



PAY AND REWARD

Think Business, Think Equality

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INTRODUCTION

This guidance is for small and medium businesses who want to improve gender equality and diversity in their workplace. You can use it alongside our other *Think Business, Think Equality* resources to make a positive change in your business.

Delivering workplace equality makes good business sense. Having fairer 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 resource provides information and advice on what pay discrimination is and how it happens, explains the difference between equal pay and the gender pay gap, and tells you how to take an equality-sensitive approach to pay and reward.

The *Think Business, Think Equality* resources are designed to be used together to enable you to create change in your business. The action you take in each area will reinforce actions in the others.

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

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.



KEY MESSAGES

These key messages are where you should begin. You can use them as a starting point to think about what you need to do in your business to deliver fairness in pay and reward.

1. Equal pay is a legal right ensuring that employees receive the same pay for work of equal value, regardless of gender.

This applies to all aspects of pay and employment conditions, including full-time and part-time roles, and encompasses not just basic salary but also bonuses, benefits, and other compensation.

2. The gender pay gap is the difference in average hourly earnings between men and women.

It goes beyond direct pay discrimination to reflect systemic inequalities in workplace opportunities, progression, and overall compensation.

3. A structured, transparent pay system is crucial for ensuring fairness.

Even in small businesses, establishing a clear, documented pay framework reduces the risk of unintentional bias and provides a consistent, defensible approach to compensation.

4. Pay transparency isn't just about preventing discrimination.

It's about building trust, motivating employees, and fostering a culture of fairness. A clear, well-communicated pay system helps employees understand their worth and their opportunities for career progression.



5. Biases related to gender roles can subtly influence pay and reward decisions.

Challenge these stereotypes through training, objective criteria, and regular review of decision-making processes.

6. Invest in comprehensive equality training for all staff involved in pay and performance decisions.

This should go beyond compliance to build good decision-making skills that recognise and value diverse contributions across your workforce.

7. Performance-related pay systems must be carefully designed to be objective, transparent, and free from gender bias.

Use clearly defined, measurable criteria to evaluate actual performance, avoiding subjective judgements based on perceived potential or gender-based stereotypes.

8. An equal pay review isn't just a compliance exercise.

It's a strategic tool for understanding your workforce, identifying hidden inequalities, and driving business improvement. Treat it as a valuable opportunity for growth.

9. Understand that gender pay gaps can be more pronounced for women from marginalised groups.

Consider how intersections of gender, race, disability, and other characteristics may compound workplace inequalities, and how you might be able to address these disadvantages in your pay and reward practices.

10. Regularly monitor and review your pay practices to ensure ongoing equality.

Pay audits, employee feedback, and external benchmarks can help identify emerging disparities and ensure that pay policies remain aligned with your commitment to equality and fairness.



HOW GENDER INEQUALITY CAN AFFECT PAY AND REWARD

PAY DISCRIMINATION

Most employers are aware that pay discrimination is unlawful, and it's increasingly rare to find businesses who intentionally pay their male and female staff differently because of their gender. However, many employers are unaware of the impact that seemingly objective pay practices have on men and women.

There can be many factors within pay systems that lead to inequalities, including:

- Different job and grade titles for virtually the same jobs;
- Male-dominated roles having disproportionate access to bonus earnings;
- Asking questions about salary history as part of your recruitment process, resulting in women's starting pay being lower than men's;
- Negotiable salaries, and salary decisions being affected by bias;
- Women having less access to high-paid shift and overtime work; and
- Performance related pay being unfairly awarded.



THE DIFFERENCE BETWEEN THE GENDER PAY GAP AND EQUAL PAY

Many employers confuse the gender pay gap with the issue of equal pay. While the two are interconnected, it's important to understand the difference.

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
- rated as equivalent under an analytical job evaluation scheme; or
- 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, 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.



EQUAL PAY EXAMPLES:

While individuals may be employed in very different roles, these jobs can still require similar levels of skill, responsibility, knowledge, effort, training, and qualifications.

For example, an office manager (typically a female-dominated role) and a warehouse manager (typically a male-dominated role) may oversee different parts of the business, but both require organisational skills, responsibility for managing workflows, and the ability to deal with clients or staff. If their responsibilities are comparable, they should receive equal pay.

Additionally, a social care worker (a predominantly female role) and a construction site manager (a predominantly male role) may work in different sectors, but both roles involve high levels of responsibility, the management of complex tasks, and the need to meet legal and safety standards. If their levels of skill, responsibility, and effort are similar, both should receive equal pay.

Businesses that don't have a structured approach to pay are more likely to run into equal pay issue. Unequal pay can lead to costly tribunals, as well as damaging staff morale and your business's reputation. You can only identify if your business has an issue with unequal pay by doing an equal pay review. The Equality and Human Rights Commission has a [toolkit](#) that businesses with more than 50 employees can use to do this. For smaller businesses, they offer a [three-step guide](#).



The gender pay gap

The gender pay gap is the difference in average hourly earnings between men and women.

WHY IS THERE A GENDER PAY GAP?

The gender pay gap is caused by a range of complex, inter-related factors.

- **occupational segregation**, where gender norms and stereotyping about women's and men's capabilities and preferences results in women and men doing different types of work (horizontal segregation) and different levels of work (vertical segregation);
- **a lack of quality part-time and flexible working** which results in women's under-representation at management level and in senior grades, and their concentration in lower grades;
- **women's disproportionate responsibility for unpaid care work**, and business practices that make it difficult to combine their caring roles with employment;
- **biased and untransparent recruitment, development, and progression practices**;
- **male-oriented workplace cultures** that don't feel inclusive to women; and
- **discrimination embedded within pay and grading systems**, which results in women being paid less than men for doing equal work.



The gender pay gap is about more than just pay. Its causes are linked to gender inequality at a societal level, but are very much embedded in the workplace, and employers have a big part to play in tackling them.

If you have a gender pay gap it could be a sign that there are hidden inequalities in your business that could be affecting staff and holding back your performance.

DO I NEED TO CALCULATE MY GENDER PAY GAP?

Your gender pay gap can help you to identify and understand where you might have gendered inequalities in your organisation. However, it's just one of a range of things to look at when you're considering action. For example, in smaller businesses, a change in just one or two staff can make a big impact on your gender pay gap figure. It's therefore important to look at where women and men are in your business, in what jobs, and grades, and what their experiences are with flexible working, recruitment and promotion, development, and more.

You can find out more about how to calculate and understand your gender pay gap in our [quick guide here](#).

To explore other ways to benefit from gender equality in your workplace, visit [the website to get your tailored feedback and actions](#).



HOW TO ENSURE FAIRNESS IN PAY AND REWARD IN YOUR BUSINESS

This section outlines how to ensure fairness and prevent discrimination when developing pay and reward policies and systems.

PAY SYSTEMS

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, you need to consider a variety of factors, such as:

- What starting pay to offer.
- How often and by how much pay should be increased.
- Whether bonuses or rewards for performance will be offered.
- Whether work-related benefits will 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 to your business. Pay bills can be difficult to control and practice can be discriminatory, resulting in poor staff relations and high staff turnover, which will ultimately lead to lower productivity, higher costs, and lower profits.



Although people at work are motivated by more than just pay, when your staff feel that they're rewarded fairly this significantly reduces the likelihood of job dissatisfaction.

TYPES OF PAY SYSTEM

The most common types of pay system are base pay or variable pay systems.

The table below indicates the features commonly found in each:

Base Pay

Set number of hours at an agreed hourly, weekly, or monthly rate.

Overtime payments at, for example, one and a half times base pay rate.

Variable Pay

Productivity/attendance bonuses.

Commission payments.

Profit-sharing schemes.

Base pay schemes are generally straightforward to administer. They allow you to predict what your 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 an inclusive and safe working environment, good line management, training and development opportunities, and a good work/life balance.

It's very easy for indirect discrimination to creep into a variable pay system, and ongoing monitoring and evaluation is needed to make sure that this doesn't happen. You can use the equal pay review process to check if pay inequality exists and take steps to address it. There's more information on equal pay on [page 28](#).

INTRODUCING A NON-DISCRIMINATORY PAY RATE SYSTEM

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

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's also essential that your system doesn't 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 28](#).

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 that 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, responsibility, and so on. 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.

EXAMPLE PAY STRUCTURE

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

Executive & Management		
Position	Lower Band	Upper Band
Managing Director/CEO	£60,000	£90,000
Operations Manager	£40,000	£65,000
Department Manager	£35,000	£55,000
Team Leader/Supervisor	£28,000	£38,000



Sales & Marketing

Position	Lower Band	Upper Band
Sales Manager	£32,000	£50,000
Marketing Manager	£30,000	£45,000
Sales Representative	£22,000	£35,000
Marketing Assistant	£20,000	£28,000

Administration

Position	Lower Band	Upper Band
Office Manager	£25,000	£35,000
Executive Assistant	£22,000	£32,000
Administrative Assistant	£19,000	£25,000
Receptionist	£18,500	£22,000



Different grading structures suit different businesses, but in every case consider how many pay grades are appropriate. 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 10 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. The number of increments or steps therefore cannot be justified on the basis of experience alone. This is potentially unlawful on the grounds of age, as well as, potentially, sex.

You should also ensure 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 on appointment, because they have negotiated a higher starting salary, can potentially lead to pay discrimination.



SALARY NEGOTIATION

Businesses often allow negotiation of starting and promoted salaries. This can lead to gender inequality in your business in a number of different ways, particularly where decisions are made on a discretionary basis.

Evidence shows that women are less likely to negotiate their salaries compared to men, often due to gender norms and fear of backlash. Black women are particularly penalised for salary negotiation, often criticised for being too ‘aggressive’ when attempting to negotiate their pay. When women do negotiate, they are frequently penalised for behaviour that is seen as ‘pushy’, whereas men engaging in similar behaviour are often rewarded for demonstrating confidence and leadership. This double standard discourages women from asking for a fair pay settlement that reflects their skills and experience.

Also, as women are paid lower on average than men, this means they often enter negotiations with a disadvantage – particularly when they’re asked for their previous salary during the application process. Salary offers are frequently based on previous earnings, creating a compounding effect that keeps women’s wages below those of their male peers throughout their careers. Even small differences in starting salaries can grow into significant pay gaps over time, particularly when raises and bonuses are calculated as a percentage of base pay.

This cycle can lead to issues of unequal pay and gender inequality, presenting significant risks for your business, and highlights the importance of transparent pay practices and structured salary frameworks.



You can minimise the risks associated with salary negotiation by ensuring advertisements for new jobs and promoted posts state the salary or range for the role. You should also ensure that you don't ask questions on salary history in your recruitment process.

You also need to check whether there is any overlap in salaries across different grade boundaries. Overlapping grade boundaries may lead to 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.

REWARD SYSTEMS

A reward system uses pay incentive schemes, such as bonus systems, or variable pay based on performance, with the aim of motivating staff.



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.

DISCRETION IN REWARD SYSTEMS

Biased attitudes and stereotype-based views about men and women still influence pay and reward, and any element of discretion in decision making can be highly vulnerable to bias. This may be intentional or unintentional – but whichever it is, it can result in gender inequality in your business, and risks costly and reputationally damaging discrimination claims.

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 DETERMINING CRITERIA

When setting criteria for a reward system, you should avoid those that could be more difficult for one group of people to achieve than another. Any criteria used to determine pay progression must be objective and gender neutral.

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.

Discrimination and part-time staff

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 biased views

You should ensure biased views are not represented in the competence criteria in your reward system. 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 objective and gender neutral.

TYPES OF REWARD SYSTEMS

There are different types of reward systems; some 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.

• Needs improvement = 0% increase	• Fully competent = 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 do 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 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 annually.

Staff performance, and the extent to which the objectives have been met, is 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 below:

EXAMPLE

Very good - a very high level of performance, agreed objectives consistently achieved.

Satisfactory - a fully satisfactory performance meeting all or nearly all objectives.

Less than satisfactory – insufficient objectives have been met, and the individual needs to improve skills or effort, or both.

Wholly unsatisfactory - 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.



EQUALITY IN DECISION MAKING

Decisions around pay, performance, and reward should be objective and fair. Where managerial discretion and unfair criteria feature, subjectivity and bias can lead to unfairness and leave your business at risk of a reputationally damaging equal pay claim.

Staff involved in pay and reward decisions, performance assessment, and other incentive allocation, should be trained in equality-proofed decision-making.

Training helps to build capacity in managers to make fair and objective decisions, and ensure they better understand how to prevent gender inequality and discrimination in pay and reward.

To find out more about training on equality in decision making on pay and reward, and other training on advancing equality and diversity in your business, get in touch with us at info@closethegap.org.uk.

PILOT AND EVALUATE NEW REWARD SYSTEMS

Running a pilot of a new or updated reward system allows you to test the effectiveness of the system over a set period. During this time, you can monitor for any significant gender-based or other demographic disparities, whether by department, full-time vs. part-time status, or any other protected characteristic. If any inequalities are identified, these should be thoroughly investigated and addressed before the system is fully implemented. This approach helps ensure the system is fair and equitable for all staff, fostering a culture of transparency and inclusivity.



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.

DATA PROTECTION

You must ensure that employee data is collected, processed, and stored in compliance with UK GDPR by:

- Only collecting necessary data and ensuring staff know how their data will be used.
- Storing data securely, restricting access to authorised personnel only, and implementing appropriate technical safeguards.
- Deleting or anonymising data when no longer needed, in line with the company's retention policy.
- Providing employees with their data rights, including access, correction, and deletion requests.



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 currently 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 has a [toolkit](#) that businesses with more than 50 employees can use to do this. For smaller businesses, they offer a [three-step guide](#) to equal pay.



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.

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Close the Gap

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