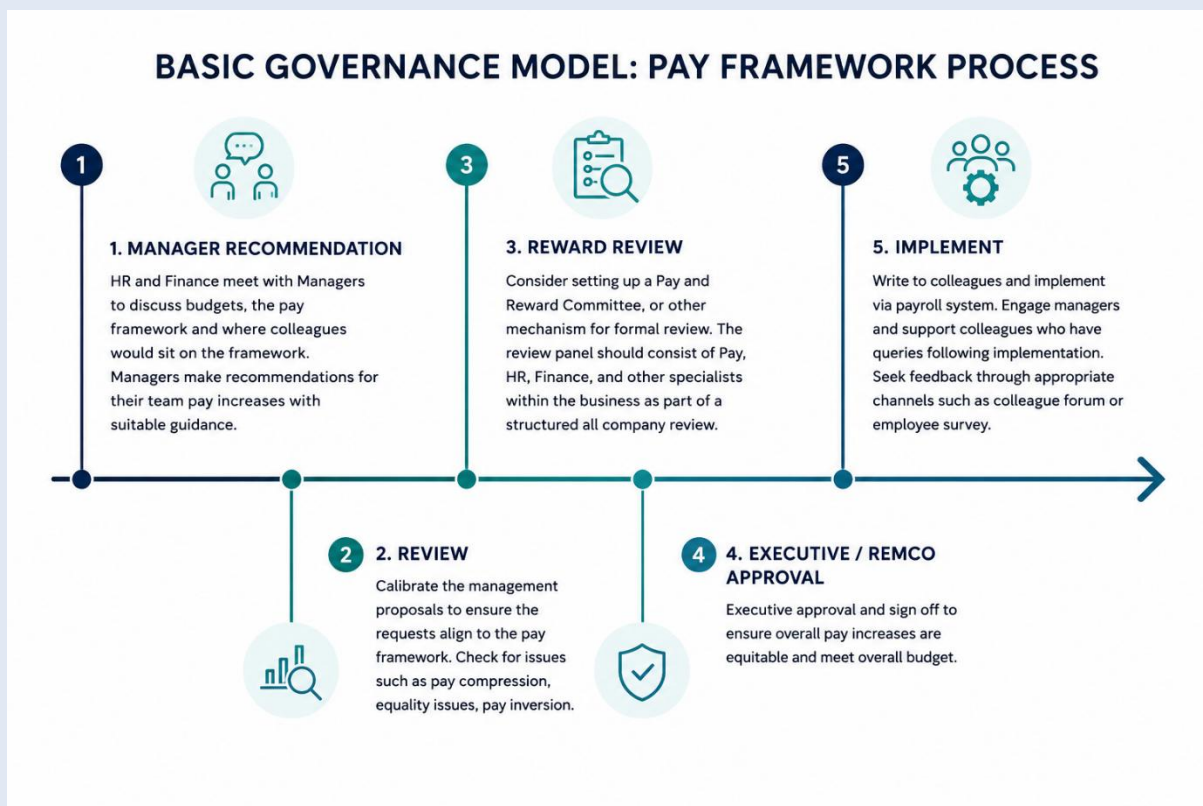
Whatever you do, ensure the model is appropriate to the size, scale and complexity of your organisation.

Get feedback from colleagues and leadership on what they think would work well.

Every pay decision should answer:

1. What evidence supports this?
2. Is it internally equitable?
3. Is it market aligned?
4. Is it affordable?
5. Can it be explained?

Here's a basic governance model example for an organisation, showing structures and process flow:



9. Running the Annual Pay Review

Annual pay reviews offer businesses an opportunity to have a wholesale review of all colleagues pay, as part of the annual pay cycle.

ANNUAL PAY CYCLE: STEP-BY-STEP PROCESS

A suggested process flow that can be aligned to your organisation's financial year.



10. Communicating Difficult Decisions

The most important part. Pay is an emotive topic! Handling communications with care is key! Employees do not need to agree but employees do need to understand. Throughout the pay cycle, it's important to involve, consult and update management and employees at appropriate times and in appropriate ways, to sensitively explain:

Explain - Why change is needed.

Explain - How decisions were made.

Explain - What happens next.

Avoid:

✗ “This is confidential.”

✗ “That’s just policy.”

✗ “The budget won’t allow it.”

Use suitable channels for different levels of messaging, such as employee intranet, ‘Town Hall’ calls, mail shots or letters, team meetings or briefings, news bulletins, notice boards and so on.

11. Measuring Success

Finally, once everything is up and running, measure success.

Track data points to measure success and report back to the leadership team and colleagues at relevant points in time. (*Table below*).

Continue to seek feedback from the Executive Leadership Team, colleagues and key stakeholders. Evolve the process each year to fine tune what has been established.

Conduct regular audits.

As a supplementary step, gain external accreditations and support from independent award bodies and organisations, to validate the good work being done and of course - celebrate success! (*Example: Real Living Wage Employer accreditation*).

Table: Data points example to monitor success.

Metric	Target
Voluntary turnover	↓ Reduces
Pay complaints	↓ Reduces
Internal promotions	↑ Increase
Manager confidence	↑ Increase
Pay fairness score	↑ Increase



PEOPLE
FAIRNESS
FUTURE

“

If you were
designing
your pay
framework
from scratch
today,
would it look like
the one you
currently operate?”



**FAIR &
INCLUSIVE**

Treat everyone
equitably and
remove bias.



**EVIDENCE
BASED**

Use data and
insight to make
confident decisions.



**GOVERNED &
TRANSPARENT**

Apply clear
principles and
document decisions.



**SUSTAINABLE
IMPACT**

Support long-term
success for people
and the business.



**VALUE THAT
LASTS**

Invest wisely in
what matters
most.