



**PAY AND REWARD**

**Think Business, Think Equality**



# CONTENTS

INTRODUCTION	2
WHAT TO CONSIDER WHEN DECIDING HOW MUCH TO PAY STAFF	3
DEVELOPING PAY SYSTEMS	4
INTRODUCING A NON-DISCRIMINATORY PAY RATE SYSTEM	6
INTRODUCING A REWARD SYSTEM	10
TYPES OF REWARD SYSTEMS	14
EQUAL PAY: WHAT THE LAW SAYS	18
PAY AND REWARD CHECKLIST	20
GLOSSARY	22



## INTRODUCTION

This guidance is for small and medium businesses who want to improve gender diversity in their workplace. It accompanies the *Think Business, Think Equality* online self-assessment tool. The free online tool enables you to assess your current employment practice, and provides tailored advice and guidance on how your business can benefit from gender diversity.

Delivering workplace equality makes good business sense. Having fair and flexible working practices allows you to attract and retain the best talent, reduce recruitment and training costs, and makes your business more productive, more innovative, and more profitable.

This guidance provides information and advice to ensure that you are paying your staff fairly, and that you are not unlawfully discriminating against female or male employees. There is a checklist on page 20 which suggests actions that you should take to ensure that you are providing fair pay for all of your people.

**The Think Business, Think Equality online tool is available at:**

[www.thinkbusinessthinkequality.org.uk](http://www.thinkbusinessthinkequality.org.uk)

### LEGAL DISCLAIMER

While every effort has been made to ensure that the explanations given here are accurate, only the courts or tribunals can give authoritative interpretations of the law.



## WHAT TO CONSIDER WHEN DECIDING HOW MUCH TO PAY STAFF

Pay means the pay and benefits provided by the contract of employment between you and your employee. When making decisions about how much to pay the staff in your business, a variety of factors need to be considered, such as:

- What starting pay to offer;
- How often and by how much pay should be increased;
- Whether bonuses or rewards for performance should be offered; and
- Whether work related pay benefits should be given to attract and keep the best staff.

Many small businesses have no formal pay system in place and rely on historical pay rates, market trends or competitor pay rates, or the negotiating skills of individual employees when deciding on rates of pay. However, such practices can be extremely damaging; pay bills can be difficult to control and this can also be potentially discriminatory, leading to poor staff relations which can in turn can affect staff turnover.

Although people at work are motivated by more than just pay, staff who feel that they are rewarded fairly in relation to pay and benefits are less likely to be dissatisfied.



## DEVELOPING PAY SYSTEMS

The most common types of pay systems are base pay or variable pay systems. The table below indicates the features commonly found in each.

Base Pay	Variable Pay
<ul style="list-style-type: none"><li>• Set number of hours at agreed hourly, weekly or monthly rate</li><li>• Overtime payments at, for example, one and a half times base pay rate</li></ul>	<ul style="list-style-type: none"><li>• Productivity/attendance bonuses</li><li>• Commission payments</li><li>• Profit sharing schemes</li></ul>

Base pay schemes are generally straightforward to administer. They allow employers to predict what their wage bill is going to be and are the type of scheme least likely to discriminate where employees do identical or similar work.

Variable pay schemes allow the amount paid to an employee to vary from time to time. This can make it much more difficult to predict what your wage bill will be in the future, and staff may have less certainty about the amount of pay they are due. Variable pay can be linked to individual performance, or to collective performance based on teams, groups, or the entire business meeting specific goals and targets.



Variable pay can, in some circumstances, help motivate staff to increase productivity or reach targets. However, staff are also motivated by non-monetary factors, like a pleasant working environment, good supervision, training and development opportunities, consultation and engagement, and a good work/life balance.

It is very easy for indirect discrimination to creep into a variable pay system, and ongoing monitoring and evaluation is needed to make sure this does not happen.



## INTRODUCING A NON-DISCRIMINATORY PAY RATE SYSTEM

You may need to introduce or develop a pay and reward system when your business grows and more staff are taken on. You may need to make changes to existing pay systems because of a change of ownership, to comply with the law on equal pay, or so that your business is seen as a fair employer.

To help avoid staff dissatisfaction or disputes, ensuring your staff know how their pay is calculated is crucial, and any pay and reward system should be clear and easy to understand. It is also essential that your system does not include any features which may lead to unlawful pay discrimination.

Information on meeting the legal requirements in relation to equal pay can be found on page 18.

Even in a very small business, a structured pay system is more likely to provide equal pay, and is easier to monitor and control than a system which relies on managerial discretion.

Pay systems often include a grading structure, which provides a framework for managing pay and reward. A grading structure provides the same level of pay across groups of workers who are doing work that requires similar levels of effort, skills, knowledge and responsibility. Each grade may feature a number of steps, levels, or increments, which allow pay to be increased at a specific point in time, or when some other specified criteria has been met by the staff concerned.



The table below provides an example of a simple pay structure, which features grades with pay ranges set for each grade.

Grade A	Grade B	Grade C	Grade D	Grade E
18,978	21,224	22,407	26,050	28,632
19,363	21,548	23,204	26,659	29,394
19,750	21,781	23,739	27,288	30,336
21,005	22,236	24,300	27,923	31,632

Different grading structures suit different businesses, but in every case consider how many pay grades are appropriate (for example, A to E). Pay grades, sometimes called job families, may include jobs related to each other (such as IT, or administrative jobs), but whether related or not, jobs should be placed within a grade on the basis that they have been identified as involving similar levels of effort, skills, knowledge and responsibility.

Also consider how many pay levels, steps or increments are appropriate within each grade. You must take care to ensure that the number of steps or levels within each pay grade can be justified by meeting criteria which are fair and relevant to the work carried out. Including too many steps or levels on the basis of experience, for instance, may lead to unfair pay discrimination if this cannot be justified.



## Example

A pay grade includes ten annual increments or steps, and the justification for this is experience in the job. However, it takes only two years to become fully proficient in all aspects of the job. In such a case, the number of increments or steps cannot be justified on the basis of experience alone. This type of practice is potentially unlawful on the grounds of age and sex.

There must also be consistency when placing staff at a particular pay level, increment or step. For example, placing new staff at a higher level within the pay grade because they have negotiated a higher starting salary can potentially lead to unfair pay discrimination.

You also need to check whether there is any overlap in salaries across different grade boundaries. Overlapping grade boundaries may lead to unfair pay discrimination, as an employee in a lower grade might be paid more than someone in a higher grade for work of that is of equal value.

You should also consider:

- Whether your existing system could be adapted or improved.
- Whether the system you intend to introduce could discriminate, directly or indirectly, against women or men.
- Keeping records of all discussions and any decisions made about the system.



- Monitoring your new or modified system on a regular, ongoing basis.

Involve your staff and their representatives in the process as much as possible. Taking time to consult the people who will be affected can be extremely beneficial to the process, and help ensure acceptance of the proposed changes.



# INTRODUCING A REWARD SYSTEM

## What is a reward system?

A reward system uses pay incentive schemes, such as bonus systems, or variable pay based on performance, with a view to motivating staff.

## Discretion in reward systems

Any element of discretion in awarding bonuses can be highly vulnerable to bias. Stereotypical views and attitudes about the value of different types of work and staff, including perceptions about what is ‘women's work’, may influence decisions, whether consciously or not.

Employers and managers are often unaware of the impact their decisions may have on pay equality, and the effect this has on staff morale.

For information on how stereotypical views and attitudes can impact negatively in your business, take the **WOMEN'S JOBS, MEN'S JOBS** test at [www.thinkbusinessstinkequality.org.uk](http://www.thinkbusinessstinkequality.org.uk)

## Avoiding discrimination in reward systems

Transparency in pay systems is essential in uncovering and addressing unlawful pay discrimination. The more complex and less transparent a system is, the more vulnerable it will be to pay inequalities. A transparent reward system enables staff to understand not only



their rate of pay, but also how any reward system operates. It also helps minimise uncertainty or perceptions of unfairness, and reduces the possibility of equal pay claims being brought against an employer.

Anyone given discretion to award bonuses, commission, performance pay and so on, or who has responsibility for implementing pay and reward systems and carrying out reviews, should be fully trained in the reward system itself and in the equalities aspects of pay and reward.

## Avoiding discrimination when establishing criteria for reward systems

When setting criteria for a reward system, avoid those which may be more difficult for one group of people to achieve than another.

For example, using length of service alone as a criterion for determining pay or reward is potentially discriminatory. Women are more likely to have caring responsibilities and may have breaks in service because of this. They are generally less likely to meet a long service requirement.

Similarly, a requirement to work non-standard hours, or to work hours which are variable at short notice, could also potentially discriminate against staff with caring responsibilities. Some of these factors may discriminate on the grounds of age or disability, which would also be unlawful.

To find out more about the business benefits of **FLEXIBLE WORKING**  
take the test at [www.thinkbusinessthinkequality.org.uk](http://www.thinkbusinessthinkequality.org.uk)



## Discrimination and part-time staff

The vast majority of part-time workers are women. It is unlawful to discriminate against part-time workers and this group of staff should not be excluded from reward schemes. Part-time workers are normally entitled to payment at the same hourly rate of pay as full-time workers when they are doing work which requires similar levels of knowledge, skills, effort and responsibility.

You should ensure that targets in the reward scheme are not impossible for part-time staff to achieve. Where awards are made on the grounds of 'outstanding achievement', assumptions should not be made about the commitment of part-time staff which may potentially exclude them.

## Avoiding stereotypical views

When you're developing a reward system, ensure stereotypical views are not represented in the competence criteria. These should not favour attributes and roles perceived to be 'male' (for example, assertiveness, leadership, decision making skills) or 'female' (for example, co-operation, communication, listening, caring) but should be balanced and unbiased.

## Run a pilot and evaluate

Running a pilot of a proposed reward system means payments made over a specified time period can be reviewed. Where this reveals any significant differences or inequalities by teams, departments, full-time and part-time staff, gender, or any other protected characteristic, this can be investigated and addressed before the scheme is fully implemented.



## Keep records

Ensure that all decisions on how rewards have been made are properly documented and retained. Should your business ever be challenged in an employment tribunal such documentation can provide valuable evidence.



## TYPES OF REWARD SYSTEMS

There are different types of reward systems, which can be linked to the performance of individual staff members, and some to the performance of groups or team performance. For instance:

- Annual 'across the board' pay increases or increments, for example, where everyone gets a 3% increase.
- Annual pay increases or increments, supplemented by a reward payment, for example, everyone gets 3% plus an individual bonus.
- Fixed incremental scales with limited flexibility, where the pay increases for the majority of staff are set, but payments can be increased for exceptional performance, or reduced for poor performance.

### Example

Where pay increases are linked to performance ratings, a series of fixed percentage points is commonly used.

Unsatisfactory = 0% increase

Satisfactory = 2% increase

Above average = 3.5% increase

Exceptional = 5% increase



## Individual Reward Systems

Some organisations use an individual reward system, sometimes also called an annual appraisal or performance related pay scheme, to determine individual performance against targets or objectives.

Close the Gap advises caution in introducing individual rewards or performance related pay, as these are areas where unlawful pay discrimination can easily occur.

If you have an existing individual reward system, or are thinking of introducing one, the following list of questions can be used to find out whether the elements that can help ensure it is as fair and effective as possible are in place.

- Have managers or staff involved in operating your individual reward system been trained appropriately?
- Have staff, and staff representatives, been fully informed about how the system will operate?
- Has sufficient time been allocated to conduct reward reviews?
- Are objectives related to performance specific, realistic, achievable and measurable?
- Are the assessment periods here appropriate?
- Do staff have access to, and can they comment on, their assessment score?
- Do you have a monitoring and review system in place?
- Do you have an appeals system in place?



When individual performance is being assessed in relation to reward, subjectivity or personal bias must be avoided. The assessment process must be scrupulously objective, and staff must have a clear understanding of what they have to do to achieve the individual reward offered.

## Objective setting

Before performance related pay can be introduced, a structured and transparent method of assessing staff performance must be set up.

Objectives or targets to be met by staff must be achievable, fair and appropriate to the type of work carried out by the staff members involved. Objectives or targets may be based on quantity or quality, or a combination of both.

Objectives should be set following discussion and agreement between individual staff members and managers, at the beginning of a set period of time. This is usually done annually.

Staff performance, and the extent to which the objectives have been met, are assessed at the end of the set period and rated against one of the agreed overall standards of performance. An example of performance standards commonly used in individual reward systems is given in the following table.



Example	
<b>Very good</b>	A very high level of performance; agreed objectives consistently achieved.
<b>Satisfactory</b>	A fully satisfactory performance meeting all or nearly all objectives.
<b>Less than satisfactory</b>	Insufficient objectives have been met, and the individual needs to improve skills or effort, or both.
<b>Wholly unsatisfactory</b>	The basic requirements of the job have not been met and little or no progress has been made towards agreed objectives.

The amount of the performance award is based on the performance level achieved by the individual concerned.

When assessing performance, appraisers should take into account that not all of the objectives set may have been achievable. Changes in circumstances during the appraisal period may have made it difficult for employees to complete some of the tasks planned.

Managers conducting appraisals should meet periodically throughout the appraisal period with the staff members being appraised. This allows objectives to be revised to reflect changes which may have arisen, for example, within the operating environment of the business.



## EQUAL PAY: WHAT THE LAW SAYS

The Equality Act 2010 says that when men and women are doing equal work, they have the right to receive equal pay. This means that employers must provide the same pay and conditions for men and women doing work which is:

- the same or broadly similar ('like work'), or
- has been rated as equivalent under an analytical job evaluation scheme, or
- work which is different but of equal value in relation to the knowledge, skills, effort and responsibility involved ('equal value').

This applies to full-time and part-time employees, and therefore, any female part-time employee doing equal work to a male full-time employee, should receive the same hourly rate of pay. Providing equal pay also means your staff should know how their pay is made up and should understand, for example, what needs to be done to earn a bonus, and how the amount has been calculated.

### An example of equal pay:

Although people can be employed to do very different jobs, they may nevertheless require similar levels of skill, responsibility, knowledge, effort, training and qualifications. For example, the job of a cook and a plumber are very different, but both require a similar level of training and technical knowledge to carry out their respective responsibilities. If the cook was a woman and the plumber was a man, and it is found



that their levels of skill, responsibility, knowledge, effort and so on are similar, they should be paid the same. If one of them had supervisory responsibilities however, that may be justification for paying that job at a higher rate.

## How to check whether you are providing equal pay

As pay arrangements are often complex, features that can give rise to unlawful pay inequality are not always obvious. Although not a legal requirement, the most effective way for a business to uncover unequal pay is to carry out an equal pay review. The key elements of equal pay reviews are:

- Identifying jobs involving similar levels of skill, effort, decision-making, and knowledge (work of equal value);
- Comparing the pay of women and men doing like work, work rated as equivalent, and work of equal value;
- Identifying gaps and the reasons that the gaps exist;
- Develop an action plan to eliminating those pay gaps that cannot satisfactorily be explained on grounds other than sex.

The Equality and Human Rights Commission's website provides guidance on how to conduct an equal pay review. This can be accessed at:

[www.equalityhumanrights.com/private-and-public-sector-guidance/employing-people/managing-workers/equal-pay/equal-pay-audit-toolkit](http://www.equalityhumanrights.com/private-and-public-sector-guidance/employing-people/managing-workers/equal-pay/equal-pay-audit-toolkit)



## PAY AND REWARD CHECKLIST

### Pay systems

The pay system used is transparent.

Staff are informed how their pay is calculated.

Staff pay is calculated using a single pay scale and all staff are included within it.

The pay awarded to staff is based on the demands of the job.

Equal pay reviews are conducted regularly to check for gender bias.

### Starting pay

There is a policy on starting pay that applies to all staff.

The starting pay reflects the demands of the job, not the candidate.

Market supplements or premiums are used where appropriate.

Managers who are involved in setting pay receive equalities training.

Where starting pay is negotiated, records are kept and reviewed regularly to check for gender bias.



<b>Pay progression</b>	
Criteria for pay progression are achievable.	
Staff are informed how their pay is calculated.	
Criteria for pay progression are applied consistently throughout the company.	
The system for pay progression is reviewed regularly to ensure there is no gender bias.	
Managers involved in decisions around pay progression receive equalities training.	
Accurate records of decisions on pay progression are kept.	
<b>Incentives, allowances and in-kind benefits</b>	
There are clear policies on incentives, allowances and in-kind benefits.	
Incentives, allowances and in-kind benefits are available to as many staff as possible.	
Eligibility of incentives, allowances and in-kind benefits is communicated to all staff.	
Eligibility and criteria for incentives, allowances and in-kind benefits are reviewed regularly.	



## GLOSSARY

### Diversity

The recognition and valuing of difference, in its broadest sense. It is about creating a culture and practices that recognise, respect, value and harness difference for the benefit of employers and staff.

### Equality

Equality does not mean that women and men will become the same but that women's and men's rights, responsibilities and opportunities will not depend on whether they are born male or female. Gender equality implies that the interests, needs and priorities of both women and men are taken into consideration – recognising the diversity of different groups.

### Equal pay review

A process which looks at pay arrangements within an organisation to find, and address, gender discrimination. It involves comparing the pay of groups of employees who are doing equal work in an organisation and then investigating any gaps between men's and women's pay.

### Equal value

As defined by the Equality Act 2010, an individual can claim equal pay with a comparator of the opposite sex where work is different, but which would be assessed as equal in value in terms of demands such as effort, skill and decision-making.

### Gender

Refers to the socially constructed roles, behaviours, activities, and attributes that society considers appropriate for men and women. For example, historically, gender role stereotyping would suggest that women should look after children at home while men go to work in the formal labour market.



## FURTHER INFORMATION

### **Close the Gap**

[www.closesthegap.org.uk](http://www.closesthegap.org.uk)

### **Equality and Human Rights Commission**

[www.equalityhumanrights.com](http://www.equalityhumanrights.com)

### **Acas**

[www.acas.org.uk](http://www.acas.org.uk)



Close the Gap works in Scotland on women's labour market participation. We work with policymakers, employers and unions to influence and enable action that will address the causes of women's inequality at work.

Close the Gap  
166 Buchanan Street  
Glasgow  
G1 2LW  
0141 572 4730

info@closethegap.org.uk  
www.closethegap.org.uk

Twitter: @closethepaygap  
Facebook: /closethepaygap

Published August 2015



Close the Gap



LOTTERY FUNDED

Close the Gap (SCIO) (known as Close the Gap) is a Scottish charity, SC046842.