



WHITEPAPER

Pay grading frameworks and pay transparency

Robust pay and reward frameworks create the structure needed for consistent, defensible and equitable pay decisions.

Pay transparency is accelerating across Europe, driven by new EU legislation and growing expectations for openness. Is your organisation getting ahead of the curve and using transparency to strengthen fairness, trust and engagement?

Global best practice

The EU Pay Transparency Directive, alongside growing legislation across the US, is leading to a focus on pay transparency and fair pay. Inevitably, pressure is likely to increase for UK employers to match global best practice when it comes to pay transparency, and transparency becomes a key differentiator in the market. Candidates will increasingly expect, or even demand, that salary ranges and details of career and pay progression are made visible from the start. In this situation, those employers who are able to meet these expectations then stand out, enhancing their ability to attract and retain key talent.

So, a degree of transparency becomes a competitive necessity and not just a nice-to-have.

Employers are likely to face reduced tolerance for opaque decisions around pay - those with no structured pay and grading framework in place may find that reliance on spot salaries, ad-hoc negotiations, or out-of-cycle increases becomes increasingly hard to justify from an equality perspective. With no governing structure, how can they be sure, and convince others, that decisions around pay were arrived at fairly and equitably?



They are likely to face a push for grade-based pay ranges with equal access to ranges for those performing equal work, over individual pay logic, ensuring that where there are differentials in pay they can be clearly explained and justified.

Again, while not required by UK law, the EU Directive itself requires employers to use objective, gender-neutral criteria to determine pay and progression. Pay grading frameworks give you the structure needed to meet that requirement in a defensible, and more importantly, auditable way.

So even those with an existing pay grading framework might consider reviewing and adapting it in light of an increasing focus around pay transparency.

Grade allocation and job architecture

The starting point has to be the job architecture, and more specifically the allocation of employees into job grades or bands.

It is critical that grade allocation is done in a way that is fair and equitable, with grades allocated via clearly defined criteria, ideally identifying the scope, impact and complexity of each role – not what they do or what they are called.

Using a verified, third-party system of job levels or an external job evaluation system can really help here, particularly in ensuring that no internal bias is built into the system of grades. Pay transparency will expose weak grading systems where grades are poorly defined, or inconsistently applied, or not tied to objective criteria – so for example it will become obvious very quickly where employees doing similar work have been assigned to different grades.

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Setting pay ranges

When setting pay ranges, there are three main considerations: the width of the range, the market position you want to target, and how progression will work within the band.

Range width

You might want to consider narrower bands at early career stages, where roles are more clearly defined. Narrow ranges provide clarity but can limit potential for growth. At higher job levels,

ranges may be broader, for example to allow for more differentiated responsibilities. Broader ranges can offer more flexibility but do require strong governance to avoid perceptions of unfairness. Ultimately, it's whatever works best for your specific organisation.

Overlap between grades is also a consideration – too much overlap and grades become meaningless, for example if someone at the top of one grade can earn significantly more than someone approaching the mid-point of the grade above. Too little overlap and people may need promotions in order to get meaningful pay movement.

Market position or anchor point

Some employers align ranges around the market median, while others choose a position above or below median depending on their pay strategy, and issues around affordability also play a part here. You may want to pay at the upper quartile, but it may not be practical to do so.

Anchoring the structure to up-to-date market pay data is also important - if ranges do not keep pace with the market, organisations quickly become uncompetitive, particularly for in-demand skills. This can lead to increased turnover and ultimately put the entire framework under pressure – managers start bypassing the rules to ensure successful recruitment or retention, and over time this erodes internal equity and undermines transparency.

Progression

And finally, progression rules must be clear. Whether progression is driven by skills, competence, contribution or performance, the organisation needs a consistent logic for how individuals move through the range. The progression criteria are what make the range both fair and explainable.

Non-cash rewards and total package

Moving beyond base pay to consider other incentives, there are clear advantages to aligning your pay grading framework to total reward strategies and not just for reasons of transparency - where budgets limit pay growth, some employers are integrating non-cash benefits and wellbeing initiatives with their pay frameworks, so aligning grade levels or bands with different benefits packages.

By aligning your total package to your pay grading structure you ensure progression remains meaningful and packages look attractive even when budgets are being stretched.

Communication

One of the most important parts of any pay grading framework is how it is communicated to employees. Even the best-designed structure will fail if employees don't understand how pay works, how decisions are made, or what they personally need to do to progress.

Transparency is not about just publishing pay ranges, it means making the governing principles clear, so staff understand:

- ✔ how their pay is determined ie the logic behind the pay ranges; and
- ✔ what skills or contribution will move them forward ie how progression works.

And when communication is clear:

- ✔ perceptions of fairness improve; and
- ✔ speculation decreases - staff no longer have to guess or fill in gaps.

You might want to consider a layered approach to communication:

- ✔ published frameworks, ranges and progression rules at the organisational level;
- ✔ manager-led conversations at team level; and
- ✔ individual conversations for role clarity and career development.

Manager training is important here

Managers are often the first line of communication when it comes to pay, but they are also the first line of risk. Even unintended inconsistencies in how managers approach pay discussions can create inequalities and transparency will expose these immediately. Some examples here would be managers delivering messages inconsistently or trying to “soften” messages, overusing jargon, or misusing key terminology (so do they understand and can they explain what a market median is?), leading to confusion rather than clarity.

Structured manager training, possibly including FAQs and toolkits to help them have those conversations around pay, will likely improve overall outcomes.

Ultimately, the organisations that handle pay transparency best aren't just publishing their pay ranges - they are building the underlying structures that makes those ranges credible, defensible and fair. Their pay grading frameworks aren't just a compliance tool; they're a tool for building ongoing trust and engagement.

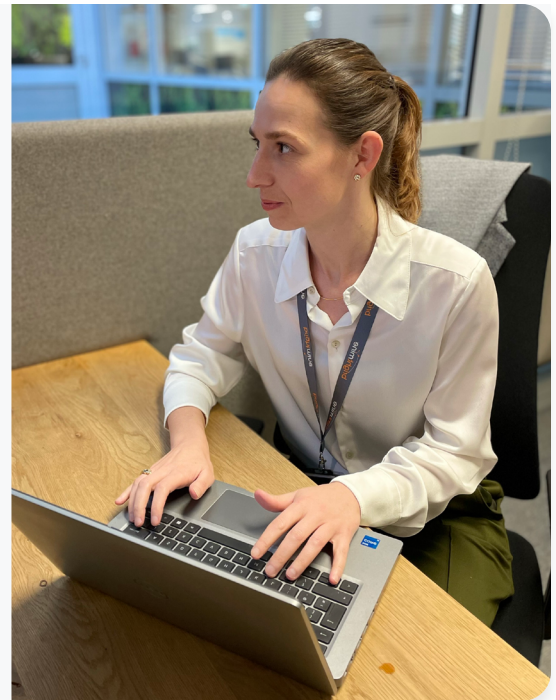
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Kate Taylor
People Product Lead



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