



New Dynamics

Policies and practice

Compensation policy: a practical framework

Document pay principles, decision rights, review criteria and a clear route for questions.

Practical guidance · Worked examples · Printable worksheet

New Dynamics Editorial Team
Published 15 September 2026

www.new-dynamics.com
contact@new-dynamics.com

Inside this guide

State the purpose of the policy	3
Define principles and ownership	3
Explain the review process	3
Worked example: an internal move	3
Policy drafting worksheet	4
Check consistency after decisions	4
Put the guide into practice	4
Frequently asked questions	6
Review the first cycle	6
About New Dynamics	6
Your working worksheet	8

Read in order for the full approach, or use the linked contents to find a section. The final worksheet gives you space to record decisions and next steps.

Document pay principles, decision rights, review criteria and a clear route for questions. This practical guide to compensation policy brings together a step-by-step approach, illustrative examples, a reusable worksheet and answers to common questions. Start with the section closest to your current challenge, then use the working session to turn the guidance into a clear next action.

State the purpose of the policy

A compensation policy explains how the organisation approaches pay decisions. It should help employees understand the process and help managers apply it consistently. Start by identifying what the policy covers: base pay, variable pay, allowances or other components.

This guide is a drafting framework, not a pay recommendation or a legal policy. Local requirements concerning minimum pay, equal pay, transparency, consultation and contract changes need qualified review. Do not publish an unapproved pay range or promise an increase the organisation has not authorised.

Define principles and ownership

Draft a short statement such as: “Pay decisions consider the responsibilities of the role, relevant skills, internal consistency and approved market evidence, within the organisation’s resources.” Define how those factors are used and who resolves conflicts between them.

Separate the manager’s recommendation from approval. Identify who maintains job levels, who checks budget and who reviews exceptions. An exception should have a reason, an approver and a review point so it does not become an invisible second policy.

Explain the review process

Describe when routine reviews occur, what information is considered and how decisions are communicated. Distinguish a pay review from a guaranteed pay increase. If performance contributes to a decision, explain which evidence is relevant and how it is reviewed.

Record the source date and scope of any market comparison. Jobs with similar titles can have different responsibilities. Avoid copying a benchmark without checking role content, location, working pattern and compensation components.

Worked example: an internal move

Illustrative scenario: an employee moves to a role with wider responsibility. The manager submits the approved role description, proposed level and effective date. HR reviews consistency with comparable roles, and finance confirms the authorised budget.

The employee receives an explanation of the decision and the relevant written terms through the approved process. The organisation records the reason and checks downstream payroll changes. The decision follows role scope and documented criteria rather than a manager's negotiating style.

Policy drafting worksheet

- **Scope:** Which worker groups and pay components are covered?
- **Principles:** What factors inform decisions, and how are they balanced?
- **Role framework:** Who defines levels and comparable responsibilities?
- **Review cycle:** When can routine or exceptional changes be considered?
- **Approval:** Who recommends, checks and authorises a decision?
- **Communication:** What will the employee receive and when?
- **Questions:** Where can someone ask for an explanation or raise a concern?

Add an owner, approval date and review date. Link the policy to the organisation's actual role framework and payroll process before adoption.

Check consistency after decisions

Review whether comparable situations were handled using the same criteria and whether exceptions were justified. Examine patterns with authorised specialists and appropriately controlled data. An aggregate difference may be a signal to investigate; it is not a complete explanation of an individual decision.

Train managers to explain the process without sharing another employee's confidential information. Use the [job evaluation guide](#) to clarify role value separately from an individual's performance discussion.

Put the guide into practice

Set aside a working session with the people who own this process and one or two people who experience it. Use a fictional or appropriately authorised case, so the discussion can be specific without sharing unnecessary personal information. The purpose is to leave with a usable decision or document, not just agreement that the topic matters.

Prepare the case

Choose a fictional pay decision, such as an internal move or a request outside the normal review cycle. List the role information, budget approval and policy criteria needed. Identify where the manager's recommendation ends and where an authorised decision begins. Keep individual salary information out of an open workshop.

Write the starting assumptions down before discussing solutions. If the group disagrees on what happened, identify the information needed to resolve that difference rather than building a plan on an untested story.

Work through the decision

Apply the draft policy to the case and write a decision explanation. Check that comparable responsibilities are considered consistently and that any market evidence has a relevant scope and date. Ask whether the explanation is understandable without disclosing another employee's confidential information or promising future increases.

Ask each participant to explain the proposed decision in their own words. Differences in interpretation often reveal an unclear criterion, a missing responsibility or an instruction that will be difficult to follow.

Test an exception

Introduce a request to make an exception because a manager considers the employee indispensable. Ask what evidence and approval the policy requires. Record the reason and review point if an exception is authorised. A difficult retention situation should not create an undocumented rule that undermines the stated framework.

Record what changes in this situation and what remains the same. An exception should lead to a clear next step, with an owner, rather than an informal workaround that nobody can explain later.

Agree the handoff

Confirm how the approved decision reaches payroll and the employee. Check the effective date, authorised terms and the route for questions. The handoff should include a verification step so an agreed change is not treated as complete before the downstream record and communication are correct.

Finish by confirming the owner, the next action and the date when the result will be reviewed. Give the person receiving the work enough context to continue without repeating the whole discussion.

Frequently asked questions

Should a compensation policy publish salary ranges?

That depends on the organisation's approach and applicable transparency requirements. If ranges are published, explain what they represent, how roles are placed and how progression is considered. Do not publish unapproved or misleading ranges simply to appear transparent. Review the policy locally and make sure managers can explain the process consistently with the organisation's actual pay framework.

How should performance relate to pay?

If performance informs pay, define the relationship clearly and use relevant evidence. Explain what other factors are considered, such as role scope, internal consistency and resources. Avoid implying that a particular review rating automatically guarantees a particular increase unless that is an approved rule. Keep development conversations useful even when the pay decision has constraints.

What belongs in a pay exception record?

Record the decision, reason, relevant evidence, authorised approver, effective date and any review point. Explain how the exception relates to the usual policy and which downstream actions are required. Keep access restricted because the record may contain confidential personal information. Reviewing patterns of exceptions can reveal that the standard framework needs updating or is being applied inconsistently.

Review the first cycle

Check whether employees received understandable explanations and whether approved changes reached payroll accurately. Review comparable cases and exceptions with authorised specialists. If managers rely on informal negotiation because the policy does not fit real decisions, identify the gap and revise the framework through the proper approval process.

Keep a brief record of what was tried, what participants found useful and what needs to change. Compare the result with the original problem rather than judging success only by completion. If the process created extra work without improving clarity, quality or support, simplify it and test again. Share the agreed change with the people who will use it, and name the person responsible for keeping the guidance current.

About New Dynamics

[New Dynamics](#) connects goals, feedback, recognition and reviews around the way organisations work. This guide is published by the New Dynamics Editorial Team as part of our practical library for HR leaders, managers and People teams.

Use the examples and worksheets to structure your own discussions and adapt them to your organisation. Illustrative scenarios are not customer case studies. Policy and employment guidance needs appropriate local review before adoption.

For questions about this guide, corrections or a conversation about your performance management process, email contact@new-dynamics.com. Explore the complete [guide library](#) for related resources.

Your working worksheet

Use the prompts from this guide to prepare one real conversation or decision. Keep personal or sensitive information in your organisation's approved records. This page is for your own working notes.

Scope: Which worker groups and pay components are covered?

Principles: What factors inform decisions, and how are they balanced?

Role framework: Who defines levels and comparable responsibilities?

Review cycle: When can routine or exceptional changes be considered?

Approval: Who recommends, checks and authorises a decision?

Communication: What will the employee receive and when?

Questions: Where can someone ask for an explanation or raise a concern?

Discuss your next step with New Dynamics: contact@new-dynamics.com