Private sector practice on progression

A research report for the Office of Manpower Economics

from

Incomes Data Services

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This report has been researched and written by Incomes Data Services (IDS) for the Office of Manpower Economics (OME) on behalf of the Pay Review Bodies.

The work described in this report was carried out under contract as part of OME's research programme. The views and judgements expressed in this report are ours and do not necessarily reflect those of OME.

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Executive summary

The objective of the research was to establish how progression currently operates across the private sector in the UK. The report is based on both quantitative and qualitative evidence gathered over the course of Spring and Summer 2014. The quantitative phase of the research consisted of an online survey of UK employers which secured 189 responses. This was supported by qualitative evidence gathered through telephone interviews conducted with respondents to the online survey (28) and in-depth case studies at selected large employers (6).

The key findings from the survey, case studies and telephone interviews are as follows:

Progression

- Overall 74% of survey respondents operate a form of pay progression whereby an individual's salary increases whilst remaining in the same role.

Pay systems

- The survey showed pay systems based on salary ranges (54%) to be more common than those based on spot rates (26%) or incremental scales (20%)
- Around half of respondents operate separate pay arrangements for trainees, such as graduates. Similar proportions reported having specific pay arrangements for specialist or hard-to-recruit roles
- Often the reasons employers operate different models for different staff groups were imposed, such as mergers, collective agreements and legacy arrangements, rather than out of choice.

Pay structures and rates

- Employers usually operate pay structures with several pay ranges in them, typically operating seven (those with incremental scales) or eight (those with salary ranges)
- The survey showed clear differences in the use of market rates between employers operating incremental pay scales and those using salary ranges, at 56% compared to 86%
- Meanwhile, almost all of those with spot rates (93%) said that salaries are set by reference to market rates
- The majority of respondents set the 'target rate' at the median of the pay range, although those with incremental scales were much more likely to set this at the upper quartile of the range than those with salary ranges

- Around a fifth of employers appoint new joiners at the bottom of the range, however respondents operating salary ranges were more likely to appoint new joiners at the target rate (38%) compared to those with incremental scales (14%).

Factors determining progression

- The majority of organisations base progression on a combination of criteria and the survey showed a common hybrid approach is to use performance alongside skills, competencies or behaviour. Just 17% cited a single factor determining progression
- Where organisations used a number of factors to determine progression, individual performance was cited as the most important factor
- However, this varied between firms operating salary ranges or incremental scales, with the former ranking performance as the most important and the latter ranking performance and length of service as equally important.

Reasons for using different approaches

- Employers reported using performance-based models, which vary awards according to individual performance ratings, to deliver flexibility around use of the pay pot
- Employers also felt that pay matrices – which take into account both an individual's performance rating and their position in the grade relative to the market ensuring the largest pay increases are awarded to the highest performers low in their salary range – provide greater fairness around the allocation of the pay pot
- Competency or contribution-based systems – both broader forms of performance-based pay – were believed to more fully recognise and reward individuals' achievements, skills and experience
- Competency models were also thought to provide greater clarity for progression
- Employers reported using market-based systems to control pay progression, particularly above the market rate
- The survey showed performance playing a role in increment-based models, with 54% of respondents with this pay system stating progression increments are linked to performance ratings.

Awarding progression

- Performance is overwhelmingly measured by individual targets or appraisals, rather than at team or company level
- Half of respondents with incremental scales said employees have to receive a specific performance rating in order to progress

- Progression is most commonly paid as part of the overall award for the year, however just over a third of respondents pay progression separately and in addition to a general pay rise
- Those with incremental scales were more likely to pay progression separately at nearly half of this category; however the proportion for those with salary ranges was still notable at a quarter of respondents in this category
- The overwhelming majority of respondents provide the opportunity to progress annually (90%). Just 6% of firms reported that progression opportunities are provided more frequently than once a year and even fewer (4%) said that such opportunities arise less frequently than annually.

Cost and extent of progression

- The median budget for progression in the survey was 2.5% and the average was 2.8%, with little difference in the size of progression budgets according to the type of pay system in operation
- The survey showed that incremental scales typically have 4 or 5 incremental steps in each grade, each worth 3% at the median or 3.7% on average
- Those with salary ranges said staff can either progress to the maximum (69%), or there is no upper limit to progression (22%)
- It takes longer for a standard performer to progress from entry level to the top of the grade at firms with salary ranges (6.5 years) than those with incremental scales (5 years)
- The survey showed market rates have a greater impact on progression for those employers using salary ranges, with 36% of respondents reporting employees progressed at a different rate when paid above the market rate, compared to only 8% of those with incremental scales.

Managing progression

- Just over half of respondents said they continue to award cost-of-living increases or revalorise pay scales for staff once they reach the maximum of the pay range
- Around a third award discretionary increases to staff at the maximum and a fifth pay one-off, non-consolidated bonuses to staff at the maximum
- Those paid on salary ranges were slightly more likely to receive discretionary increases (40%) than those on incremental scales (32%)
- Employees on incremental scales were more likely to benefit from cost-of-living increases or pay scale revalorisations (68%) than those with salary ranges (55%)

- Performance matrices are used by some employers (eg case study 5) to give the highest pay rises to the highest performers low in their salary range. Some systems provide managers with the discretion to vary pay awards within the overall pay matrix.

Bonuses

- Some 80% of respondents operate a bonus scheme, most commonly based on company and individual performance, followed by individual, team and company performance combined
- Very few organisations base bonuses solely on individual performance, at just 2%
- Excluding awards for senior management, the median bonus payment was worth 8% and the average 9%
- There were significant variations in typical bonus payments by both the type of pay system operated and sector.

Reviewing and altering the model

- Almost half of respondents said they regularly evaluate their pay system and this was slightly more common practice at firms with salary ranges
- Methods varied but most used several sources of information, rather than relying solely on staff surveys or exit interviews
- Evaluations flagged up a number of negative employee perceptions of firms' progression systems, particularly in relation to fairness and motivation
- A third have either recently changed or have plans to change their progression model: employers with incremental scales (42%) were more likely to report changes compared to those with salary ranges (28%) or spot rates (29%)
- The theme among those with incremental scales was a move towards performance-related models, albeit on a hybrid basis, while changes to salary range structures centred around strengthening the link with performance
- There was no discernible pattern for those with spot rates, with some moving to them and others away from them. One organisation had replaced broad bands with spot rates to avoid unpredictable variability in the paybill
- Only one case study (6) revealed evidence of recent legislative changes (age discrimination) having an influence on the pay and progression system used
- Overall, the survey showed that the majority of pay systems are more than 10 years old.

IDS commentary

In this commentary we provide our thoughts on the research, outlining any key messages and points, drawing on our knowledge in this area more broadly.

Hybridisation

The survey highlighted a move towards using a combination of factors in determining progression, or 'hybridisation'. Overall just 17% of respondents based progression on a single factor, the rest base progression on a number of factors, and contribution-based systems, which combine performance targets with additional assessments of employee behaviour or skills, are common. Hybrid models aim to overcome some of the downsides of various 'pure' performance models.

Increments for performance

The survey showed performance playing a role in increment-based models, with a slight majority of respondents (54%) stating progression increments are linked to performance ratings. This is an important finding since it indicates that most incremental systems are in fact not automatic, but include some reference to 'performance', most likely dependent on satisfactory performance rather than a question of capability being reviewed but performance nonetheless.

Role of performance in performance models

Our research suggests that the link between awards and performance ratings is sometimes weak in practice. For example, evidence from the phone interviews showed a number of private sector employers using performance-related pay mechanisms in a relatively narrow manner in practice – simply so as to exclude the poorest performers from otherwise de facto automatic progression payments. For example, a large retailer reported that while all staff are ranked in end-of-year performance appraisals, performance-related pay awards made on the back of these appraisals are decided on a binary pass/fail basis, with the same increase for all those who pass and zero awards for those who fail. Employers cited staff feedback had indicated that employees subject to performance-based pay systems often feel that pay differentiations are used in practice to 'punish the bottom' rather than to 'reward the top'.

Forced distributions

The research provides evidence of use of one of the more controversial aspects of performance models – 'forced distributions'. Several employers operating performance-related pay matrices told us that managers are given strict guidance about the proportion of a population that should fall within each performance rating. This practice serves to impose outcomes in advance and attempts to shoehorn decisions on pay into a predetermined pattern.

Management flexibility and discretion

The qualitative work indicated firms regard a certain level of managerial flexibility and discretion in the reward decision as important, to encourage line managers to take ownership of pay decisions by having meaningful conversations around performance with their team. However, critics highlight the potential for discriminatory decisions and possible equal pay risks as a result of delegating decisions to line managers and the telephone interviews captured examples of this in more detail. Here employers told us they felt that employee performance ratings can be influenced by the ability of the line manager to defend their decisions rather than being driven by an objective evaluation of employee performance. The university case study also provided an example of an employer being particularly aware of this problem and here annual reviews include a distinct criterion to assess pay decisions from an equalities perspective.

Use of market rates

The survey highlighted differences in the use and positioning of market rates, with respondents operating salary ranges much more likely to use market rates (86%) than those operating incremental scales (56%). The survey showed that the majority of respondents set the 'market rate' at the midpoint of the pay range, however market rates at firms with incremental scales were five times more likely to set this higher up the range than those with salary ranges. This demonstrates one of the key differences in the way progression operates between these two types of pay systems. Incremental scales recruit people at the bottom and they move up to the 'market rate' once competent in the role. Firms with salary ranges often recruit higher up the range, but progression often slows once employees are deemed to have reached the 'market rate'.

Budgeting for progression

It is sometimes assumed that all private sector firms have a single award to cover performance, cost of living and progression payments, however a third of survey respondents pay progression separately. The median budget for progression at these organisations was reported to be 2.5%.

Areas for further research

The research has also highlighted a number of areas for further research. The survey showed the vast majority of respondents use performance targets or performance appraisals to determine progression. A further question is what detailed criteria are used for measuring performance? This was beyond the scope of the survey but is an important area for further research.

The research provided examples of employers awarding structured pay rises within salary ranges, for example by means of a pay matrix. However, there is still much to be learned about the extent of structure within ranges, particularly within broad-banded pay ranges. This was not something the survey captured and is a key area for further research since there may be more structure involved here than is immediately evident.

Around half of respondents said they operate separate arrangements for specialist staff but given the survey's length we were only able to capture brief details. It would be interesting to examine further how many employers operate different progression systems, how many different systems they operate and particularly more about the approaches adopted for specialists.

On bonuses, the survey showed most employers base bonuses on company and individual performance, however it would be interesting to examine how much individual performance influences bonuses, and in what ways, as well as well as the balance between individual and company performance in such schemes.

1 Introduction

Incomes Data Services (IDS) was commissioned by the Office of Manpower Economics (OME) to undertake research on private sector practice on pay progression. The OME provides support for the independent Pay Review Bodies, which set pay for around 2.5 million employees, including the NHS, school teachers, the prison service, the armed forces and, from 2015, the police.

The Government has announced its desire to reform pay progression in the public sector. Many of the decisions about how pay operates for public sector workers are influenced by how pay is thought to operate in the private sector and the aim of this report is to produce an independent, evidence-based report detailing how progression operates in the private sector.

1.1 Methodology

This report is based on quantitative and qualitative evidence gathered specifically for the purposes of the research. The quantitative evidence was gathered by an electronic survey of HR managers and professionals conducted by IDS.[1]

The survey was designed using a web-based survey tool which, when used previously by IDS, had proved to be user-friendly, with few problems in terms of respondents accessing or completing surveys. The survey included 102 questions in total, which were agreed with the OME before being sent out. Most of these had pre-defined 'tick box' responses to make the survey easier to complete, within a timescale of around 10 to 15 minutes.

Survey routing meant that respondents skipped certain questions depending on the answers given to previous questions. These factors explain some of the variations in sample sizes throughout this report. Questions with routing are indicated by an asterisk in the survey (see Appendix 1). Further information on the survey routing paths is provided in Appendix 2.

A letter of invitation, including a hyperlink to the survey, was e-mailed to potential respondents at the end of April. An e-mail reminder was subsequently sent in early May and the survey was closed at the end of May to allow sufficient time for data cleaning, checking, verification, analysis and report writing.

The qualitative evidence was gathered through case studies and telephone interviews with survey respondents and these were conducted by our partner for this work, the Institute for

[1] The research is not based on a random sample, so results are indicative and cannot be extrapolated to the whole economy.

Employment Studies (IES). Target organisations for the in-depth case studies were identified jointly by IDS and IES, with the OME providing input as to the priorities for case studies. These aimed to reflect organisations of different sizes, in different sectors and operating different progression models. A detailed discussion guide was drawn up for the case studies and telephone interviews.

The telephone interviews focussed on gathering further evidence on one or two particular areas of interest based on their survey responses and we sought volunteers from survey respondents. The case studies and telephone interviews took place during May and June.

1.2 Profile of survey respondents

The survey was sent to HR managers and professionals at a sample of 1,767 organisations across the private and not-for-profit sectors. The sample was primarily drawn from the IDS Pay Databank, which comprises a number of organisations already known to IDS and that have experience of providing IDS with data for research and general monitoring purposes. Additional contacts were added to the sample from a number of specific sectors, namely difficult-to-monitor private services sectors such as architecture, legal, media and management consultancy. This approach allowed us to target HR professionals in firms with a strategic HR function.

Responses broadly reflect the wider private sector, although manufacturing and primary is slightly over-represented and certain segments of private services under represented. The survey received 189 usable responses in total, a response rate of 11%. The level of responses achieved is strong for survey collecting details about pay system design and structure.

Table 1.1: Profile of survey respondents by main type of pay system

Pay system	Number of responses	% of respondents
Salary range(s)	102	54
Incremental scale/range(s)	38	20
Spot rate(s)/single salary(ies)	49	26

Note: these figures are based on the pay system that covers the majority of employees. Some organisations operate more than one type of pay system.

Table 1.2: Profile of survey respondents by organisation size

Sector	Number of responses	% of respondents
Fewer than 50 employees	18	10
50 to 249 employees	55	29
250 to 999 employees	28	15
1,000 to 4,999 employees	49	26
5,000 to 9,999 employees	19	10
10,000 employees and more	20	11

Table 1.3: Profile of survey respondents by broad sector

Sector	Number of responses	% of respondents
Private services	117	62
Manufacturing & primary	53	28
Not-for-profit sector	19	10

Table 1.4: Profile of survey respondents by sector

Sector	Number of responses	% of respondents
Accommodation and food services	3	2
Agriculture and mining	1	1
Arts, entertainment and recreation	6	3
Construction	7	4
Heath and education	29	15
Electricity, gas and water supply	10	5
Finance	18	10
Information and communication	12	6
Manufacturing	35	19
Professional services	27	14
Retail and wholesale	17	9
Transport	5	3
Voluntary	19	10

Table 1.5: Profile of survey respondents by sector and pay system

Sector	Number of responses	% of respondents
Private services		
Salary range(s)	63	54
Incremental scale/range(s)	26	22
Spot rate(s)/single salary(ies)	28	24
Manufacturing & primary		
Salary range(s)	34	64
Incremental scale/range(s)	7	13
Spot rate(s)/single salary(ies)	12	23
Not-for-profit sector		
Salary range(s)	5	26
Incremental scale/range(s)	5	26
Spot rate(s)/single salary(ies)	9	47

1.3 Profile of case studies

As part of this research we undertook six in-depth case studies. The case study organisations include a large car manufacturer, a large charity, a FTSE 50 company, a specialist construction company, a bank, and a university. All case study participants, except the bank, provided information on the basis of anonymity therefore none are named in the report as it would be inconsistent to name just one. A short profile of each case study is set out below.

Case study 1 is a large car manufacturer employing over 3,500. The company operates two main pay systems; a Shop Salary System, which includes the largest occupational group in the company termed 'Team Members' alongside Team Leaders and Group Leaders, and an

Office Salary System which includes Specialists/Engineers and Section Managers. The case study primarily focuses on the Shop Salary System as this covers the majority of the workforce. Progression increases are linked to individual appraisal scores and the model also includes arrangements for promotion. Salaries are revalorised each year and individuals receive individual appraisal-linked rises. Employees also receive a collective bonus.

Case study 2 is a large UK charity employing 3,500 staff in total. The case study focuses on arrangements for the organisation's 700 scientific and 2,800 non-research corporate populations. The pay system for the former is based on three broad job families, with 22 open pay grades. Non-research staff are covered by a 10-grade model, with roles split into three main functions and broad pay bands. Pay progression is competency-based and is linked to an assessment of an individual's performance and contribution. Increases are linked to performance ratings and there is no separate cost-of-living award or bonus scheme.

Case study 3 is a FTSE 50 firm with 40,000 globally and 10,000 in its UK corporate population. The pay system for the corporate population is based on nine broad salary bands. Progression within each broad band is determined by both an individual's performance rating and his or her pay position relative to the market i.e. a matrix approach. Various factors affect the annual pay pot, including cost of living factors, and there is no separate cost of living pay increase. Employees are eligible to receive performance-related bonuses, subject to satisfactory business performance.

Case study 4 is a site-specific, highly-specialist construction company. The company operates under a target cost contract with the non-departmental public body that owns the site. Since 2012, the company has been a wholly-owned subsidiary of a larger consortium. The company currently employs approximately 1,000 people. Progression is linked to technical and behavioural competencies, as well as performance against objectives and an employee's position within the pay range. The progression pot is worth 1% of total base pay and an annual cost of living rise is also negotiated with the Trade Unions. Employees are also eligible for the annual company bonus.

Case study 5 is a large bank and the progression arrangements discussed cover its 4,500 UK employees. The pay system operates through 15 functional job families, with 49 broad pay bands which are set by reference to the market. Progression is determined through a flexible pay matrix which takes into consideration both an individual's performance rating and position in the salary range. The annual pay pot includes consideration of any cost of living movements; therefore there is no separate cost of live increase. Employees are eligible to receive bonuses. The pot is determined by company performance and individual awards vary by grade and performance.

Case study 6 is a public research university with a total of 7,500 employees. The pay system is based around job families and there are two distinct pay spines for academic and non-academic staff. Progression is based largely on standard automatic increments, although some grades have additional scope for further contribution-based progression, plus the opportunity for further adjustments via the annual 'pay relativity exercise'. A cost of living award is applied to all staff and there is no bonus scheme.

1.4 Profile of telephone interviewees

We sought volunteers for the telephone interviews at the end of the survey and 42 organisations said they would be happy for us to contact them for further details of their progression system. In total we conducted 28 additional targeted telephone interviews with survey respondents. The profile of these organisations is set out below.

Table 1.6: Profile of telephone interviewees by main type of pay system

Pay system	Number of responses	% of respondents
Salary range(s)	16	57
Incremental scale/range(s)	5	18
Spot rate(s)/single salary(ies)	7	25

Note: these figures are based on the pay system that covers the majority of employees. Some organisations operate more than one type of system.

Table 1.7: Profile of telephone interviewees by organisation size

Sector	Number of responses	% of respondents
Fewer than 50 employees	6	21
50 to 249 employees	2	7
250 to 999 employees	2	7
1,000 to 4,999 employees	10	36
5,000 to 9,999 employees	4	14
10,000 employees and more	4	14

Table 1.8: Profile of telephone interviewees by sector

Sector	Number of responses	% of respondents
Private services	19	68
Manufacturing & primary	4	14
Not-for-profit sector	5	18

2 Progression: themes and issues

This short section offers a commentary on the context of pay progression and the findings of this research.

2.1 Purpose of change

It has always been evident in reward management that there are those organisations which at particular times and for specific reasons take a strategic approach to innovation in their pay systems compared with those organisations or those circumstances where change is merely a technical exercise with limited ambitions.

Strategic reward

If we look first at strategic change it has a number of distinctive features. One constant characteristic is that there is alignment between business strategy and reward strategy: the latter seeks to enable the business goals. Thus harmonisation of pay progression systems may follow a merger or acquisition with the express intent of enacting a 'one company' philosophy. The same driver has been evident in blue and white collar pay harmonisation. Another characteristic of strategic reward change is the so called 'horizontal integration' of reward with other aspects of HR management. ('Vertical integration' refers to the link to business strategy.) Thus if say the aim is to encourage team working this might be supported not just by team based pay, but also by work organisation and management structures.

Sometimes strategic reward initiatives have been led by reward practitioners to meet their own goals of remuneration improvement, though these of course would need to be accepted by the wider function and organisation as legitimate. An example of this phenomenon is the simplification of pay systems to make them more transparent and lead to greater employee understanding, often with the hope that staff become more supportive of the remuneration package.

One of the most important strategic objectives in reward management over the last 30 years has been to effect cultural change. Certainly in the private sector from the 1980s onwards, and later in the public sector, performance related pay has been a key means to get employees to be more bottom line focussed. This has obviously had a major impact on pay progression systems with merit pay replacing incremental pay to deliver such a goal. This approach has not been without its critics who object to the simplistic notion that pay is the principal motivator of performance and to the evident attempt to control employee actions. Whilst not accepting the fundamentals of this criticism, reward managers have recognised that performance is more multi-faceted and motivation comes from multiple sources. The result has been both adding complexity to performance related pay models (especially the broadening of the performance definition to include inputs – skills, competencies - as well as outputs – meeting objectives) and interest in concepts like total reward that acknowledges the intangible as well as the tangible benefits of employment.

Another aspect of strategic reward that has emerged more recently is segmentation. This acknowledges that the market situation varies for different groups and that the employment deal also varies depending on the population concerned. This insight has led not just to striving for greater market alignment but also to flexing the reward offer to fit the various workforce groups (defined by grade, geography, function, etc). In practical terms this has sometimes meant creating job families to facilitate the introduction of different deals (eg shorter pay progression for the lower graded) or the picking out of occupations for enhanced reward (eg faster progression) where there is both labour market scarcity and criticality to business success. Talented individuals may also be beneficiaries of these arrangements. In those organisations where HR is more joined up, there is a connection made between reward and talent management processes. In practical terms, matrix pay systems try to focus available performance-related pay money on the high performers that might be at risk of poaching (because they are behind the market rate).

Responsive reward

By contrast some reward change is simply driven by events. Organisations react to changes in their internal or external environment without seeking to reposition their reward systems to meet either business or people management aims. An obvious general example of this is seen in the organisational response to equal pay legislation. Pay ranges have been shortened (and progression speeded up) to address age and gender discrimination concerns that are evident with long pay ranges and slow progression up them.

Budget tightening in recent years has also seen ad hoc decision making aimed simply to get the organisation through a crisis rather than through consideration of new reward models for a different age. Trade unions are less evident as a source of pressure than in the past, but certainly their fears about the efficacy of performance related pay progression has led some organisations to add more checks and balances to their decision making processes and to complicate pay systems through guarantees to the speed of progression or level to be reached.

Of course some of the change imperatives described earlier (like business or market change) can be dealt with not in a strategic way but with short term considerations to the fore. The plethora of pay allowances and the complexity of progression rules are evidence of this.

2.2 Method of change

One important aspect of 'new' reward models is the emphasis placed on management decision making. Across the sweep of people management practice there has been a long standing attempt to get line management more engaged in taking responsibility for 'HR' activities. So instead of mechanistic pay systems (like many incremental structures) or ones controlled by corporate HR (as in many job evaluation systems), managers are encouraged to make their own judgements on individual contribution. Broad banding reduces the impact of job evaluation with managers determining progress across competency/skill gateways and merit schemes rely on managers assessing performance to determine the rate of progression. At least in the private sector and for middle graded staff, spot salary systems give managers the chance to determine individual salary based on multiple factors including desire to retain, market position and performance. Open ended pay ranges may give similar discretion to managers.

Such an approach is the complete antithesis of collective reward systems that seek to minimise individual difference and aim for equity through commonality. From the rise of the HR Management (HRM) movement in the 1980s there has been this switch in thinking in trying to engage the workforce as individuals rather than as groups. Devolving pay responsibility to managers within systems that emphasise flexibility to meet specific circumstances has been an important means to achieve this goal.

A final point to emphasise regarding the operation of performance linked reward is that the assumption was that there would be a switch from the emphasis on base pay adjustment, with its attendant on-costs (through pension payments and calculation for overtime, shift premia, etc), to variable pay. Not only is the latter cheaper to deliver, it emphasises that the employee must constantly re-earn their performance related pay reward. The bad publicity that 'bankers' bonuses' may have had may have dented enthusiasm for this form of remuneration, but as the survey shows the private sector is using bonuses to reflect different levels of performance – at company, team and individual level. The key HRM objective of the alignment between employee action and organisational performance is reinforced by such a means.

2.3 Areas for future attention

To conclude this commentary perhaps some words of caution are in order. These relate to the design and execution of new reward systems. Too much HR practice, including reward practice, reflects professional fads where HR managers latch on to the latest good idea and apply it to their organisation irrespective of circumstances. The rush to competency based pay in the late 1990s is an example.

This tendency is reinforced by the tyranny of 'best practice' whereby universal reward principles are asserted and applied, again with insufficient regard to context. The public sector's adoption of private sector best reward practice could be seen as an illustration of this point.

This issue has become more significant where reward budgets are squeezed. Attempting major reward reform with small budgets is especially challenging. Robbing Peter to pay Paul is not easy under any circumstances but is made much easier if there are funds to sweeten the pill (eg by making it a relative rather than absolute robbery).

Organisations then frequently fail to give enough attention to implementation, be it in the engagement of line managers in supporting change, workforce communication of the intention of change and its practicalities, modelling new decision making processes or in training those involved to operate new systems. The consequences may be that change is not embedded as it should be. This is sometimes because of the unintended consequences that arise from initial poor or inappropriate design. Employee and/or manager gaming of target based performance related pay systems is a good and all too common example of this phenomenon.

Perhaps understandably organisations are reluctant to use trials of new progression processes or pilot them in limited areas fearing the difficulty of managing different approaches for different groups. Yet this is where much good learning of practical implementation challenges can be found.

Finally, scheme evaluation and monitoring is vital to success. Satisfaction and dissatisfaction with reward through employee surveys and exit interviews is reasonably common as this research shows. However, it needs to be supported by assessment of whether scheme objectives; especially business objectives have been met. Of course, employee satisfaction might be one goal, but so might be improved customer service, higher productivity, greater innovation etc. So a balance might be struck between examining how well procedurally pay progression is working (addressing questions around employee felt fairness) with how well it is meeting broader business objectives, including employee attraction and retention.

3 Approaches to progression

In this section of the report we outline survey responses covering approaches to pay progression adopted in the private sector. This covers the different types of pay system used in the private sector, and how pay progression, if used, operates within these systems. We also quantify the incidence of each and variation across sectors, organisation size, and broad employee level where relevant.

3.1 Pay systems in the private sector

The IDS study for the OME in 2005[2] identified seven main categories of organisational practice on pay progression. These were those based on length of service, performance, competency, skills, market pay, promotion and lastly hybrid systems which combine a number of different criteria.

The ways in which organisations structure pay and progression for staff varies greatly. Therefore, rather than asking employers to identify their approach from a list such as the one given above, the 2014 survey sought to establish the basic type of pay system in operation, then followed with a series of detailed questions designed to establish exactly which mechanisms govern employee progression and how this works in practice.

The survey asked respondents to select which of the following terms best described the pay system covering the majority of employees at their organisation:

- a salary range or ranges, such as broad or narrow pay bands;
- an incremental pay scale or scales, which typically contains a hierarchy of pay points, steps or increments; or
- a system of spot rates or single salaries where there is a single pay rate for a job or grade.

Table 3.1: Types of pay systems used by employers

Pay system	All respondents		Private sector services		Manufacturing & primary		Not-for-profit sector	
	Count	%	Count	%	Count	%	Count	%
Salary range(s)	102	54	63	54	34	64	5	26
Incremental scale/range(s)	38	20	26	24	7	13	5	26
Spot rate(s)/single salary(ies)	49	26	28	22	12	23	9	47

[2] IDS, 'Organisation practice on pay progression', May 2005.

A majority of organisations responding to the survey (54%) operated salary ranges, with spot rates (26%) and incremental pay scales (20%) less common[3]. In the manufacturing sector incremental pay scales were even less commonly used (13%), compared with salary ranges (64%). In the not-for-profit sector, however, the most popular option was spot rates or single pay rates for job roles (47%).

In both the retail and finance sectors (within private sector services), pay structures based on salary ranges were by far the most popular pay mechanisms, used by 13 of 17 (77%) respondents in the retail sector and 13 of 18 (72%) respondents in the finance sector. A handful used spot rates, and one firm in each sector reported incremental pay scales. In a number of sectors, such as transport or construction, responses included all three types of pay structure with no discernible pattern. The use of explicitly incremental pay systems was rare in the manufacturing and production sectors, although two utility companies used incremental pay scales alongside other pay ranges for different staff groups.

3.2 Occupational coverage

The survey also asked employers to provide further details about their pay system and they were asked to which employee groups are covered by the main pay system, how many pay ranges are operated and whether pay ranges are based on grades, roles, job families, job evaluation or some other factor.

Of the 38 organisations using incremental scales, slightly over two-fifths of respondents (42%, 16 organisations) reported that the pay system covers all employees, some 59% of firms (60 respondents) with a pay system based on salary ranges said that this system covered all employees, and 47% of those with spot rates said this model covers all employees.

A closer look at the results by broad employee group (see Table 3.2) showed that senior managers and executives were the least likely occupational group to be covered by an incremental pay system (at just 14%), while skilled trades and operatives were the most likely to be covered by this type of pay system (30%).

[3] This mirrors findings from the 2010 IDS survey on pay progression where 55% of 91 respondents operated salary ranges, 25% operated incremental salary ranges and 20% operated spot rates. See IDS HR Study 929, November 2010 for details.

Table 3.2: Employee groups covered by differing pay systems

	Senior managers and executives		Professional and technical staff		Customer, caring and admin staff		Skilled trades and operatives	
Pay system	**Count**	**%**	**Count**	**%**	**Count**	**%**	**Count**	**%**
Incremental scale(s)	19	14	34	21	37	22	29	30
Salary range(s)	81	60	93	58	90	53	44	45
Spot rates	36	26	34	21	42	25	24	25

3.3 Single or multiple pay ranges

The survey showed employers are highly likely to operate more than one incremental pay scale, with just 17% reporting that all employees are covered by a single pay scale. Of the 83% who operated more than one scale, the median number of other pay ranges used was seven (the average was 11). A significant proportion (37%) had 10 or more, with one international hotel chain reporting that hundreds are in use, presumably reflecting the use of separate pay scales in different locations.

A quarter (25%) of those with salary ranges reported operating a single pay range for all staff. Of the remaining the median number of pay ranges was eight (the average is 13). Some respondents noted that they operate a large number of salary ranges and that these are linked through the use of job families, for example, as at one large finance sector firm. Other examples include a motor manufacturer which operates separate salary ranges for each occupational group, while a legal firm described separate systems for partners, other fee earners, business support staff and secretaries.

Furthermore, the qualitative research found that some employers with range ranges – including the specialist construction case study – use systems of overlapping pay ranges within single bands. So, while a main salary band might be used for all professional staff, specific roles within this population may have the speed or size of progressions altered to reflect market demands or perceived learning curves.

Table 3.3: Number of pay scales or ranges operated

	Those with incremental scales	Those with salary ranges
Indicator	**No. of pay ranges**	
Median	7	8
Average	11	13

3.4 Basis of pay ranges

As Table 3.4 shows, the most common approach is to base pay ranges or scales on grades, closely followed by roles. Overall 25% of employers base their pay scale or range on job evaluation, although this approach was more common at firms with incremental scales

(36%) than those with salary ranges (21%). Meanwhile job families are used by 17% of respondents. This approach was more common at firms with incremental scales than at firms operating a salary ranges.

Table 3.4: Basis of pay scales or ranges

Factors for progression	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Grades	68	49	23	59	45	46
Roles	67	48	17	44	50	51
Job families	24	17	8	21	16	16
Job evaluation	35	25	14	36	21	21
Other	16	12	4	10	12	12

Note: respondents could indicate more than one option for this question. The proportions are based on the number that provided a response.

3.5 Spot rates or single salaries

Employers operating spot rates or single salaries were much more likely than those with either incremental scales or salary ranges to report that this pay system covers all employees. In total 46% reported the pay system covered staff in all occupation groups and 33% reported the pay system covers all staff except senior managers and executives.

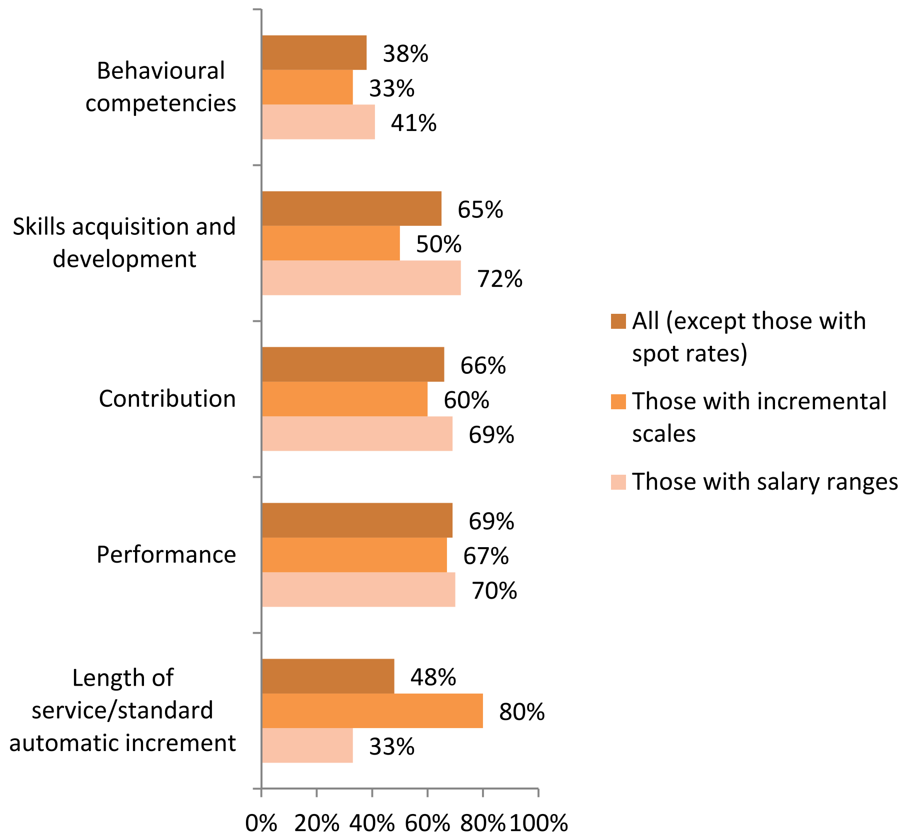
Of those firms operating a pay system based on spot rates or single salaries a majority (58%) reported that there are no other forms of pay system at the same organisation. Of those who did have other arrangements, one further education college had spot rates for the majority of staff but separate pay arrangements for the top leadership team, whose pay is decided by the college governors. An agricultural business reported using spot rates for skilled operatives alongside salary ranges for management, professional and administrative staff. This was similar to a large motor manufacturer, where reward for skilled operatives is based on spot rates but white-collar staff are paid according to a salary range with performance-based progression.

3.6 What determines progression?

Respondents to the survey with incremental scales or salary ranges were asked a series of questions to identify the means by which employees are able to progress through their pay range or scale and Chart 3.1 summarises the responses. Those with spot rates were asked different questions about promotion opportunities separately (see Section 3.14).

When we asked employers to select which factors determine progression, performance was identified as the most important factor (most often based on an appraisal of individual performance – see Section 3.8). This was followed closely by contribution, then the acquisition of skills. A significant minority use length of service as a criterion for progression, or pay a standard automatic increment. This indicates that some salary range systems include some sorts of steps, redolent of increments, in a more transparent way than simple broad bands, with minimums and maximums and little or no structure between them.

Chart 3.1: Factors that determine progression



Very few employers cited just one factor that influenced progression, with most selecting two or more. Analysis of both those employers with incremental pay scales and those with salary ranges shows that the largest proportion of employers (29%) selected four out of the five factors, followed by 26% selecting two, 19% selecting three, and 9% selecting all five factors. Slightly less than one in five employers (17%) said that they only use one factor.

Of those selecting just one factor, it was most commonly length of service, although a smaller number selected contribution (in itself a hybrid measure, usually taking into account both performance and competencies). For those selecting three or four, a common approach is to use performance alongside skills, competencies or behaviour, reflecting the way in which some organisations use a performance assessment based on a combination of measures, not just the extent to which an employee has met targets or objectives.

Examples of how this works in practice include one food and drink manufacturer, where employees' year end evaluation for progression purposes consists of both a competency assessment and the measurement of performance against pre-set objectives. Similarly at a utilities company, progression is based on an assessment of performance, behaviour and skills.

Furthermore, when questioned during follow-up telephone interviews, several respondents explained that where they indicate that they use a combination of criteria when determining progression, few if any formal measurements are made in practice. Instead, pay rewards are often determined during loosely structured managerial appraisals, with *ad hoc* decisions made with reference to notions of 'performance', 'behaviours', 'skills', and 'contributions', but without formal mechanisms with which to test for these on a case-by-case basis. No pattern can be found in the type of employer that utilises such informal hybrid systems – cases were found in organisations of all sizes, and within the retail, care, banking, insurance and legal sectors.

This is not to say that all hybrid systems operate in such an *ad hoc* manner. The FTSE 50 case study formally and separately assesses an employee's individual behaviours and attainment of objectives, before determining how an individual's pay moves relative to the market. Elsewhere, the specialist construction case study formally tests for delivery, and technical and behavioural competencies, while still allowing for room for discretionary changes by having the markings of these measurements inform the discussions of a panel of senior managers and HR representatives.

Clearly, progression levers vary within the same organisation where there are multiple pay and grading structures in place. For example, at one publishing group, professional staff (journalists) have well-defined pay points and progress through skills acquisition, while for all other staff on non-incremental pay ranges, however, progression is determined by performance.

As noted in the 2005 IDS research for OME[4], it is also the case that market rates are a significant influence on the reality of progression arrangements (see Chapter 4) in addition to budgetary considerations. For example, at one major media firm three factors are taken into account when deciding on individual pay increases: individual performance; affordability; and market rates.

[4] IDS, 'Organisation practice on pay progression' May 2005.

3.7 The most important factor determining progression

The results above illustrate how most employers use a mixture of criteria to determine progression through a pay range or up a pay scale. But of these different, occasionally contradictory factors, which do employers identify as the most important one?

Asked which one of the five criteria shown in Chart 3.1 is the most important factor at their organisation, 80 respondents were able to provide a single answer. The responses given by those organisations with incremental scales contrasted with those that operate salary ranges. Employers with an incremental pay scale cited performance (37%) as equally important to length of service (37%), while a lesser proportion prioritised skills (15%) and contribution (11%). However a significant majority of employers that used salary ranges say that performance is the most important factor (60%), followed by contribution (19%), skills (10%), length of service (6%) and behavioural competencies (4%).

A closer look at the organisations that selected length of service or standard automatic increments as the main factor shows that they are predominantly from the care or higher education sectors (many of which will have a strong public sector pay legacy), with only three exceptions, suggesting that automatic, incremental progression systems based on length of service are rare in the wider private sector.

Table 3.5: Most important factor for progression

Factors for progression	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Service/auto. increment	13	16	10	37	3	6
Performance	42	48	10	37	32	60
Contribution	13	16	3	11	10	19
Skills acquisition and development	10	13	4	15	6	11
Behavioural competencies	2	3	0	0	2	4

3.8 Measuring performance

As performance has been identified as the most important factor determining progression in the private sector, it is important to establish how this is measured.

The survey asked employers how performance was measured, where this determines an individual's progression increase. There is little variation between organisations operating incremental pay scales and those using salary ranges in terms of how this is done (see Table 3.6).

All but one of the 78 organisations answering this question (99%) use individual performance targets and/or performance appraisal to determine progression. Team results are used by 15% as part of an assessment of performance, perhaps a more significant proportion than might have been expected given the rarity of team-based pay, although no organisation uses this measure on its own. More significant was organisational performance, which was used by 32% of organisations in conjunction with individual performance to determine individual progression.

Where performance-related pay matrices are used, several employers have expectations for the proportion of staff that should fall within each performance rating. Such practices were found in a bank, as well as the FTSE 50 and charity case studies.

Table 3.6: Measuring performance

Performance measure	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Individual targets/appraisal	77	99	22	96	55	100
Against team targets	12	15	4	17	8	15
Against organisational targets	25	32	7	29	18	33

Note: respondents could indicate more than one option for this question. The proportions are based on the number that provided a response.

3.9 Performance and increments

While methods of assessing performance for progression purposes appear to be similar across organisations with either incremental scales or salary ranges, the survey sought to establish the actual impact of a performance assessment on progression where employers operate an incremental scale.

This shows that is it possible for increments to be linked to some form of performance assessment or appraisal. Meanwhile, at firms where increments are not subject to any assessment of performance, it is important to note that historically the 'rate for the job' was set at the maximum of the incremental scale and employees automatically progress to this rate as they become more experienced and competent in the role.

3.10 Skills and development

As outlined previously, employers operating salary ranges are more likely than those with incremental pay scales to use the acquisition or development of skills to determine or influence progression: 72% cited skills as a factor determining progression compared with

50% of organisations with incremental scales. To follow this, both groups of employers were asked whether employees receive a pay rise for acquiring or developing specific skills. Of those using incremental pay scales for the majority of staff, 30% answered affirmatively but the majority (70%) said that they did not. In contrast, employers using salary bands were evenly split, with 50% stating that skills acquisition or development did result in a pay rise and 50% reporting that it did not.

Table 3.7: Employees receiving a pay increase for acquiring or developing specific skills

Response	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Yes	38	44	8	30	30	50
No	49	56	19	70	30	50

3.11 Defining contribution

An assessment of employee contribution to the organisation is clearly an important gateway to pay progression, with a majority (66%) of employers (excluding those with spot rate pay arrangements) selecting it as one of the determinants of progression at their organisation. The survey asked employers whether their organisation defines and measures contribution in terms of both performance and competency or whether a different approach was taken.

The majority of employers with either incremental scales or salary ranges reported using a performance-plus-competency formula (88%). One housing association uses an assessment of "exceptional contribution" as a threshold for the top two increments in each pay scale – an assessment which is made by the employee's line manager (approved by the senior management team) and can take into account more than one year's performance. At a large manufacturing firm, taking on additional responsibilities is described as the main reason why progression pay increases are usually given.

Table 3.8: Defining contribution

Definition	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Performance + competency	56	88	16	89	40	87
Other factors	8	12	2	11	6	13

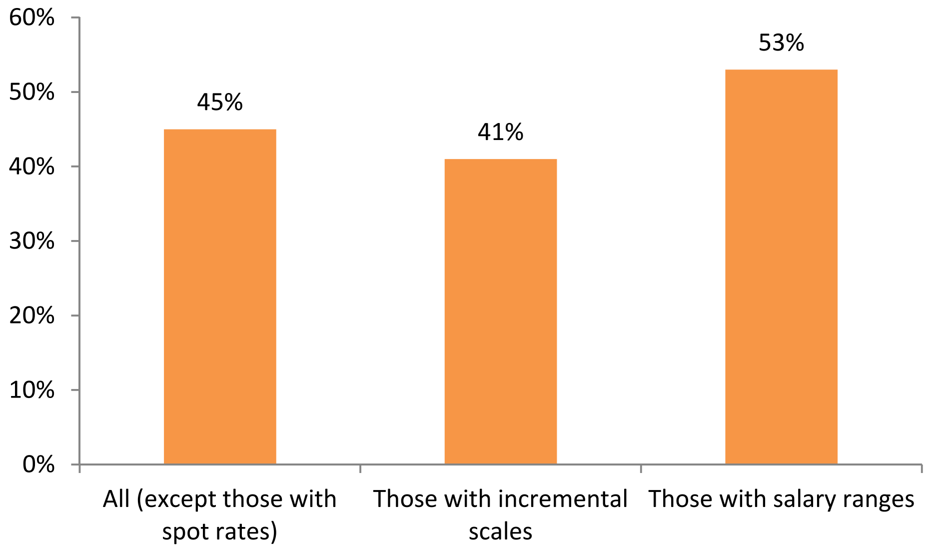
Other examples from the qualitative work – such as the charity and manufacturing case studies – measure contribution against the achievement of targets, which in some cases is based on individual contribution and in others on team targets. Such measurements are in practice similar to the 'achievement' or achievement-assessed performance criteria used by other organisations, such as those used by the FTSE 50 and The bank case studies.

3.12 Arrangements for trainees/graduates

As a group of staff who may need to gain some quite specific skills and competencies, graduates and other employees that might be categorised as 'trainees' are sometimes subject to different progression arrangements. Overall 45% of respondents (excluding those with spot rates) operate a separate pay range or rates for trainees, such as new graduates.

As Chart 3.2 shows, these arrangements are slightly more common at organisations operating salary ranges (53%) than they are at those where the main pay structure is an incremental scale (41%). Where separate structures for trainees were in place, employers were asked to explain how a trainee would move on to the normal pay rate for their job.

Chart 3.2: Organisations operating separate pay ranges for trainees



Boxes 1 and 2 provide examples of the approaches taken for trainees and shows that many recruit trainees on discrete spot rates initially, moving them onto company-wide pay schemes which incorporate an element of progression once qualified/trained. The qualitative work, however, showed the reverse to be true at a building society. This society, while operating a spot salary system for the majority of its employees, occasionally recruits into development roles with defined pay progression routes linked to performance and the achievement of set objectives over a defined period of time. Upon completion and retention, such recruits then enter the society's spot salary system as a permanent member of staff.

Box 1: Examples of the ways in which graduate trainees move on to normal incremental pay scales

Sector	Arrangement
Organisations operating incremental pay scales	
Retail and wholesale	Once in the job and fully trained, graduates move onto the salary range for their specialism at lower end of the pay scale
Manufacturing	Graduate scheme entrants have their own scale for three years (with annual progression subject to a satisfactory performance) then sign off after three years into the appropriate grade pay scale
Not-for-profit	Employees apply for a permanent position at the end of an apprenticeship, internship or graduate programme
Professional services	Once qualified (after 2 years), trainees/graduates move to the associate pay scale, initially to the bottom of the scale

Box 2: Examples of the ways in which graduate trainees move on to normal pay ranges

Organisations operating salary ranges	
Manufacturing	After two years on the graduate scheme, the employee will be promoted to the first management grade
Manufacturing	In-house apprentices receive biannual pay reviews as per traditional apprenticeship arrangements, before moving to the minimum terms of the salary range applicable to the team they enter into upon completion
FTSE 50 case study	There are specific points during the company's in-house apprenticeship scheme at which apprentices will receive a pay increase. When they reach the end of their apprenticeship, they may be offered a substantive job and they will be paid according to this role. Typically they will be moved across to a permanent role at 90% of market rate
Finance	An individual is assessed based on skills, experience and relativity with peers at point of graduating from the scheme
Specialist construction case study	Newly qualified craft employees, who have just completed their Apprenticeship, will spend approximately two years in the 'Support' pay band where the scope for progression between the minimum and maximum of the band amounts to about £7,000. After which they will move into the Technician Craft range, where the band is broader at £13,000, offering more scope for progression
Manufacturing	Interns have a spot rate. Graduates enter on a fixed rate but after one year their pay progression is down to them, so higher performing graduates after one year will progress up their grade range much more quickly
Manufacturing	In the case of finance graduates, progression is linked to performance and passing of exams to reach fully qualified status
Professional services	Graduates undertake a two-year period of training and then move on to the standard starting solicitor rate once qualified. After this, pay is linked to their performance and the type of work they complete

3.13 Progression for specialist or hard-to-recruit staff

Some 35 employers in the survey – both those operating incremental scales for the majority of staff and those with salary ranges – have specific pay progression arrangements applicable to specialist or hard-to-recruit staff. One care home provider with an incremental pay system awards nurses six-monthly increments rather than the annual standard, while a bank has around 40 role-specific salary ranges in place for specialist staff. However this looks to be the exception rather than the rule, with the most common approach tending to be the use of a separate payment, such as a market supplement or recruitment and retention payment, to reflect recruitment difficulties for particular posts. Some organisations will appoint hard-to-recruit staff higher up the incremental scale, however.

For those employers operating salary ranges, appointing hard-to-recruit staff at a higher point in a pay range is the most common approach, rather than applying a separate payment. A number of employers mention paying above the minimum, mid-point or the market median where necessary. While salary ranges clearly provide greater flexibility to make exceptions than incremental scales, some employers note the downsides, including both the difficulty of maintaining internal relativities and the fact that this may limit the employee's future progression and salary increase payments. Facing such challenges, a professional association reported in the qualitative work that it has introduced an element of discretionary flexibility to the upper end of its pay ranges in an attempt to retain specialists.

An additional mechanism in place at the same organisation (a professional association) also sees some managers and specialist staff employed on non-standard, fixed-term contractual arrangements. These contracts remove such individuals from standard pay structures altogether. This strategy is used elsewhere, such as within the specialist construction case study, which hires some specialists on bespoke, personal contracts.

The telephone interviews also indicated that, with each of these differing strategies, managerial discretion plays a key role in determining how specialist recruits are attracted and retained across the economy on a case-by-case basis.

3.14 Progression at firms with spot rate pay structures

Spot rate pay arrangements – offering a 'rate for the job' – do not provide a framework for employee progression in the way that incremental or salary pay ranges do, but they can nevertheless provide opportunities for employees to progress by means of promotion to a higher pay rate. Of the (49) 26% of respondents to the survey that operated a system of spot rates for the majority of staff, almost all (93%) said that salaries are set with reference to market rates.

A high proportion of employers with spot rate pay structures (82%) stated that promotion is available to a higher salary or spot rate. In contrast to the annual progression increments usually available via incremental pay scales, however, the majority of firms with spot rates reported that promotion opportunities are available "less than annually" (56%). Just over one in five (22%) reported that promotion opportunities arise on an annual basis, 5%

reported that this was the case on a six-monthly basis and 17% said that such opportunities arise more frequently than this.

Table 3.9: Frequency of promotion opportunities at firms with spot rates

Frequency	% of respondents
Less than annually	56
Annually	22
6-monthly	5
More frequently than 6-monthly	17

At a majority of organisations (67%), the employee must apply for promotion to a specific role in order to be promoted to a higher rate of pay. A higher salary may also be secured with the growth of a job role at 37% of organisations, although 33% of employers with spot rates say that a higher salary depends on sufficient funding being available. Almost half (47%) of employers using spot rate systems said that securing a higher salary would depend on work being available at the higher level.

A few respondents who participated in follow-up telephone interviews indicated that, where spot rates were used, managers were sometimes permitted to award discretionary pay awards in recognition of increased competencies or performance, or an increase in a role's scope. One construction company indicated that their awards of this kind were made as consolidated, rather than one-off, payments, effectively functioning as promotions without a change in job title.

4 Progression costs and budgets

This section of the report examines the financial mechanisms in place for progression, including how progression is paid, the frequency and value of progression payments, the length of time to progress, arrangements for staff at the maximum, whether there are separate budgets for progression payments and if there are any further performance awards, such as bonuses.

4.1 Payment of progression

A key issue with progression is whether is it paid as part of an overall pay award for the year or as a separate payment. In total, 67% of respondents pay progression as part of the overall award for the year (along with any cost of living award or general uplift) and 33% pay progression separately.

Analysis by type of pay system and by sector shows that progression is more likely to be included in the overall award for the year at firms that use salary ranges and within private services.

Table 4.1: Payment of progression by main type of pay system

	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
As part of the overall award for the year	61	67	16	53	45	74
As a separate payment to the general pay rise	30	33	14	47	16	26

Table 4.2: Payment of progression by broad sector

	Manufacturing & primary		Private services sector		Not-for-profit sector	
	Count	%	Count	%	Count	%
As part of the overall award for the year	19	63	39	72	3	-
As a separate payment to the general pay rise	11	37	15	28	4	-

Note: the figures are based on all respondents except those with spot rates. We have not provided percentage figures for the not-for-profit sector since the sample is too small.

The tendency to pay progression as part of the overall award was echoed in findings from the qualitative research: most organisations spoken to do not budget for and/or make separate cost-of-living awards separated from performance and/or progression payments and other revalorisations.

However, one employer – a high-street retailer – provided an example of a firm paying progression separately from the general award. The firm reported that each of its three broad pay populations have a discrete budget, from which pay progression payments are funded. If and when the retailer revalorises its pay ranges, this is paid out of a separate, central pot.

4.2 Frequency of progression opportunities

Managing the speed and extent of progression is essential to ensuring that a progression framework both meets its objectives and does not result in rising costs. The survey asked employers a series of questions that sought to identify the most common approaches to this issue.

The majority of respondents provide the opportunity for progression increases annually, irrespective of the type of pay system they operate. Overall 90% of firms reported that progression opportunities are available "annually". Just 6% of firms reported that progression opportunities are provided more frequently than once a year and even fewer (4%) said that such opportunities arise less frequently than annually.

For employers with incremental pay systems, the most common approach is to award increments on an annual basis (89%). Similarly, the vast majority of employers with salary ranges (92%) make progression payments to eligible employees on an annual basis.

Table 4.3: Frequency of progression opportunities

Frequency	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Less frequently than annual	3	4	1	4	2	4
Annually	70	90	24	89	46	92
More frequently than annual	5	6	2	7	3	6

4.3 Value of progression payments

Employers with incremental scales were asked how many steps there are in each grade on the pay scale or spine. Responses ranged from one to 14 and the average was five. The most commonly-cited response was six steps. Firms with incremental scales were also asked what percentage increase in salary does an employee typically receive when awarded a progression increase/single increment and the median was 3%, while the average was 3.7% (see Tables 4.4 and 4.5).

Table 4.4: Number of incremental steps in each grade

Indicator	Number of increments
Median	4.5
Average	5
Mode	6
Range	1 to 14

Note: this analysis refers only to respondents with incremental scales.

Table 4.5: Value of each increment

Indicator	Value of payment (%)
Median	3
Average	3.7
Range	1 to 16

Note: this analysis refers only to respondents with incremental scales.

In terms of steps and awards within salary ranges, the telephone interviews and case studies provided examples of employers awarding structured pay rises within salary ranges and these varied. A detailed example is shown in Box 1.

Box 1: Example of structured pay rises within a bank operating salary ranges

One bank that was telephone interviewed explained in more detail about how their model worked. The bank has seven pay grades A to G and there are separate arrangements for the lower grades (A-E) and the higher grades (F-G). For the lower grades – A-E – pay is determined by a pay matrix.

Employees in the highest grades – F and G – are placed in a 'devolved matrix': with "Top performers" receiving 5.25% increases when earning 70-90% of their pay range's median pay, 4.5% increases are paid to those earning 95-105% of their pay range's median pay, 1.5% increases are paid to those earning 105-150% of their pay range's median pay, while nothing is paid out above this; "Strong performers" receive 3.5%, 3%, 1% and 0% respectively; "Good performers" receive 1.75%, 1.5%, 0.5%; and "Developing performers" and "Under performers" receive nothing across the board. It is also of note that there has been a general decrease in percentile increase made across all grades and points in recent years (presumably due to the economic climate).

At this bank, the distribution of staff across this matrix varies between the once-independent divisions within the bank. However, to the nearest 5%, around 30% of employees' pay is in the 'market primary', 35% is at or around the market rate, 30% is in the market plus, and 5% is above the max of the employee's pay grade. As for performance reviews, 2% of staff across the bank were top performers in the middle of 2013, 14% were strong performers, 65% were good performers, 17% were developing performers, and 2% under performers.

Pay matrix for lower grades at a bank

	Performance rating (% increase)				
Position in grade	**"Top performer"**	**"Strong performer"**	**"Good performer"**	**"Developing performer"**	**"Under performer"**
Market primary i.e. below the market rate	7.35	4.9	2.45	0	0
On and around the market rate	6	4	2	0	0
Market plus	2.25	1.5	0.75	0	0
Maximum ceiling	0	0	0	0	0

Note: "Developing performers" had payments reduced to zero across the board as of 2014.

4.4 Length of time to progress

Overall survey respondents reported it typically takes five years for a standard performer to progress from entry level to the top of their pay scale or progression maximum. Responses ranged from one-and-a-half to twenty years. As the table below shows, there were variations by the type of pay system operated.

Table 4.6: Time to progress from entry to top of the scale/pay range

Indicator	All respondents (except those with spot rates)	Those with incremental scales	Those with salary ranges
	Time in years to progress		
Median	5	5	6.5
Average	6.5	4.8	8.2
Range	1.5 to 20	2 to 7.5	2.5 to 20

Employers with incremental pay structures were asked how long it typically takes a standard performer to progress from entry level to the top of their pay scale or progression maximum. Responses ranged from two to seven-and-a-half years, with the median at five years. However, 76% of the employers responding to this question said that the time taken varied by either performance or grade. When employers were asked to explain what impact such factors had on the speed of progression, there were two main themes. Some organisations vary the number of increments awarded according to performance or contribution, and others the value of the increment/s varied by grade.

On this latter point, employers were explicitly asked whether the rate of progression could be accelerated, by awarding more than one increment, for example, to reflect higher performance. Just over half (54%) said that it could be compared to 46% who said that it was not. The most popular way of doing so was to award two increments rather than one.

When employers operating salary ranges were asked how long it typically takes a standard performer to progress from entry level to the top of the pay scale or progression maximum there was a very wide range of responses, from two-and-a-half to 20 years. Overall the median length of time given was six-and-a-half years, considerably longer than the median five years reported by employers with incremental scales. The most common responses were five or 10 years and 42% of employers stated that it took 10 or more years for an employee to progress from one end of their pay range to the other (see Table 4.6).

When asked if this varied by grade or performance, however, there was a much stronger emphasis on performance than was the case with incremental pay systems. Three-quarters

(76%) of employers said that it varied. Of these, 58% explicitly said that higher performance resulted in faster progression.

Employers with salary ranges were also asked what progression limits were in place at the top of the pay band for a standard performer. A sizeable majority (69%) said standard performers are able to progress to the pay range maximum, while 22% said that there was no upper limit for progression. Just 9% of respondents said standard performers are unable to progress beyond a target rate set below the pay range maximum.

Table 4.7: Limits on progression in systems based on pay ranges

Limit on progression	Count	% of respondents with salary ranges only
No upper limit	13	22
Pay range maximum	40	69
A target rate below the pay range maximum	5	9

Note: this analysis refers only to respondents with salary ranges.

4.5 Market rates and benchmarking

The survey showed clear differences in the use of market rates between employers operating incremental pay scales and those using salary ranges. A slight majority (56%) of employers with incremental pay scales set pay rates or ranges according to the market, but a more significant proportion (86%) of those using salary ranges do.

Table 4.8: Setting rates or ranges by reference to the market

Are rates set by reference to the market?	All employers (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Yes	66	78	14	56	50	86
No	19	22	11	44	8	14

Another way of establishing the role of market in pay arrangements is to look more closely at the use of target rates – a point in the scale to which a fully-competent employee should be able to progress. As Table 4.9 shows, where a market or target rate is used, it is most typically set at the median of the market, at 83% of organisations using them. A closer inspection of the survey responses showed that while the majority of respondents set the 'target rate' at the median of the pay range, those with incremental scales were five times more likely to set this at the upper quartile of the range than those with salary ranges.

Table 4.9: Position of the 'market rate' within pay range

Position of market rate in range	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Lower quartile	1	2	0	0	1	3
Midpoint	43	83	8	67	35	88
Upper quartile	5	10	3	25	2	5
Maximum	3	6	1	8	2	5

In respect of benchmarking the market, the majority of respondents (74%) review jobs against the market on an annual basis regardless of whether they operated a pay system based on incremental scales or salary ranges. The common approach of measuring the market among respondents is to use salary surveys, although some also use information from job adverts and recruitment websites.

As an aside, the telephone interviews revealed that when selecting an appropriate market to benchmark against, employees most often looked at their sector or product market. Some employers looked at the local labour market and key competitors for staff nearby alongside benchmarking their sector.

Table 4.10: Frequency of benchmarking

Frequency	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Less frequently than annual	7	12	1	7	6	13
Annually	44	74	11	79	33	74
More frequently than annual	8	14	2	14	6	13

4.6 Starting rates

As Table 4.11 shows, the survey shows little difference in the proportion of employers with incremental scales and those with salary ranges appointing new joiners at the bottom of the pay scale or range, at 25% and 20% respectively. There is however, a significant difference between those appointing new joiners on the 'target rate' – a point to which a fully-competent employee should be able to progress – with respondents operating salary ranges much more likely to do so (38%) compared to those with incremental scales (14%).

The majority of respondents reported that the point at which new joiners are appointed varies and many employers take into account a new recruit's experience and skills, with a number stating that there is scope for line manager discretion, taking the salary expectations of the recruit into account. While some clearly have a formula that takes into account a range of factors including market rates in a more structured way, employers' comments suggest that a considerable amount of flexibility is exercised in order to pay competitive starting salaries at companies using salary ranges.

Table 4.11: Starting position in pay range for new joiners

Position in range	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Bottom of the range	19	22	7	25	12	20
Target rate	27	31	4	14	23	38
Varies	42	48	17	61	25	42

4.7 Managing progression above market

The survey also asked employers whether the rate of employee progression is different for those judged to be paid above the relevant market rate. Overall a third (31%) of respondents vary the rate of progression for employees paid above the market rate. Of those organisations operating incremental pay scales, only one out of the 12 respondents that set pay rates according to the market answered affirmatively. Market rates had a greater impact on progression for those employers using salary ranges, with 36% of respondents stating that employees progressed at a different rate when paid above the market rate.

Table 4.12: Varying the rate of progression for employees paid above the market rate

Response	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Yes	18	31	1	8	17	36
No	41	69	11	92	30	64

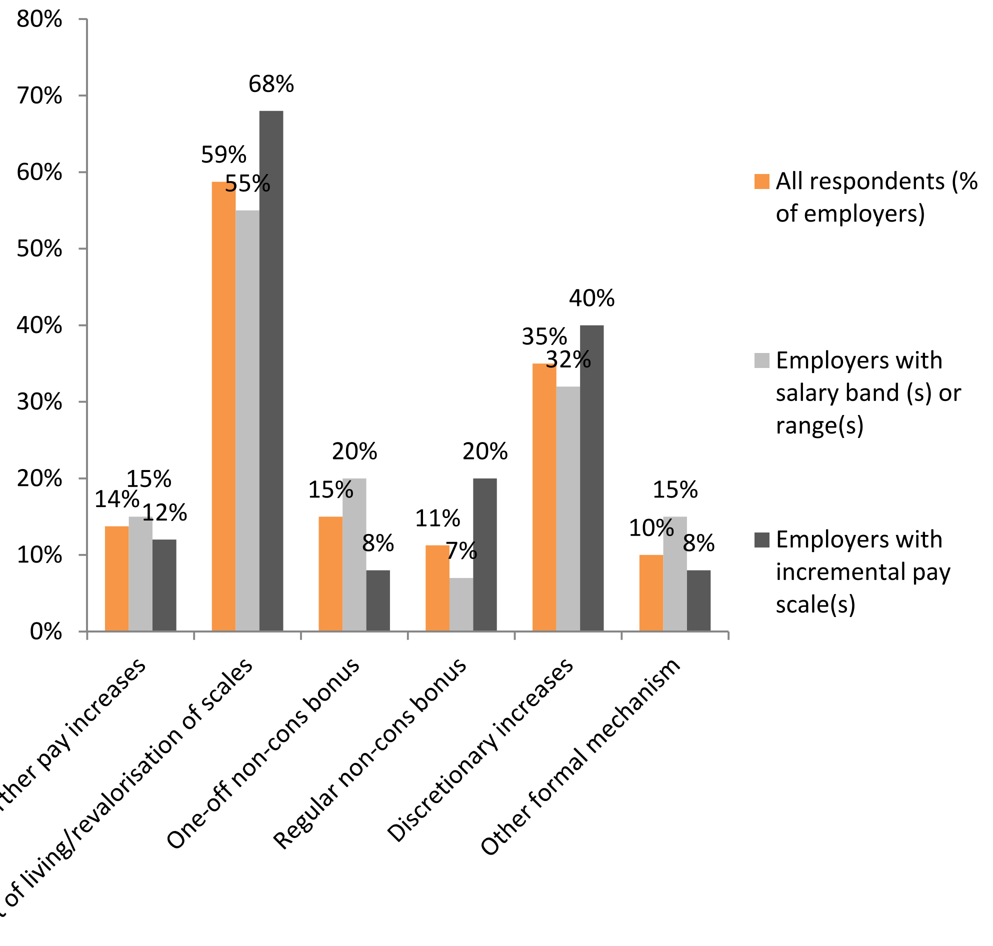
Examples of how progression is limited for employees paid above market were captured in the qualitative research: large employers in the retail, agribusiness, construction and financial sectors and a medium sized manufacturer all indicated that they utilise matrix approaches that reduce the speed of progression for employees once they earn above the market or target rate of their salary ranges. For instance, a large media firm reported that it limits increases where employees are 'above market', depending on role and strategic importance to business. The case studies also provided examples of this through the use of matrices.

4.8 Staff at the maximum of their pay range or grade

An important issue identified by the 2005 IDS study[5] was the way in which organisations manage staff who have reached the maximum of their pay scale or band. While there is a logical tendency for the rate of progression to be faster for more recently-recruited employees who may be in the process of acquiring key skills or capabilities, those who have reached the target or limit of their pay band or scale can get stuck with no pay increases even if they are performing well.

The survey asked employers what pay increases, if any; employees receive once they reach the progression maximum. Overall the most common approaches are to continue to award basic cost-of-living increases, followed by the use of discretionary increases. The results are shown in Chart 4.1 and are also analysed by the type of pay system used.

Chart 4.1: Progression increases received by employees once they reach the maximum



[5] IDS, 'Organisation practice on pay progression' May 2005.

For employers with salary ranges, the dominant approach (55%) is for employees at the top of their pay range to continue to benefit from cost-of-living increases or any revalorisation of pay scales. The use of discretionary increases (32%) is more common than paying one-off, non-consolidated bonuses (20%) or regular non-consolidated bonuses (7%). Some employers (15%) used a specific mechanism designed to manage further pay progression for those at the top of the pay range.

Some of these methods are effectively variations on paying a non-consolidated bonus or other payment, but exceptions include:

- paying 1% of the pay increase consolidated and the rest non-consolidated at one defence manufacturer;
- carrying out a performance review designed to determine whether the employee should be promoted to the next grade level at a small retail firm (although this does not always mean a pay increase); and
- examples from the telephone interviews that for some employers at least, pay ranges and scales have 'false ceilings' in practice – in that employers continue to grant regular and consolidated, albeit discretionary, bonuses to those at and above the apparent top of their grades. Such behaviour was seen within a conservation-focussed charity, a bank and a retailer.

At those organisations where incremental scales are used for the majority of staff, employees at the top of their pay scale were more likely to benefit from cost-of-living increases or pay scale revalorisation (68%) than those with salary scales or bands and slightly more likely to receive discretionary increases (40%).

Qualitative evidence from the telephone interviews suggests that within those employers that utilise pay gateways, up to two zones or points within a salary band *or* incremental scale are reserved exclusively for high or exceptional performers – evidence from a professional association, housing association, retailer, university and bank indicates that such an approach can be found across the economy. The housing association and professional association further indicate that progression to these gateways often requires the demonstration of sustained performance over several years.

4.9 Budgets for progression

In terms of the cost of progression, where employers could provide a single figure annual budgets for progression ranged from 0.25% of paybill at a large charity to 9% at a small retailer. The median budget for progression was 2.5% and the average was 2.8%. The survey showed little difference in the size of progression budgets according to the type of pay system in operation (see Table 4.13).

Table 4.13: Cost of progression by type of pay system

Indicator	Progression budget as a % of paybill		
	All respondents (except those with spot rates)	Those with incremental scales	Those with salary ranges
Median	2.5	2.4	2.6
Average	2.8	2.7	2.9
Interquartile range	2.0 to 3.5	1.4 to 3.0	2.0 to 3.5
Range	0.25 to 9	0.3 to 8	0.25 to 9

Further details of the budgets available for progression were provided by the case studies. In 2014, the overall pot was worth 2.5% at the bank. Awards for "good" performers ranged from 1 to 3%, depending on position in salary range. At the FTSE 50 case study, the 2014 pay review budget for the corporate population was 2.5%. It is the manager's responsibility to determine how this is split between their team, based on their performance. The highest level of individual increases that were applied in 2014 was almost 6%.

For both the scientific and non-research groups within the charity case study, a single budget for the annual salary review is set annually. In 2014, the salary rises were set around a 2% budget, with a further 0.5% set aside for in year salary adjustments. An online modelling system is used which includes all performance appraisal data and salary information and provides managers with a modelled 'guide percentage increase'. For example, in 2014, the modelled range for a "good" performer was between 1.5% and 2.5%. These modelled salary increases will deliver the salary review on budget if performance ratings fit the normal distribution. Managers are then able to flex increases within the guidance to reward their team members, based on performance ratings and, for the scientific population, their pay compared to the reference point. Due to financial pressures, the available pay award ranges have been relatively low for a number of years and this has slowed progression to the market reference point for some staff.

At the specialist construction case study, the pot allocated for pay progression is separate from the annual cost-of-living award negotiated with the trade unions and this is currently worth 1% of total base pay. However, in some previous pay negotiations (i.e. 2011 and 2012) the 1% pay progression pot was increased at the expense of a lower cost-of-living rise, driven and negotiated by the trade unions.

4.10 Bonus schemes

All respondents were asked whether they operate a bonus scheme and, if so, to provide details of which groups of staff are eligible for bonuses, the criteria upon which payments are based and the typical size of bonus payments. Overall, 80% of respondents operate a bonus scheme and bonuses were more common in the manufacturing and primary (95%) and private services sectors (83%) than in the not-for-profit sector (24%).

The results also indicate a correlation between an organisation's pay system and bonus schemes, with those operating salary ranges (80%) much more likely to operate a bonus scheme than those with either incremental scales (60%) or spot rates (45%) – some of this will be influenced by sector, particularly results for the prevalence of bonus schemes at firms with spot rates, since these are generally more common in the not-for-profit sector where bonuses are generally less common.

Table 4.14 Prevalence of bonus schemes

	Count	% of respondents
All respondents	132	80
By broad sector		
Manufacturing & primary	42	95
Private services sector	86	83
Not-for-profit sector	4	24
By main type of pay system		
Incremental scales	18	60
Salary ranges	74	80
Spot rates	19	45

4.11 Criteria for and levels of payments

In respect of the criteria for bonus payments, most organisations combine individual and company performance (38%), followed by those that combine individual, team and company performance (28%) and then those that base bonuses on company performance only (21%). Very few organisations based bonuses solely on individual performance, at just 2% (see Chart 4.2).

Typical bonus payments varied significantly and many organisations found it difficult to provide a single figure for the 'typical' payment since payments vary by grade. For example, one private services firm reported that the bonus is typically worth 4% for operative and support grades, 10% for specialists and 30%+ for senior management. Excluding awards for senior management, the median bonus payment is worth 8% and the average 9%.

There were significant variations by both the type of pay system operated and also sector – both of which are related. The level of bonuses was highest in private services and also at firms with salary ranges – both at 10% (see Table 4.15).

Chart 4.2: Criteria for bonus payments

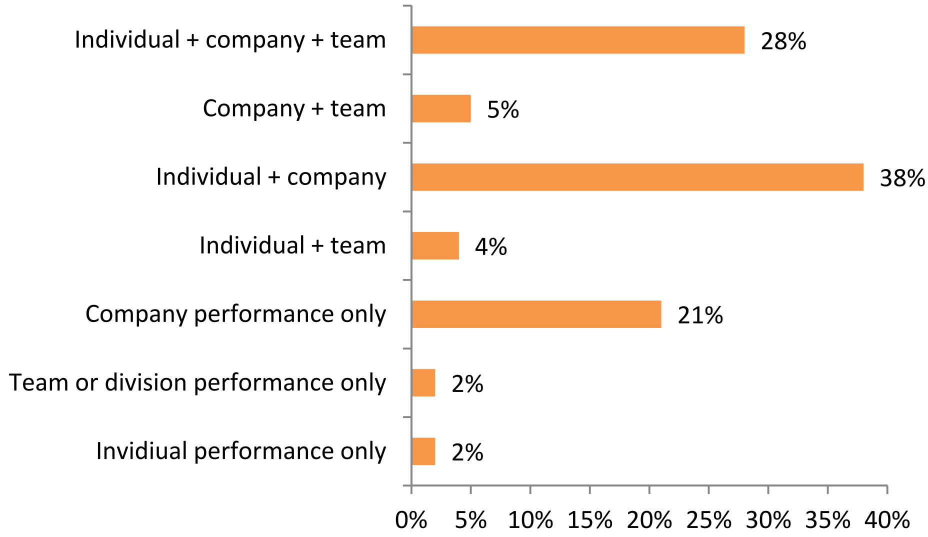


Table 4.15: Average typical bonus payments

	% of salary
All respondents[1]	9
By broad sector	
Manufacturing & primary	7
Private services sector	10
Not-for-profit sector	4
By main type of pay system	
Incremental scales	6
Salary ranges	10
Spot rates	8

[1] excludes bonuses for senior managers and executives.

The qualitative research provided further details of the types of bonus schemes in operation and the typical levels of payment and these include:

- a publisher that operates two types of performance-assessed bonus: a senior manager bonus, which is reserved for around 100 of the publisher's highest level employees, and is specifically tailored for this population to be both market competitive and to 'reward those people who are leading the company for the achievement of the company's goals'. A second, sales bonus is operated for the publisher's sales force, with its reward criteria tailored to these roles job specifications;
- an all-staff flat rate bonus at a care home. Decisions regarding the size of bonuses are made each year, according to how well the home is doing at the time of the pay

review. The care home has never considered changing this system (i.e. by making bonuses a fixed % of wages/adding a performance assessment) and last year staff got a £150 lump sum, and management a £350 payment;

- a 'collective bonus' for all staff at the car manufacturer case study which aims to recognise employees' efforts in working towards company objectives and recognise company performance, without adding long-term cost. The collective bonus consists of three elements: Plant Performance (e.g. defects per vehicle and operating rates % of units built vs. target); Financial Results; and Quality (based on quality audits conducted by head office). In 2014, the collective bonus was worth up to £1,075 for team members;
- the Bank's bonus scheme is based on company performance during the business year and is not guaranteed. There are three bonus ranges in operation: "Standard", "Higher" and "Senior". In the management job family, the Standard bonus pot is payable to the equivalent of team managers eg firs line managers; the higher bonus pot is available to middle management and the senior bonus pot is payable to senior managers who report to senior leaders or executives; and
- the bonus scheme at the specialist construction case study is based on three dimensions: safety performance improvements; the achievement of project milestones; and measures related to the fee earned through running the contract. The bonus is across the board, applying to all grades and can be worth up to 5% of base salary for all employees. Those in the leadership band can also earn an additional 5% based on their performance against their individual objectives.

5 Employers' views

This section examines the reasons employers operate different types of progression scheme and the advantages and disadvantages of operating different models. The primary sources of evidence for this section of the report are the case studies and telephone interviews conducted with survey respondents. The evidence is primarily qualitative in nature.

5.1 Reasons for different approaches

Employers use a range of approaches when it comes to determining pay progression, as the results of the survey have already shown. The case studies provide insights as to why employers operate different progression approaches and these are considered in more detail by broad type of progression system below.

5.1.1 Performance-based pay progression

Performance as a factor determining for progression featured in all of the case studies. The survey evidence also showed performance to be an important factor determining progression. Whilst the application of performance-based progression varied in its sophistication or formed part of a hybrid approach to progression, we identified a link to performance at all six of the case studies.

The bank case study illustrated that a performance matrix to determine progression is used to deliver flexibility and fairness around the allocation of a reward budget, particularly ensuring the largest pay increases are awarded to the highest performers low in their salary range. The use of a performance matrix was also thought to provide greater transparency and fairness in the allocation of an overall pay pot. Telephone interviews were also conducted with six organisations about the use of performance matrices to determine progression. Reasons given for using this approach by the telephone interviewees focused on the perceived fairness of the system as it allows exceptional performers to be rewarded, while progression for low performers can be slowed or stopped.

Some performance-based progression systems also enable line managers to maintain a certain level of flexibility and discretion in the reward decision, particularly where pay increases can be flexed within a pay matrix. Three case studies (FTSE 50, charity and the bank) provide managers with the discretion to vary pay awards within the overall pay matrix.

5.1.2 Contribution- and competency-based pay progression

Three case studies used a system of progression linked to contribution (the charity, specialist construction firm and car manufacturer). Contribution-based pay can be viewed as a broader form of performance-based pay, which ensures staff are not measured simply on objectives, but also on competence, skills and behaviours. This form of performance assessment often places value on *how* an employee achieves their objectives, as well as on *what* was achieved. This broader measurement of performance, in turn, also enables organisations to fully recognise and reward an individual's achievements and the skills and expertise they develop and demonstrate. As such, contribution-based pay was considered an appropriate way to motivate and reward the scientific population in the charity case study, particularly considering the nature of the scientific roles and the changing and fast pace of the scientific environment.

The specialist construction case study adopts a hybrid approach to progression, with contribution-based assessments within a broad band structure. This approach was adopted in order to bolster flexibility within the organisation. It is envisaged that flexibility to move people between jobs will become a significant feature of how the firm will manage its workforce in the coming years. The company believes that the use of broad bands provides the opportunity for employees to change their specific jobs within an overall job role without it affecting their pay unless their total contribution is assessed as deserving of a pay award.

Both the specialist construction and charity case studies also changed their progression approach to simplify their existing pay systems. The former was operating over 400 job descriptions and reduced this to approximately 100 grades to simplify the system and also ensure employees were being assessed against similar key deliverables through a total contribution assessment. The specialist construction case study also to ensure the company was equal pay compliant. In the charity case study, the introduction of a competency-based model simplified an existing unmanageable and complex job family structure consisting of 137 grades and reduced this to a grading and competency framework of only 10 grades.

The charity case study also used competency assessments to determine progression for its non-research staff in order to provide greater clarity on the career paths of these employees, as skill requirements are better described and are built into the job content.

At the specialist construction case study the use of competency criteria to determine progression provides greater consistency in the assessment of individuals across different jobs. A reason for moving to this form of progression was to give line managers a clearer and more balanced structure for carrying out assessments for pay determination.

5.1.3 Market-based pay progression

The FTSE 50 case study linked pay progression to two factors: individual performance and pay position relative to the market. In consideration of the market position, a matrix determines how an individual's pay relative to the market median will be used as an adjustment factor for the progression rise. This link to the market is used so that the company can control pay progression above the market rate through slowing progression, or equally, increase progression for those below the market rate. For example, employees paid below the market rate could have their pay rise adjusted upwards by an additional 0.5 percentage point. If the employee is starting to get ahead of the market rate, their pay rise may be reduced by 0.5 percentage points and similarly if the employee is paid well above the market rate, the recommended pay rise may be adjusted down by up to 1 percentage point.

5.1.4 Use of spot/single salaries

The telephone interviews revealed that some organisations are using spot salaries because there is little operational room within the organisation for staff to progress over the long-term. One organisation we interviewed positions their spot salaries around the upper quartile of their market comparators to compensate for the lack of internal progression available. The organisation also works flexibly, regularly rotating employees between roles, to improve retention. This continuous professional development was viewed as an effective retention strategy.

A building society last year moved away from a pay system based on graded bands so as to use spot salaries throughout the organisation. This move was made as it was felt that the *upper ceilings of wage bands had a negative effect on employees' motivation*, and a system where all employees are eligible for wage increases, albeit through promotion, was seen as preferable.

5.2 Variation in progression arrangements by employee group

There was evidence in the case studies and telephone interviews of organisations operating separate pay systems for different groups of employees. The main reasons for these different progression models included:

- inheritance of legacy pay systems, where the original rationale for the different approaches was unknown and the approach is now ingrained in the organisation;
- mergers and acquisitions of organisations bringing together different systems which had not been harmonised. There was variation in responses concerning these organisations' plans to harmonise the pay models. Whilst some had no intention of

changing the pay systems in place, others were working towards harmonisation eg negotiating with the trade unions over the change;

- different arrangements had been collectively negotiated for members by their representative trade union.

The survey showed around half of respondents with salary ranges or incremental scales operate separate pay arrangements for trainees, such as graduates. Similar proportions reported having specific pay arrangements for specialist or hard-to-recruit roles. Examples provided included paying higher rates or employing specialists on bespoke, personal contracts.

Table 5.1: Separate pay progression arrangements for certain groups

Employee group	All respondents (except those with spot rates)		Those with incremental scales		Those with salary ranges	
	Count	%	Count	%	Count	%
Trainees	42	49	11	41	31	54
Specialist/ hard-to-recruit	37	43	11	40	26	44

5.3 Recent changes or plans for change

A third of respondents (31%) had recently changed, or have plans to change, their progression system. However, those currently operating a pay system based on incremental scales (42%) were much more likely to report recent changes or plans for changes to their progression model, compared to those operating either salary ranges (28%) or spot rates (29%).

Table 5.2: Recent changes or plans for change to the current progression system

Response	All respondents		Those operating incremental scales		Those operating salary ranges		Those operating spot rates	
	Count	%	Count	%	Count	%	Count	%
Yes	36	31	10	42	14	28	12	29
No	79	69	14	58	35	72	30	71

The survey asked employers to provide brief details of recent changes or planned changes and these are shown by main type of pay system in box 1.

Box 1: Examples of recent changes or plans for change to the pay system

	Employer comments regarding recent changes or plans for change
Incremental scale	We recently introduced the reward and recognition scheme (i.e. performance-related incremental progression or one off lump-sum payments)
	Introduction of 'development' and 'extended' zones at either end of the pay scale to accommodate new employees with development needs and employees who are taking on temporary additional responsibilities
	Currently working towards a new job framework (job grading structure) and associated new pay framework; this will have broader pay ranges and jobs will be allocated more precisely to a pay range; middle of range reference point will be the 75th percentile external benchmark point and an annual merit matrix will be used to reward performance; this will be designed to manage employees around the reference point for their role, but still allow exceptional performers to increase their salary above the reference point
	Moving from a very fragmented regional approach, due to the history of many separate companies, to one common company-wide approach which will be based on salary ranges, and performance-related pay with increases at one point in the year (April)
	We are planning to review our incremental arrangements during 2015 with a view to moving away from automatic progression
	New performance-related pay arrangements introduced in 2011 for senior posts
	Introduction of new starter rates
Salary ranges	Change to job families and performance-related progression for certain groups
	Plan to review additional pay progression schemes and potentially open up further into higher grades/technical specialisms
	We made some adjustments to our system in 2013 due to some concerns raised by employees (i.e. progression for new starters, slowdown for reaching maximums, increase levels for merit)
	Introduced broad banding for managers
	Introduction of different zones within grade system introduced in 2013
	Plan to harmonise plans across different groups and align with new behavioural competencies
	Work has been done on an organisation-wide project to reform the pay progression system but it is currently on hold and has not been implemented yet
	We plan to review the progression element of our pay review process this year to check it is still appropriate in current climates
	A more hard-wired link from performance to pay is desired, where employee performance ratings govern their percentage increase
	Changed the annual review for middle managers to be entirely discretional
Spot rates	Move all staff to spot salaries
	We plan to move from spot rates to performance-related pay
	We moved away from broad band salaries (with progression) to spot salaries for all roles
	Looking to introduce a more formal grading structure which will initially be used to determine appropriate benefits at each grade but which also may eventually have some link to salary bands
	A new Performance Management Structure
	Introduction of more performance-related pay areas
	Planning to review and bring all staff onto one system

We were also able to gather further details on two of these (examples 5 and 8) from the telephone interviews. In the first example, a medium-sized private services firm operating incremental pay scales reported it is planning to move away from automatic incremental payments. A formal review of their current model is expected in 2015, with senior management hoping to introduce a new structure by 2016. While no firm decision has yet been made, senior management intends to start new employees on a starting point, and after a year these staff will be eligible to move up to a second ‘fully competent’ point, depending on satisfactory performance, after which a third discretionary ‘high performer’ point will only be accessible through high performance. A key driver for the move is changing attitudes among senior management, whereby increments linked to service are no longer viewed as a sustainable method by which to make pay awards.

In the second example, a large private services firm operating salary ranges told us that it feels the current pay system is generally fit for purpose however, a streamlining process is being attempted, in part to reduce the resource demands of the system. Planned changes will see a reduction in the number of pay grades – from nine to six – and salary ranges will be adjusted to align closer to relevant market rates. HR is currently waiting for these plans to be signed off by the executive team and trade unions before implementing the changes.

The telephone interviews identified a range of future developments that are being considered by organisations in relation to their pay system and pay progression approaches and provided more details:

- two organisations (a large food company and a large construction company) want to introduce greater consistency in the pay approach within their organisations by aligning different pay approaches across business units;
- two organisations want to drive forward a new performance culture in their organisations by linking progression to performance. A large food company intends to move away from spot salaries to salary ranges that reward exceptional contribution. A large multimedia company, currently undergoing major change, views the introduction of performance-related pay as a mechanism to reward high-performing employees but also as a clear statement to employees that previous ways of working which paid little attention to performance management are no longer acceptable;
- a university plans to restructure its senior management pay scales by removing professors from this pay range and establishing a separate professor pay scale with multiple grades in recognition of the varied and specialist roles of these staff members;
- a retail organisation which currently reviews the pay of its junior managers on the anniversary of their starting date with awards largely determined at managerial discretion intends to implement a single pay review date for all employees and establish a formal link between performance ratings and pay awards.

Furthermore, four of the six case study organisations had made relatively recent changes to their pay progression systems, with the current systems introduced in 2013 at The bank and the car manufacturer, and in 2010 at the specialist construction firm and for scientific staff at the charity. Since the majority had changed their pay systems relatively recently, only two said they were expecting to make further changes, outside of any on-going tweaks identified as necessary following reviews of their new systems.

The bank intends to introduce a competency assessment into the performance management approach in September 2014 in order to more fully reward the way in which objectives are delivered, not just behaviourally, but through skill/competency acquisition.

The university case study is currently reviewing its structure, since some grades contain a large number of incremental steps which raise concerns relating to age discrimination legislation. It also wants to refine its 'pay relativity exercise', whereby staff can have their pay reviewed if they feel that their individual contribution, growth in their role or wider market trends warrants. At present there is no dedicated pot for this exercise and the university has experiences of managers over- and under-spending in comparison to managers in other departments. A further concern for the university is possible equal pay risks around its fixed salary system for senior managers.

5.4 Reasons for changes

The qualitative work examined changes in more detail and gathered further evidence on the reasons organisations had recently made changes to their progression systems. Organisations participating in the telephone interviews cited changes were made in order to:

- increase managerial discretion around pay rises awarded within a pay matrix. For instance, one high-street retailer's corporate structure now gives in-store managers a range of reward options for each point of their pay matrix, within which managers must place each employee's final settlement. The retailer indicated that this discretion was sought so as to allow 'improvers', in addition to consistently high performers, to be better rewarded;
- enable pay systems to better accommodate the fast expansion of the organisation;
- replace automatic service-related progression with a performance-based three zone system (with an entry point for those developing in the role, a 'fully competent' zone, and a third 'high performer' zone which will only be accessible through demonstration of high performance) to reflect the pay practices of its peers;

- achieve greater pay transparency, particularly through harmonisation of pay systems across the organisation which would also contribute towards achieving greater pay equality.

The reasons for changes to progression arrangements from the case studies were cited as:

- employee feedback about the previous arrangements (car manufacturer and the bank case studies);
- a desire within the organisations to simplify previous arrangements (charity, the bank and the specialist construction case studies);
- an aim to strengthen the link between performance and salary (the bank case study);
- a need to increase progression for those at the top of their pay scales as some individuals were at the maximum of their pay scale with no scope for progression beyond the revalorisation of the pay scales or promotion, which was seen as potentially damaging to morale and, in turn, retention (the specialist construction case study);
- a need to address equal pay challenges and risks within the existing system (the specialist construction case study);
- a need to prepare the organisation for change and meet future resource flexibility requirements (the specialist construction case study).

Only one case study – the university – revealed evidence of recent legislative changes having an influence on the pay and progression system used. The university has concerns about its system in relation to age discrimination, due to the length of some of its grades, and equal pay, due to the way pay is set for senior managers.

One not-for-profit organisation revealed that it recently moved away from a broad band salary system to spot rates with no progression beyond promotion and revalorization of the pay rates as a result of budget pressures due to the economic climate. It further added that broad bands were removed in order to avoid redundancies as these created unpredictable variability in the annual wage bill.

The age of the pay system appears to play a role in the decision to make changes to the progression model at organisations with salary ranges or spot rates. Over half of those that have recently made, or plan to make, changes had operated the same model for 10 years or more prior to the change. In respect of organisatons with incremental scales, the age of the pay system had little bearing. Overall, the survey shows that the majority of organisations have operated their current progression arrangements for over 10 years.

5.5 Reviewing and evaluating the pay system

The survey shows that almost half of respondents regularly evaluate their pay system (45%). As Table 5.3 shows, those with salary ranges are marginally more likely to undertake evaluations. All of the case study organisations already gather, or plan to gather, feedback from employees regarding their pay system.

Table 5.3: Evaluating the pay system

Response	All respondents		Those operating incremental scales		Those operating salary ranges		Those operating spot rates	
	Count	%	Count	%	Count	%	Count	%
Yes		45	8	35	25	50	18	44
No		54	15	65	25	50	23	56

However, methods of evaluation varied between organisations. The survey specifically asked if they used staff surveys, exit interviews or other methods, and if so, which specific mechanisms. Very few employers cited they solely used either staff surveys or information from exit interviews to make their evaluations, with most using these methods in conjunction with other sources of information, such as staff appraisals, staff turnover levels or informal staff feedback mechanisms. For instance, one care home that had recently moved to spot rates said it uses annual staff surveys, recruitment and retention information, advertised competitor salaries, benchmarking and salary surveys to undertake regular reviews of its pay system.

Overall 56% of those reporting to regularly review their pay system used staff surveys as a source of information and 50% used exit interviews. Some 44% said they used other mechanisms for evaluating the system and common examples provided included annual staff reviews or appraisals and other informal feedback from staff. A significant number use benchmarking and external salary surveys as a mechanism for reviewing the pay system.

The case studies provided more detail on how organisations review and evaluate the pay system as follows:

- the FTSE 50 case study conducts focus groups with HR and business unit leaders at the end of each pay review cycle to identify how the process has worked and any areas for improvement;
- the car manufacturer conducts employee surveys annually at the time of the annual pay review;
- the charity asks its employees about the level of satisfaction with pay and benefits in its annual staff survey and in exit interviews;

- the bank conducted an employee survey and focus groups with managers and employees following the implementation of its new pay matrix in 2013 to determine how it had worked;
- at the specialist construction firm, whilst pay progression is not an element which is evaluated by the staff survey, the company intends to conduct a formal review of the overall impact of the new pay progression model and the effectiveness of its operation later in 2014;
- the university conducts staff surveys which appear to show staff are happy with the incremental pay spine in principle but have raised concerns about the lack of transparency and consistency in the pay relativity exercise.

5.6 Findings from evaluations

Findings from evaluations/surveys conducted by organisations taking part in the case studies revealed issues including:

- where line manager discretion is permitted in determining pay rises within a performance/market pay matrix, getting managers to agree pay recommendations within the pay review timeframe was identified as a challenge, with some managers wanting to make costly revisions once proposals had been communicated to payroll (FTSE 50 case study);
- staff were broadly satisfied with their base salary position but more pressure/tension was felt around satisfactory career paths and career progression (charity case study);
- a weaker understanding of how the new salary approach works among staff than managers at the bank[6], and;
- substantial employee concerns around fairness, the motivation of both longer and shorter serving employees, recognition of service and performance, and salary progression at the car manufacturer ahead of changes to the progression model. The review following changes subsequently revealed a significant reduction in the number of employee complaints received at the annual pay review.

Employers followed-up by telephone interviews reported that evaluations flagged up negative employee perceptions of their progression systems:

- dissatisfaction with career progression rather than pay progression;

[6] The IES, 'Case studies on pay progression, June 2012' report suggested that the more staff understand their pay system the more likely they are to be satisfied with it. This suggests that there should be a strong focus on communication processes in its implementation and line managers need to be rehearsed in the rationale and mechanics of a new system so that they are fully able to address any staff questions.

- issues linked to 'Developing performers' receiving zero progression payments, even where the employee may have taken on greater responsibilities or be new to their role;
- long-term staff who have reached their progression maximum being ineligible for further consolidated increases which is considered demotivating;
- under performance-based pay systems, where calibration sessions occur to ensure a desired distribution of performance ratings is achieved, performance ratings can be influenced by the ability of the line manager to defend their decisions rather than objective employee performance;
- under performance-based pay systems, employees often feel that pay differentiations are in practice used to 'punish the bottom' rather than 'reward the top', and that the value of the organisational resources required to implement pay differentiations end up outweighing any benefits accrued from such a system;
- where progression is tied to behavioural and performance appraisals, pay systems end up having a pervasive influence over all aspects of the work environment. Workers become hostile to these systems when it is felt that everything from toilet breaks to sick leave affect one's pay progression; and
- where cost of living is not considered separately to a pay progression budget, employees have expressed concerns about failing to receive progression payments which match inflation.

5.7 Advantages of the progression systems

This section considers the particular advantages of some of the systems, which were apparent from the case studies and telephone interviews:

Competency and contribution based systems

- the implementation of a competency framework for staff populations in the charity case study simplified an existing unmanageable and complex job family structure. The move to competency assessment improved transparency and the perceived equity of the system and reduced the administration required by the previous system;
- both the specialist construction and the charity case studies found that the use of a competency framework to determine progression makes it possible to assess and reward contribution across a wide range of roles through a consistent form of assessment which defines and communicates the common desired characteristics and skills across essentially very different roles. This helps provide greater clarity of job, career and salary progression;

- competency-based progression also provided the charity with an objective process for evaluating positions.

Performance-based systems

- the FTSE 50 case study stressed an advantage of their performance/market approach to pay progression was the ability of the manager to vary pay awards within the guidelines of the pay matrix. This manager component ensures the manager endorses the pay award and brings a personal element to the pay review discussion, where managers must take ownership of the pay decision, explain it to their staff and have a meaningful conversation around performance;
- a pay matrix approach to progression also controls the pay budget through manipulation of the percentage rises awarded as performance pay and prevents managers from awarding increases as they wish which could take some individuals far beyond the market rate for their role or alternatively slow their progress to the market median.

Market-based systems

- the FTSE 50 company also bases progression on pay position relative to the market. An advantage of this system is that the pay budget is allocated fairly and funding can be directed towards moving high performers who are paid below market median to this market reference point and slowing the pay progression of those earning above the market median;
- pay systems with a market focus also provide organisations with the flexibility to recruit at appropriate market salaries, without maximums of salary ranges constraining recruitment offers;
- regular monitoring and benchmarking of the market also enables organisations to respond in a timely fashion to labour market changes for particular roles.

5.8 Problems identified with current pay systems

The telephone interviews and case studies revealed a range of problems with existing systems and provided specific examples. These are outlined under general headings below.

Affordability concerns

- All pay systems struggle in a climate of low pay increases, not just those with progression paths. Spot salary systems which are revalorised by an inflation-linked rise each year plus a progression element (e.g. cost of living plus 0.5%) are found to operate better in economically buoyant times. In recent years, one company operating this system stated that they have only been able to budget at, or just below inflation, which has led to employee dissatisfaction amongst those employees on spot salaries;

- similarly, another organisation reported that in more economically prosperous times, staff moved fairly quickly through their salary ranges through a combination of increments and performance awards and would reach the market median within five years. However, in recent years, with more limited budgets, staff are now often unable to reach the market rate within this period and this has affected staff motivation. This has prompted management to begin a review of their progression system;
- an organisation in the care sector which bases progression on performance and competencies has experienced a pay freeze for four of the last five years and this year only had a 1% budget. Small budgets make it difficult to differentiate significantly between staff. During performance appraisals, performance ratings are communicated to employees, but progression payments have been withheld or have been very small. This has affected staff motivation and morale.

Market drive on salaries

- A number of problems can arise in market-based pay systems. For example, it is important to establish accurately the market in which the organisation is operating, as this has consequences in defining what is considered competitive pay progression[7]. One organisation in the care sector stated that its spot salaries were historically set in reference to local authority comparators. However, now the organisation faces competition for staff with other registered social landlords and the private sector and is therefore experiencing recruitment and retention challenges as a result;
- the charity case study revealed that it faces challenges linked to the need to balance internal equities within grades and the market drive on salaries, particularly at the point of recruitment;
- the charity case study also highlighted the risks with roles that have a market rate that sits outside the relevant grade (based on job size) and how this can be justified to existing staff. A strong focus on market benchmarking also means it is sometimes difficult to maintain the discipline of paying within a particular salary band.

Limitations of a pay matrix

- The use of a pay matrix has its limitations: one private legal firm stated that it finds its performance pay matrix to be overly formulaic, which does not allow for enough flexibility around pay awards;
- a technology company also stated that its pay matrix does not differentiate enough between poor and exceptional performers, which has consequences for staff motivation. This was also an issue in the car manufacturer case study before it made

[7] IES, 'Case studies on pay progression, June 2012.

changes to address this. The differences in the merit payments were not motivational. For example in 2012, there was only a 0.1% difference between the performance ratings of 'Good' and 'Excellent' and between 'Excellent' and 'Outstanding'. To illustrate, the average difference between 'Good and Excellent' ratings amounted to just £22 a year.

Equal pay challenges and risks

- Discretion and flexibility over pay decisions can create equal pay challenges and risks: giving semi-autonomous business units with their own discretion to set pay can lead to inconsistency across the organisation.

Communication

- as the IES, 'Case studies on pay progression', 2012 report highlighted, effective communication of change is critical to the effective implementation of a new progression system. The bank found a weaker understanding of how the salary review process now works for staff than for managers, with a realisation that it takes time to embed changes.

6 Case study 1: Pay progression at a large car manufacturer

6.1 Background

This large car manufacturer employs over 3,500 employees in the Midlands. It operates two main pay systems; a shop salary system which covers the largest occupational group in the company termed 'team members' alongside team leaders and group leaders and an office salary system which includes specialists/engineers and section managers. The majority of this case study focuses on the shop salary system as this covers the majority of the workforce. A salary review process takes place annually involving an advisory board comprising 12 employee-elected representatives (Unite union), six company representatives and a Chairman and Board Secretary. This board is responsible for the salary review negotiations and all changes agreed are implemented on the 1 April each year.

During the salary review process information is collected on company performance; comparator salaries and pay increases from six motor industry comparators and six local comparators and economic information including inflation indicators (RPI, CPI, RPIJ) and GDP. This information is used to find a balance between the different objectives of the salary review, such as maintaining and improving the standard of living of employees, attracting and retaining capable employees; recognising employees' contribution and also maintaining company competitiveness and protecting long term employment.

Key points

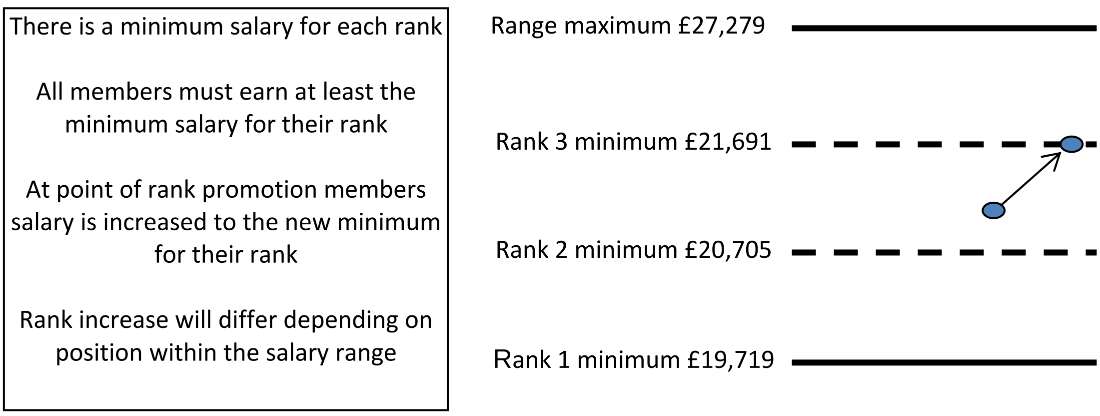
- The company operates two main pay systems; a shop salary system which covers the largest occupational group of team members, alongside team leaders and group leaders and an office salary system which includes specialists/engineers and section managers.
- Two salary increase figures are agreed each year by an advisory board: the 'headline increase' (HL) which establishes the level of merit increase for a "good" performer and the 'core increase', which is the increase by which all salary ranges are revalorised.
- Under the shop salary system, for each occupational classification (Team Member, Team Leader, Group Leader) there is a pay grade with a set minimum and maximum salary. Within these ranges there are three fixed 'rank' levels, each with their own minimum salary level but no maximum (see Figure 6.1).
- Under the shop salary system, individual salary progression is determined by competency development and individual contribution.
- Individual salary levels differ between employees depending on service and performance. This is in contrast to many manufacturing companies who operate spot rate systems and do not recognise differing levels of contribution or service.

6.2 The type of pay system used

A number of elements make up the shop salary system in operation: base salary; a merit increase termed the 'appraisal related increase' (ARI); rank promotion'; a collective bonus available on an annual basis; and single tier non-cash related benefits. In addition, shop floor staff are also eligible for shift premiums and overtime payments.

Under the shop salary system, for each occupational classification (Team Member, Team Leader, Group Leader) there is a pay range grade with a set minimum and maximum salary. Within these ranges there are three fixed 'rank' levels, each with their own minimum salary level but no maximum is applied to the ranks (see Figure 6.1). The Rank 2 minimum salary is set at 5% above the Rank 1 minimum (bottom of the pay range) and the Rank 3 minimum is 10% above the Rank 1 minimum salary. It is typical to recruit new employees at the appropriate pay range minimum (Rank 1) and for Team Members it typically takes 10 years to reach the top rank, while Team and Group Leaders tend to reach the top rank after 7 or 8 years. This progression mirrors the average progression arrangements used by the six motor industry comparators and six large local comparators.

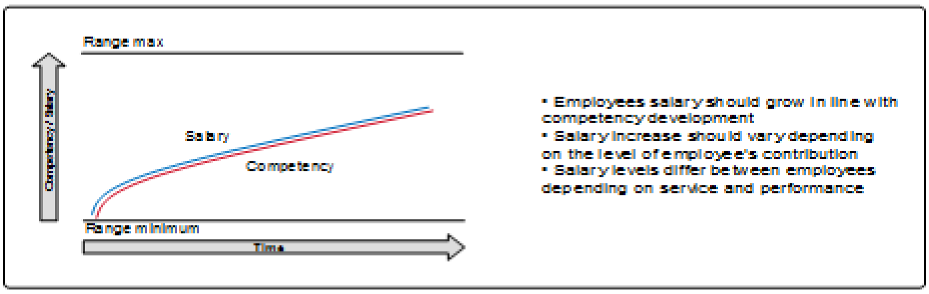
Figure 6.1 Team member pay grade



6.3 How pay progression operates

Under the more heavily populated shop salary system, individual salary progression is determined by competency development and individual's contribution (in shop floor areas this includes such factors as safety, quality, productivity, attendance etc). Individual salary levels differ between employees depending on service and performance. This is in contrast to many manufacturing companies who operate spot rate systems and do not recognise differing levels of contribution or service. See Figure 6.2.

Figure 6.2: Individual salary progression



Overall, shop floor employees move up the salary range through three key ways:

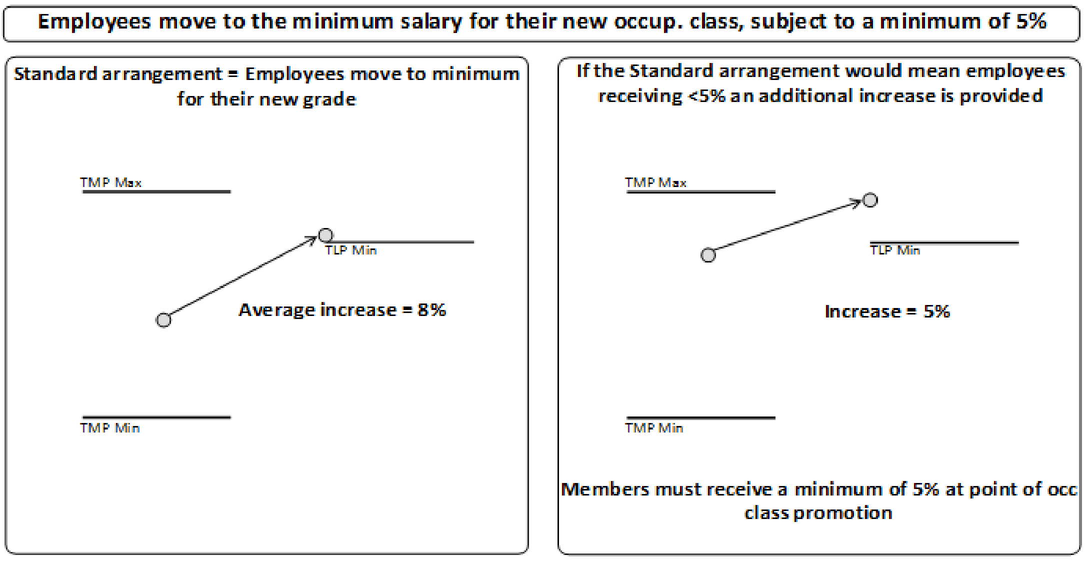
1. appraisal related increase (ARI)
2. rank promotion
3. occupational class promotion.

Appraisal related increase (ARI): the levels of appraisal related increases are linked to the 'headline increase' (HL), which is agreed each year by the advisory board. This HL establishes the level of merit increase for a 'good performer'. ARIs are allocated based on a fixed distribution system (see Table 6.1). This fixed distribution system is used because it is thought that it is important to recognise levels of performance and competency whilst also controlling spend. Also without a fixed distribution it would be difficult to decide where to draw the line between ARI 3, 4 and 5 and even in a group of high performing individuals it is thought it is important to differentiate between employees for their own motivation and recognition. This fixed distribution also helps budget the cost of pay progression as higher ARIs generate high salary increases and this increases the cost of the salary review. The fixed distribution also helps ensure that the budget agreed is fully utilised without under or over spending.

Table 6.1: The ARI fixed distribution expectations

Performance rating	Distribution expectations
ARI 1 "Unacceptable"	Used as required – only issues to employees not reaching the required levels of performance
ARI 2 "Needing improvement"	
ARI 3 "Good (Headline)"	60% of staff
ARI 4 "Excellent"	25% of staff
ARI 5 "Outstanding"	15% of staff

Figure 6.3: Increase employees receive upon Occupational Class Promotion



Rank promotion: A grade system is used which splits each occupational classification into three grades (or ranks). Each rank has a minimum salary. Employees are promoted between the ranks based on appraisal history. The rank system is intended to recognise the contribution of employees over a number of years (as shown by their appraisals). Employees require a specific number of appraisal related increases (API) points to be eligible for a rank promotion.

Occupational class promotion: Employees in Rank 3 may become eligible for occupational class promotion. They must also undertake a pre-promotional programme to become eligible for promotion which involves competency checks. Once these checks are completed employees remain in a pre-promotional pool until a vacancy in the next occupational classification occurs. Once promoted employees are entitled to a guaranteed pay increase of 5%. Employees move to the minimum salary for their new occupational class (in Rank 1) or slightly above this minimum in order to obtain the 5% rise, depending on where they sat in their previous grade (see Figure 6.3).

The number of points varies depending on the seniority of the employee, for example, it takes a Team Member longer to progress than a Group Leader as they require a higher number of points to be eligible for rank promotion:

- Team Member : 5 Points
- Team Leader: 4 Points
- Group Leader: 3 points

The number of ARI points allocated is based on the appraisal rating shown below.

Table 6.2: Number of Appraisal Related Increase (ARI) points by Appraisal Rating.

	Appraisal rating				
	ARI 1	**ARI 2**	**ARI 3**	**ARI 4**	**ARI 5**
Number of points awarded	0	0	1	2	3

When employees have obtained the correct number of points they can be nominated for rank promotion, however, promotion is not automatic when points have been accumulated. At the point of rank promotion the employee's salary is increased to the minimum for their new rank. The rank increase will differ depending on the position within the salary range. All Rank 2 employees will be at least 5% up the salary range and all Rank 3 employees will be at least 10% up the salary range. The average rank promotion salary increase is 2.5%.

Table 6.3 shows the rank minimums for each occupational class. The placement of the rank minimums in the salary range is designed to provide salary progression arrangements in line with local and motor industry comparators. Those in Rank 3 that have reached the salary range maximum are only entitled to receive the rise associated with the annually negotiated 'core increase' (revalorisation of range maximum) and the company bonus. These employees do not receive an ARI rise and further base salary progression is dependent upon achieving an occupational class promotion.

Table 6.3: Rank minimums for each occupational class (2013)

	Rank 1	**Rank 2**		**Rank 3**	
	Minimum Rank 1 Salary	**Position vs. min**	**Minimum Rank 2 Salary**	**Position vs. Min**	**Minimum Rank 3 Salary**
Team Member Production	£19,719	+5%	£20,705	+10%	£21,691
Team Leader Production	£25,985	+5%	£27,285	+10%	£28,584
Team Member Management	£25,229	+8%	£27,248	+11%	£28,005
Team Leader Management	£29,882	+5%	£31,377	+10%	£32,871
Group Leader	£35,097	+5.5%	£37,028	+11%	£38,958

6.4 Criteria for progression

Under the shop salary system, the employee's salary increase varies depending on the ARI they receive. This intends to recognise differing levels of competency and contribution. There are six ratings ranging from 'unacceptable' to 'outstanding'. Employees in receipt of ARI 3 ('good') receive the headline increase (HL), auto 2 employees (employees who have been newly promoted into the grade and still have development needs) move with the range minimum (or core increase); employees in receipt of an ARI rating of 1 (' unacceptable') or

ARI 2 ('needing improvement') still receive a rise (lower than inflation – see below) and employees in receipt of an ARI 4 ('excellent') or 5 ('outstanding') receive more than the headline (see Table 6.4). ARI differences are agreed by the advisory board each year at the salary review but follow a set formula. Varying the salary increases by the ARI allows annual recognition for performance within the salary system.

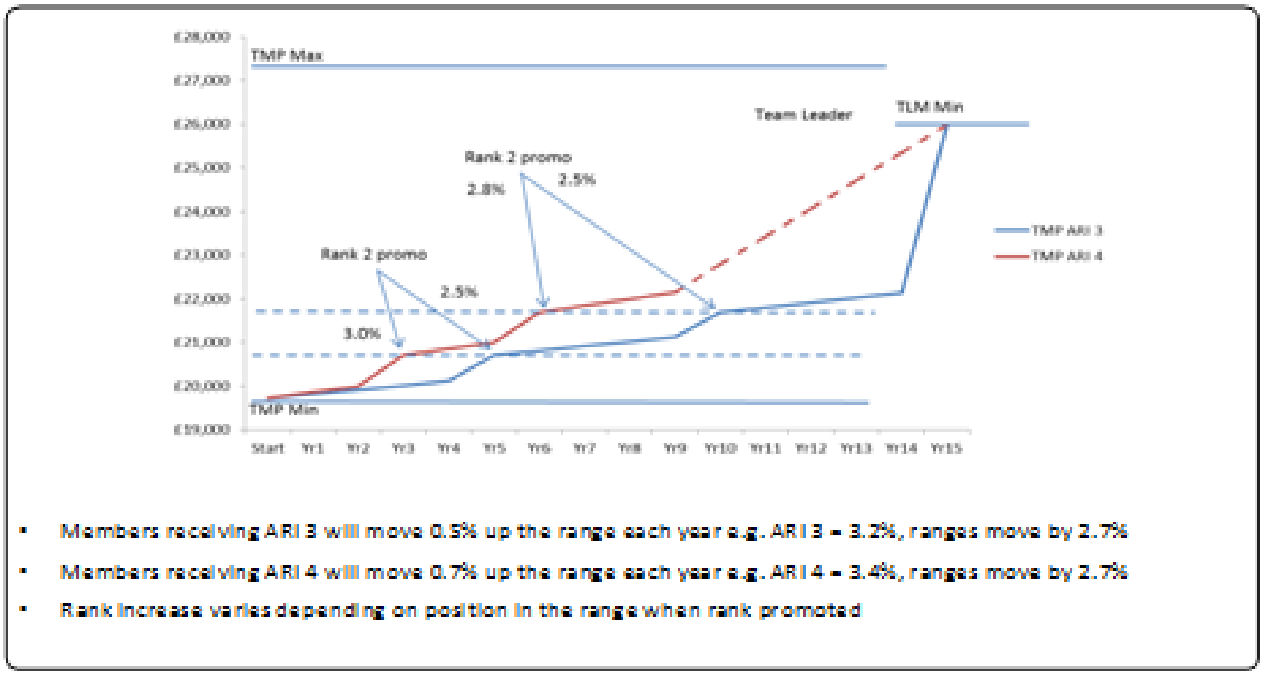
Figure 6.4 shows the difference in the speed of salary progression for a Team Member in Production who repeatedly gets an ARI 3 or an ARI 4. The employee getting an ARI 4 can more quickly progress to the next occupational class and their salary grows quicker than an ARI 3. In 2013, only some 2.62% of employees received less than the headline increase and more than 50% received above the headline increase (ARI 4 and 5 or rank promotion).

The rationale behind giving those with ARI 1 and ARI 2 pay increases is based on the request of the Works Council to recognise that even under performing employees are subject to inflationary pressures and their standard of living should not be allowed to fall dramatically which would be the case if they were awarded no increase. It is also in recognition of the fact that not all employees receiving ARI 1 or 2 are individuals who are continually failing to meet requirements; some may be serial offenders but others may have shown previously good ratings across their appraisal history, therefore some concession is justified.

Table 6.4: ARI salary increase formula and example for Shop Salary employees

Appraisal score	Increase	2013 example increase
AR1 'Unacceptable'	30% of HL	0.95%
ARI 2 'Needing Improvement'	50% of HL	1.60%
Auto 2	HL-0.5 percentage points	2.70%
ARI 3 'Good'	Headline	3.20%
ARI 4 'Excellent'	HL+0.2 percentage points	3.40%
ARI 5 'Outstanding'	HL+0.4 percentage points	3.60%

Figure 6.4: How employees progress through the salary range



6.5 Office salary system

The office salary system operates slightly differently to the shop salary system. This system has salary ranges based on annual Hay benchmarks and are in line with the market. There are four salary ranges covering specialists/engineers; senior specialists/engineers; principal specialists/engineers and section managers. The minimum of the pay ranges is 10% below the midpoint of the salary range and the maximum is 10% above the midpoint. Salary progression within the ranges depends on appraisal rating and position in the salary range. The annual increase is determined using a matrix system (see Table 6.5). Promotion to a higher grade results in a fixed increase of 8% at the point of promotion.

Table 6.5: Illustration of annual increase matrix for Office Salary System (from 2013)

ARI rating	**Above range**	**110-116%**	**105-110%**	**100-105%**	**95-100%**	**90-95%**	**83.8-90%**	**Below range**
AR1 'Unacceptable'	0	0	0	0	0	0	0	0
ARI 2 'Need Improve'	0	0	0	1.60%	1.60%	1.92%	2.24%	2.56%
Auto 2	0	1.28%	1.92%	2.56%	2.56%	3.20%	3.20%	3.20%
ARI 3 'Good'	0	1.92%	2.56%	3.20%	3.20%	4.16%	5.12%	5.12%
ARI 4 'Excellent'	1.92%	2.56%	3.20%	3.84%	3.84%	4.80%	5.76%	5.76%
ARI 5 'Outstanding'	2.56%	3.20%	3.84%	4.48%	4.48%	5.44%	6.40%	6.40%

6.6 Cost of living increase

Two salary increase figures are agreed each year by the advisory board: the 'headline increase' (HL) which establishes the level of merit increase for a 'good' performer and the 'core increase', which is the increase by which all salary ranges are revalorised.

6.7 Further performance awards

In addition to the headline increase and the core increase, awarded to the shop salary system staff (office salary system staff can only receive the headline increase depending on performance and where the increase sits within the range), the company pays a 'collective bonus' to all staff in July which aims to recognise employees' efforts in working towards company objectives and recognise company performance, without adding long term cost. The collective bonus consists of three elements: plant performance (e.g. defects per vehicle and operating rates (% of units built vs. target); financial results; and quality (based on quality audits conducted by Head Office). In 2014, the collective bonus was worth up to £1,075 for Team Members.

6.8 Change in pay arrangements and reasons for the progression model used

The current system was introduced in April 2013. Prior to this change, salary ranges were identified as being competitive but issues around progression were flagged. Employees moved up the salary range through rank supplements (with increases differing depending on which rank an employee was in and which ARI was received), no additional payments were made for rank promotion and Team Members earning above the Team Leader salary minimum were subject to a cap on their pay increase (a 'slowdown').

Employees raised concerns and frustrations with this salary system in a number of areas including:

- *Slow progression for more recent hires:* Before 2008, employees received progression in addition to a normal annual increase. Employees received consolidated rank payments (worth 3%, with no rank minimums) and a new employee increase worth 3.5% over three years. In 2008 this new employee increase and the consolidated rank payments were removed and this meant that recent starters remained close to the range minimum.
- *Employees high in the salary range were de-motivated by their pay slowdown:* Due to the large salary range for Team Members (£19,200 to £26,880) it was possible for Team Members to earn significantly more than the higher occupational class of Team Leaders. A system of rank supplements paid higher increases to Rank 3 employees than Rank 2 and 1. This meant that Team Members earning more than Team Leaders would receive a larger salary increase, therefore a slowdown system was introduced to address this

fairness issue, however, this slowdown was de-motivating for longer serving Rank 3 employees. See Table 6.6 for an example of the rank supplement system.

- *The differences in ARI payments were not motivational:* For example in 2012, there was only a 0.1% difference between ARI 3 & 4 and ARI 4 & 5. See Table 7.6. To illustrate, the average difference between ARI 3 & 4 amounted to just £22 a year.
- *Motivational issues for Team Leaders due to significant Team Member salary range overlap:* The company operates large pay ranges, for example, for Team Members the width between the bottom and top of the pay range is £7,680. This provides Team Members with an opportunity to progress their earnings during their career without requiring an occupational class promotion. This, however, caused concern for Team Leaders as it was possible for Team Members to earn £2,000 more than the Team Leader's minimum salary.

Table 6.6: Rank supplement system in 2012

Rank	ARI 1	ARI 2	Auto 2	ARI 3	ARI 4	ARI 5
Rank 1	1.5%	2.3%	3.7%	4.2%	4.3%	4.4%
Rank 2	1.5%	2.5%	3.9%	4.4%	4.5%	4.6%
Rank 3	1.5%	2.7%	4.1%	4.6%	4.7%	4.8%*

*However, the slowdown reduced this to the Rank 1 supplement of 4.4%.

In order to address these issues, the current shop salary system was implemented from 1 April 2013. To address the slow progression of more recent hires, additional progression was provided by introducing the rank minimum salaries and this provided an average additional increase at the point of rank promotion of 2.5% consolidated. Employees who were below the minimum for their rank were moved up to the rank minimum. This change impacted 1,500 employees.

To address the slowdown which was de-motivating for longer serving Rank 3 employees, the slowdown was removed by removing the rank supplement system altogether. Now all employees receive the headline increase, with variation for ARI, and rank is not a determining factor for the increase. When this change was implemented, some 250 employees were removed from the slowdown immediately but many more employees were expected to have been impacted by the slowdown going forward. Longer serving Rank 3 employees can now continue to develop their salaries until they reach the range maximum.

To address the differences in the ARI payments not being motivational, the recognition for employees receiving ARI 4&5 were doubled, generating a 0.2% difference between ARI 3, 4 & 5, equivalent to £44 per year. This slightly larger gap means that over a number of years employees consistently achieving higher ARI will see a noticeable difference in their salary level and it should benefit 40% of employees each year. Employees receiving ARI 3 were not affected by the change and still receive the headline increase.

To address the motivational issue of range overlap, the overlap was reduced by increasing the Team Leader minimum, which reduced the overall range size. The Team Leader minimum was increased by 2.5% (£600) and the Team Member maximum was reduced by 5% (£960). Some 115 employees received the uplift to the new Team Leader minimum and only eight employees were affected by the range maximum reduction. The range size reduction is planned to take place over three years.

6.9 Hard to recruit/specialist roles

The only roles with which the company has experienced particular recruitment problems are qualified technicians (fitters, mechanical and electrical technicians). The company's solution to this problem was to design and operate an in-house apprenticeship arrangement for existing production staff and school leavers, in order to grow their own. These apprentices are on traditional apprenticeship arrangements, receiving salary increases every six months and at the end of their apprenticeship they move to minimum of Team Member salary range.

6.10 Cost of pay progression

At the annual salary review, two main figures are set:

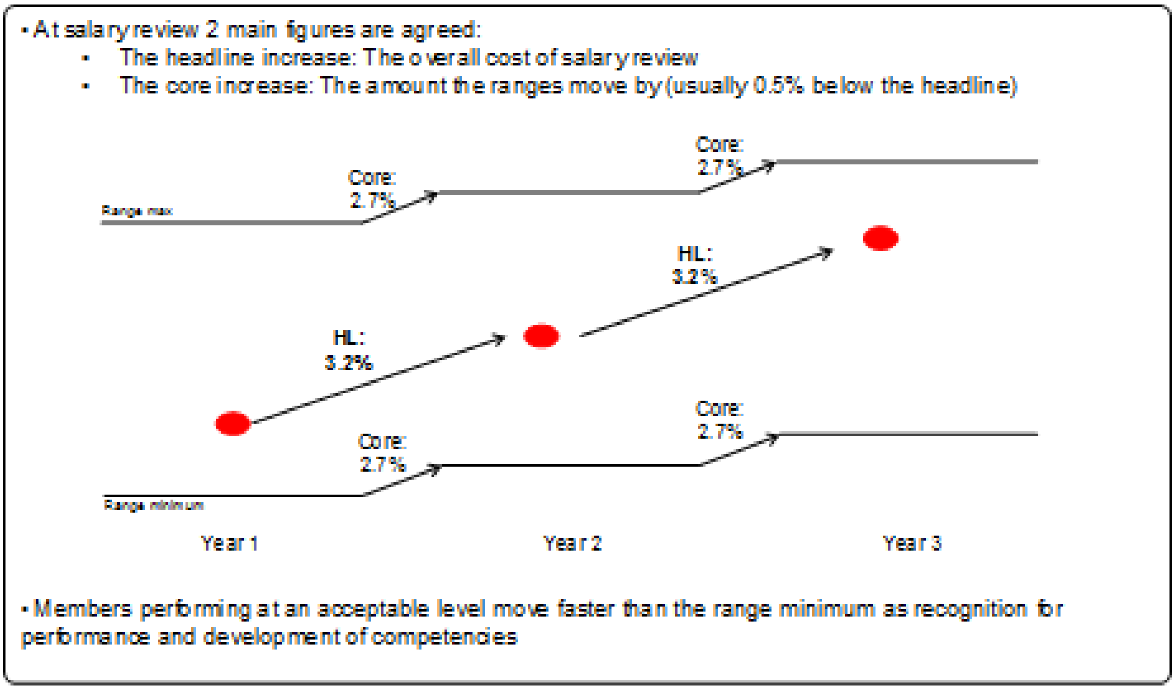
- The headline increase which sets the overall budget for the salary review. In 2013, the headline increase was 3.2%.
- The core increase, which is the amount the salary ranges are moved by; this is typically 0.5% below the headline and is illustrated by Figure 5.5.

In 2013, the cost of more than half of employees receiving an above headline increase (ARI 4 & 5 or a rank promotion) was £340,000 or 0.4% of the total paybill.

At salary review TMAB agree two main numbers:

- The headline increase: The overall cost of salary review
- The core increase: The amount the ranges move by (usually 0.5% below the headline)

Figure 6.5: Movement within the salary ranges



6.11 Advantages and disadvantages of using the model

The advantages of this model are that it enables the company to recognise differing levels of performance and competency through different ARI increases. It also provides on-going opportunities for salary progression and development throughout a career as the pay ranges are wide, with a current width of 35%. However this width has reduced from an historical level of 40% and this change has reduced the overlap between Team Member and Team Leader ranges. The underpinning philosophy behind the 40% pay band width was that an employee could be recruited into the business and have a long term career as, for example, a production member, with earnings growth and learning and development without having to have aspirations to move into a leadership position. However, now, if Team Members want continuous salary growth over a long career they need to give consideration to taking on a more responsible job and moving up an occupational class.

A disadvantage of reducing the pay band width is that employees in Rank 3 that have reached the salary range maximum often do not understand why their salary is not progressing as fast as before, as they now only receive the core increase (and annual bonus). Prior to this change, there was more salary progression available to them, without having to move up an occupational class.

6.12 Evaluations and staff feedback

Before the changes were implemented in 2013, there were issues in the shop salary system concerning fairness, the motivation of both longer and shorter serving employees, recognition of service and performance, and salary progression which affected several hundred employees. The changes implemented reduced the number of employee complaints around these issues as they benefited several hundred employees. There are still complaints from employees who reach the absolute range maximum and are then in receipt of a much smaller increase; and from employees who at the point of being rank promoted do not get an additional increase because based on their service, they are already at or above this rank minimum. However, only about 100 employees are affected by these issues, so the number of employee complaints concerning the progression system has significantly reduced.

7 Case study 2: Pay progression at a large charity

7.1 Background

This large UK charity employs approximately 3,500 staff. It is funded mainly through donations and its main activities involve conducting research and clinical trials, informing government policy and fundraising. In addition to a pay framework specifically for the retail function, the charity operates a non-research pay and grading framework, which includes all corporate functions and covers about 2,800 staff, and a separate pay and grading system for all scientific staff; which covers approximately 700 staff. Both frameworks aim to promote transparency in pay and grading. Both systems have evolved over time to meet recruitment and retention pressures. The current non-research staff framework was implemented in 2010 and the scientific framework was implemented in 2006.

Key points

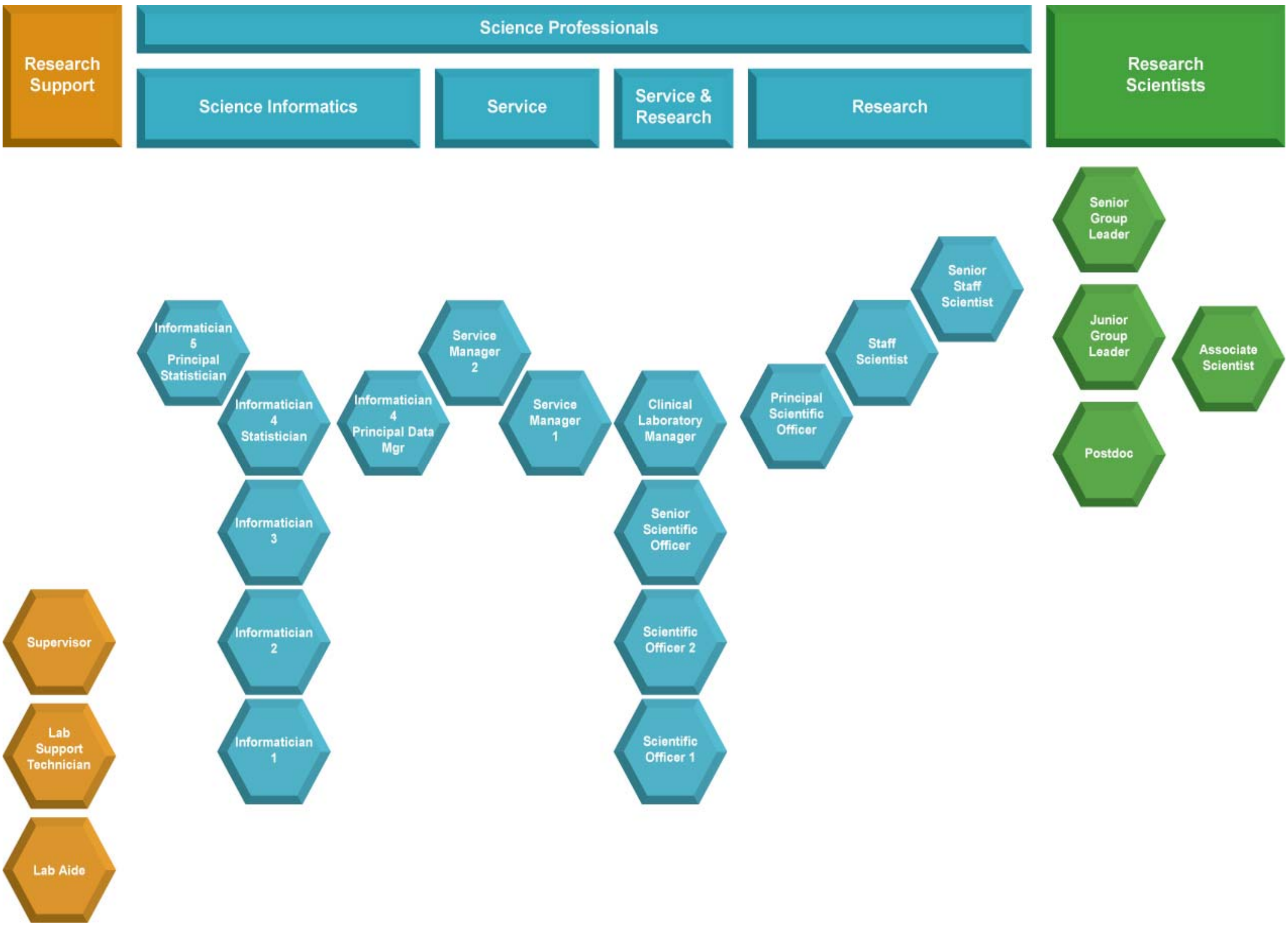
- In addition to a pay framework specifically for the retail function, the charity operates a non-research pay and grading framework, which includes all corporate functions and a separate pay and grading system for all scientific staff.
- For both the science and non-research populations there is one pay award which is applied in June each year and any pay award is related to individual performance contribution. Both frameworks are strongly competency based. There is no separate cost of living rise applied.
- There are three broad job families in the scientific grading system: 'research support', 'science professionals' and 'research scientists'. Within these there are 22 pay grades with a minimum and maximum and a 'reference point', set around the market median of external benchmarks. The width of the pay ranges for the scientific population are around 75% to 125% of the reference point.
- Under the scientific framework, when making decisions about pay progression, managers are asked to consider the individual's performance rating *and* their position on the salary range in relation to the market reference point.
- The approach for non-research staff consists of ten grades with associated salary ranges, split into three key categories of role: Support, professional and management. The associated salary ranges for non-research staff are very broad and are open ranges with no fixed points within them aside from the minimums and maximums for each band. For non-research staff the link between the pay increase and position against market median is not as strong, with the pay decision driven by their performance rating alone.
- For both the scientific and non-research groups a single budget for the annual salary review is set annually. In 2014, the salary rises were set around a 2% pot.

7.2 The type of pay system used

For both the science and non-research populations there is one pay award which is applied in June each year and any pay award is related to individual performance contribution. There is no separate cost of living rise applied in addition to this.

Framework for scientific staff: The different scientific jobs within the charity operate under generic grade names and descriptions. The grades are grouped into job families that are related by the extent to which they share purpose in the organisation, responsibilities, knowledge and/or expertise. There are three broad job families in the scientific grading system: 'research support', 'science professionals' and 'research scientists'. The position of a job within a family and relative to jobs in other families reflects the level of the skills, expertise and experience required to carry out the role (See Figure 7.1).

Figure 7.1: Job families in the scientific grading system



For this population, some 22 open pay grades have been established using external market data from a broad range of scientific, corporate and charity sector organisations. This information establishes the 'market range' for each grade. This market range helps establish salary ranges with a minimum and maximum and a 'reference point' for the pay grade, set around the market median of the external benchmarks. For most roles, there are no fixed points within the pay ranges with the exception of the market median. The width of the pay ranges for the scientific population are mostly around 75% to 125% of the reference point. The pay ranges and the level of the reference point are reviewed annually and revised as required; taking into account affordability, external market data and economic conditions. These pay ranges were last updated in 2011.

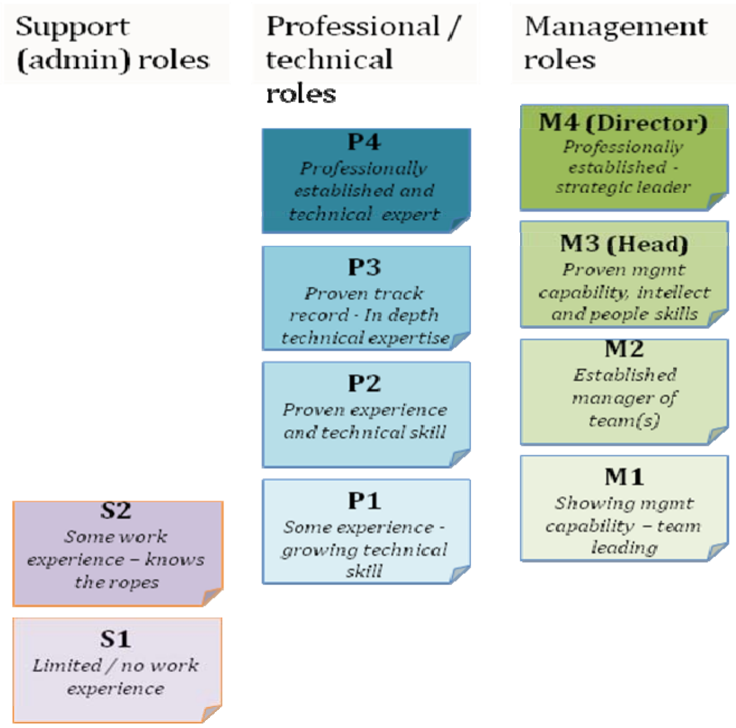
The pay ranges overlap and are generally aligned so that the midpoint of one band is in the region of the minimum of the next band. Pay progression is defined by a combination of individual contribution and position in the pay band.

Framework for non-research staff: The approach for non-research staff consists of ten grades with associated salary ranges, split into three key categories of role: Support (S1 & S2), Professional (P1-P4) and Management (M1-M4) (See Figure 7.2). Each grade has a set of descriptors which describe key characteristics of the role, these may include:

- nature of work i.e. strategic/operational;
- level of functional knowledge required in the role;
- scope for decision making;
- level of accountability.

Each role is assigned a grade based on how well it fits with the grade descriptors. The associated salary ranges for non-research staff are very broad and are open ranges, with set minimums and maximums for each band. Benchmarking is used to determine the market rates associated with roles within each grade.

Figure 7.2: Non-research Framework



7.3 New recruits and trainees

The pay positioning of new recruits is market led, with recognition of the need to maintain internal equities. Managers are advised to make new recruitment appointments within the salary range which reflects the median for the appropriate charity and corporate benchmarks. This level is then assessed alongside internal relativities and guidance is provided to the recruiting manager by HR on an appropriate recruitment range to attract suitable applicants. For highly populated roles in the non-research framework, such as fundraisers, there is a standard recruitment salary range around the market median, but for more individualized roles the reward team may be called upon more regularly to provide appropriate salary range guidelines.

7.4 How pay progression operates

Common across the two frameworks is that pay progression is determined by the assessment of an individual's performance contribution and both pay and grading frameworks are strongly competency-based. For non-research roles, assessment generates one of four performance ratings:

- "Unsatisfactory" – where 7% of the population is expected to sit;
- "Good" – where 60% of the population is expected to sit;
- "Great" – where 25% of the population is expected to sit;
- "Outstanding" - a maximum of 7% of staff are expected to sit in this top category.

Under the scientific framework, assessment produces a rating of either "Expected"; "More than Expected"; or "Less than Expected" (see Table 7.1).

Table 7.1: Contribution assessment

Contribution level	Guideline
Expected	Has consistently met objectives or requirements of the role. Has worked to maintain or develop skills and expertise as required by changing demands of the role.
More than Expected	Has exceeded objectives or requirements of the role, with notable achievements that have significantly extended the influence and impact of the role beyond the normal expectations. Has actively pursued personal development to significantly improve skills and expertise.
Less than Expected	Has not consistently met the objectives or requirements of the role, with some shortfalls in skills and expertise impacting on ability to carry out the role. Limited or no personal development.

Under the scientific framework, when making decisions about pay progression, managers are asked to consider the individual's performance rating *and* their position on the salary range in relation to the market reference point. The aim of the framework is for a good performer to be paid at around the level of this reference point. For non-research staff the link between the performance rating and position against market median is not as strong, with the pay decision driven by their performance rating alone. The annual salary review allows the award of both consolidated and non-consolidated payments. Employees at the top of their pay range may receive unconsolidated pay increases as part of the annual salary review.

As part of the annual salary review for staff on the scientific framework, promotion opportunities are assessed. Business cases for promotion to the next grade must be submitted at the point of the annual salary review and promotion to the next grade is determined by skills and experience. Therefore in establishing a budget for the annual salary review, movement up pay ranges must be considered in addition to movement between pay grades. However, the pay grades in both frameworks do overlap and in the non-research framework there is particular parity between certain managerial and professional grades, with similar salary ranges used in each grade.

7.5 Criteria for progression

Employees on both the scientific and non-research frameworks progress through assessment of their individual contribution and the application of personal development activities to increase their contribution. Personal development refers to the way in which individuals work continuously to maintain and improve their ability to do their job well. This can include a wide range of activities such as taking training courses, coaching, mentoring, taking a secondment, supervising others, learning how to use a new technique or use a new piece of equipment.

The parts of the appraisal/annual review that focus on personal development and setting and achieving objectives are used to inform the contribution assessment/pay review.

Contribution, for the purposes of the pay review, is assessed based on some or all of the following criteria:

- achievement of personal work objectives;
- contribution to achievement of lab/unit objectives;
- anticipating and adapting to the changing demands of work;
- quality of work;
- managing own workload;
- development of new skills;
- development of working relationships;
- use of initiative to enhance contribution;
- increased influence and impact of own contribution.

7.6 Cost of living increase

For both the science and non-research populations there is one pay award which is applied in June each year. There is no separate cost of living rise applied in addition to this.

7.7 Further performance awards

The charity does not pay any further performance awards outside of the increases awarded at the annual salary review and there is no bonus scheme in operation, except for staff in the retail function.

7.8 Change in pay arrangements and reasons for the progression model used

The current pay arrangements for the scientific population were introduced in 2006. For the scientific community, contribution-based pay provides the scope to motivate and reward people for their achievements and the skills and expertise they use.

The current non-research staff framework was introduced in 2010. Before 2010, the non-research roles were in job families which included 137 different grades. This system was considered unmanageable and unnecessarily complex due to the number of grades, therefore the 2010 review attempted to simplify the complicated job family based system by introducing the current grade and competency framework, which reduced the number of grades down to the current framework of 10 grades. This new approach improved the transparency of the system and reduced the administration required by the previous system. The new grading and competency framework was applied in order to help drive performance and engagement through the ability to better manage the career path of employees.

7.9 Hard to recruit/specialist roles

There are no special pay/progression arrangements made for hard to recruit/specialist roles. Market premiums are not used and any salary movements necessary for recruitment/retention purposes are generally performed within the appropriate grades.

Within the scientific population, some of the challenges around pay and progression are offset by the use of a large number of grant-funded staff. The charity grant funds around 4,000 scientists and researchers for clinical research/trials, biological research and drug delivery. These researchers and scientists work with the charity for an initial period of three to five years and instead of being salaried are allocated funding by the relevant grant funding bodies.

7.10 Cost of pay progression

For both the scientific and non-research groups a single budget for the annual salary review is set annually. In 2014, the salary rises were set around a 2% budget, with a further 0.5% allocated for in year salary adjustments. An online modelling system is used which includes all performance appraisal data and salary information and provides managers with a modelled 'guide percentage increase'. For example, in 2014, the modelled range for a 'Good' performer was between 1.5% and 2.5%. These modelled salary increases will deliver the salary review on budget if performance ratings fit the expected distribution. Managers are then able to flex increases within the guidance to appropriately and fairly reward their team members, based on performance ratings and, for the scientific population, their pay compared to the reference point. There is an expectation that salary review will meet budget and the level of flex available ensures this is achievable.

Due to financial pressures, the available pay award ranges have been relatively low for a number of years and this has slowed progression to the market reference point for some staff.

7.11 Advantages and disadvantages of using the model

The grading and competency framework is considered to be relatively straightforward, with a concise number of levels and competency indicators. The system also makes it possible to assess and reward contribution across a wide range of roles, including more routine jobs and it also emphasises successful application of personal development to increase contribution. The competency framework also articulately defines the common themes across essentially very different roles in the organisation and allows all these diverse roles to be encompassed in one competency framework.

The framework for non-research staff provides a number of advantages, including:

- a clear understanding of the desired characteristics and skills for roles at different levels (such as the key differences between Directors, Heads and Managers) which strengthens the charity's ability to attract and retain high quality talent through greater clarity of job, career and salary progression;
- transparency and perceived equity;
- improved job mobility across Directorates which can also reduce the perception of specialised silos within the organisation;
- an objective process of evaluating positions.

The scientific framework also grades and rewards scientific staff in a consistent and fair way that is considered to be:

- transparent and easy to use
- flexible
- linked to market rates of pay
- consistent with equal pay legislation.

The disadvantages of the model are linked to the need to balance internal equities within grades with the market drive on salaries. It is difficult to manage and control this market approach and the internal equity of roles and this is particularly acute at the point of recruitment; if higher salaries than the established population must be offered to attract suitable staff. There is also a challenge around the breadth of the bands because they have to be wide enough to encompass all the roles within a particular grade. Also the strong focus on market benchmarking means that it is difficult to keep salary bands relevant and maintain the discipline of paying within the band. If there is not a good discipline around market anchors for roles in very wide bands, the organisation risks that where there is a market median towards the bottom of a pay grade there is scope for people to move above and beyond this and the organisation ends up overpaying within a band. There are also risks with roles that do not fit within a grade, for example, where a market equivalent rate that sits outside of the grade must be paid (because the job is not large enough to be moved into the grade above), and how this can be justified in a fair way to existing staff.

7.12 Evaluations and staff feedback

Broad questions about the level of satisfaction with pay and benefits are asked in the annual staff survey and in exit interviews. The findings from these indicate that staff are broadly satisfied with their base salary position but more pressure/tension is felt around satisfactory career paths and career progression.

8 Case study 3: Pay progression at a FTSE 50 company

8.1 Background

This large diverse group employs about 40,000 employees globally. The company operates a broad banded pay structure for its corporate population which includes approximately 10,000 employees. This broad banded structure has been used for many years.

Key points

- Employees on non-collective arrangements (the corporate population) sit within nine broad bands and their pay is pitched against the market median.
- Progression is determined annually through two factors: *individual performance* and *pay position relative to the market.*
- A formula is applied which determines what factor of pay rise an individual should receive relative to their peers. For example, if an employee receives an overall performance rating of 'exceed expectations' they can typically expect to receive 1.5 times the pay rise of an employee receiving a 'meets expectations' rating.
- Similarly, a matrix is used to determine how an individual's pay relative to the market median will be used as an adjustment factor. An Excel model then calculates the guide pay rises for the whole corporate population based on a set budget and equates these adjustment factors to a guide percentage pay rise.
- Managers, however, remain able to flex the actual guide pay increases for individuals within their overall budget. This manager component to the final progression decision is considered an advantage of this model which provides both control over the pay budget and management ownership of the final awards.

8.2 The type of pay system used

There are nine broad bands for the corporate population including the main Board members down to administrative and support roles (See Table 8.1). Within each broad band roles are benchmarked against the relevant market and pitched against the appropriate market median, the identification of which varies by role type so as to reflect the talent pool: highly specialised roles are assessed against specific industry comparators, while broad roles (e.g. a business unit finance director) would be benchmarked against FTSE 100 data. There are no set minimums and maximums for each broad band, due to the wide variety of roles within each band, and bands overlap considerably due to their width. For example, a manager in Band 6 may earn £40,000 or £80,000 a year and this band overlaps with a senior manager in Band 5 who may earn £70, 000 a year. The size and scope of the role determines what band an individual is placed in, but there is significant variation in base salaries within the bands. The bands also operate as a guiding principle for the whole total reward package; for example, the band level determines the level of bonus eligibility; or company car and healthcare eligibility.

The company aims to pay no less than 80% of the market median for an individual role and there are no caps above the market median beyond which an employee cannot progress, however, progression at this level is slowed through the company's application of their pay formula (see below). Progression within the broad bands is determined by two factors: individual performance and pay position relative to the market.

In addition to this pay system, the company also has a trade union negotiated cohort of employees (typically engineers) whom sit outside of the performance and market structure. These employees are on spot rates and have increases annually negotiated with the trade unions. The only progression open to this group is through promotion and increases applied as a result of union negotiation. This case study, however, focuses on the corporate group.

Table 8.1: Populations within the nine broad bands

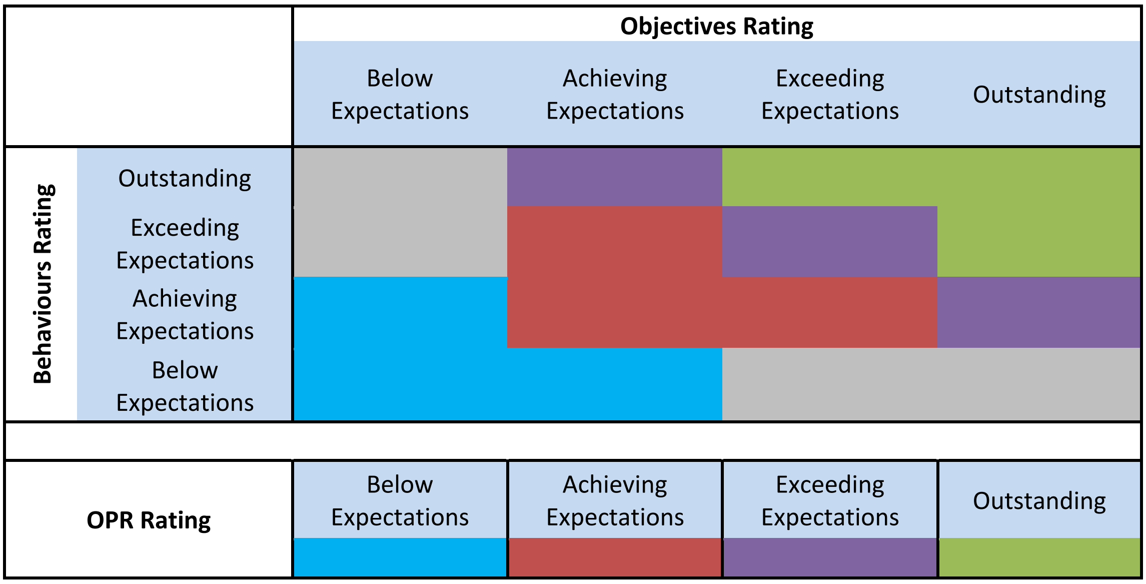
Broad band	Occupational group
Band 1	Main Board
Band 2	Executive Committee
Band 3	Senior Executives
Band 4 & 5	Senior Managers
Band 6	Managers
Band 7	Professional/Technical roles
Band 8 & 9	Administrative and Support roles

8.3 How pay progression operates

Outside of promotions, progression within the broad bands is determined by two factors: individual performance and pay position relative to the market. These factors are used for individual bonus and salary adjustment decisions.

Individual performance: A four-box performance rating system is used in the performance appraisal which separately rates, using the same scale, both individual behaviours and achievement of individual objectives during the year. When assessing both behaviours and attainment of objectives, performance ratings range from 'outstanding' through 'exceeding expectations' and 'achieving expectations' to 'below expectations'. These scales are subsequently used to draw the axis of a 'Ratings Grid' – an employee's position within which is used to produce one overall performance rating (OPR) (see Figure 8.1).

Figure 8.1: Overall Performance Rating pay grid



These performance ratings go through 'calibration', in which recommended ratings are moderated by other managers. Individual departments calibrate ratings and then business units. These are then peer reviewed and challenged if necessary. The focus is not on how an individual performed but rather how they performed relative to their peers. There is a desired distribution curve as opposed to a forced ranking, which allows for flexibility in ratings across the business. This distribution curve provides an expectation that about 5% of employees will receive a 'below expectations' ranking; some 55% will receive a 'achieved expectations'; 30% will get an 'exceeds expectations'; and 10% will get the highest ranking of 'outstanding'. This desired ranking also provides a sense check and enables the leadership team to challenge whether managers are being truly reflective about performance within their department or business unit.

A formula is then applied which determines what factor of pay rise an individual should receive relative to their peers (see Table 8.2). For example, if an employee receives an OPR of 'exceeds expectations' they can expect to receive 1.5 times the pay rise of an employee receiving a 'meets expectations' OPR. Similarly, an outstanding performer should expect to receive twice the level of pay rise of someone only 'meeting expectations'.

Table 8.2: Performance differentiation

Performance rating	Pay rise multiplier
1 - 'Below Expectations'	0
2 - 'Meeting Expectations'	1
3 - 'Exceeding Expectations'	1.5
4 - 'Outstanding'	2

Pay position relative to the market: Following this performance assessment, an identical matrix is then used to determine how an individual's pay relative to the market median will be used as an adjustment factor. The matrix (See Table 8.3) shows that for employees paid low against the market rate (<90 per cent) they could have their pay rise adjusted upwards by an additional 0.5 percentage points. If the employee's salary is high compared to the market rate (110 to 130 per cent), their pay rise may be reduced by 0.5 percentage points and similarly if the employee is paid above the upper quartile (>130 per cent), the recommended pay rise may be adjusted down by a whole 1 percentage point. These adjustment factors may vary by business unit but the approach is very consistent across the organisation.

Table 8.3 Adjustment based on market position

Position in pay range	**Performance rating**			
	1 "Below expectations"	2 "Meeting expectations"	3 "Exceeding expectations"	4 "Outstanding"
Above upper quartile (>130%)	+0%	-1%	-1%	-1%
High (110 to 130%)	+0%	-0.5%	-0.5%	-0.5%
Median (90 to 110%)	+0%	+0%	+0%	+0%
Low (<90%)	+0.5%	+0.5%	+0.5%	+0.5%

An Excel model is used to calibrate the adjustment factors so that over the whole corporate population, the adjustment factors produce increases in line with the allocated budget and guide pay rises are calculated which equate these adjustment factors to a percentage pay rise (see Table 8.4). An online pay modelling tool pre-loads these rises for managers so that they can then see where their team members sit in line with the market, their OPR and the guide percentage pay increase. The total sum of all the guide increases provides the manager with an overall budget for their team for progression and the department manager is then able to flex the actual guide pay increases within their overall budget.

However, if a higher increase than the guide rise is awarded to one team member, a lower increase must be awarded to another to remain within budget. It is very rare that managers award something significantly different from what is suggested by the formula. However, the company does report instances of managers disputing the individual's position against the market. If there is disagreement over the relevant market data this is investigated.

Table 8.4 Illustrative pay increases based on adjustment factors

Position in pay range	Performance rating			
	1 'Below expectations'	2 'Meeting expectations'	3 'Exceeding expectations'	4 'Outstanding'
Above upper quartile (>130%)	0.00%	1.41%	2.61%	3.82%
High (110 to 130%)	0.00%	1.91%	3.11%	4.32%
Median (90 to 110%)	0.00%	2.41%	3.61%	4.82%
Low (<90%)	1.20%	2.91%	4.11%	5.32%

Note: All pay increases are effective from 1 April.

This pay progression approach is considered to be a long term strategy and it can take five years, depending on individual performance, to progress an employee who is paid low against the market to the market median. Through this approach to progression significant movement of individuals against their market pay is not achieved in one pay cycle.

8.4 Trainees/graduates

The company runs apprenticeships and graduate traineeships. Apprentices progress through a promotion approach. There are specific points along the apprenticeship at which the apprentice will receive a pay increase and when they reach the end of the apprenticeship they may be offered a substantive job and they will be paid according to this role. Typically they will be moved across to a permanent role at 90% of market rate.

The organisation also runs two/three year graduate programmes. All graduates receive an annual pay review, with any increase based on their individual performance using the same performance review process as the rest of the corporate population. At the end of their graduate programme they must apply for a substantive job which would move across to the progression system described above.

8.5 Criteria for progression

Managers are encouraged to make decisions regarding flexing the guide pay increases within their overall budget by taking the following factors into consideration:

- level of pay compared with their peers ;
- level of pay compared with the market;
- skill level and experience;
- level of pay compared with peers given the same rating;
- demonstration of the leadership behaviours and achievement of objectives; and
- potential of the individual.

The other reward elements for which individuals may also be eligible for are also taken into consideration; such as a company car or private healthcare, when determining the appropriate pay rise.

8.6 Cost of living increase

There is no separate cost of living increase applied as this is built into the overall budget. While pay ranges are benchmarked against the market and pitched against the appropriate market median, pay ranges are not automatically up rated so as to cause an increase to the pay system as opposed to the pay of an individual. Instead, the relative position of an individual may change i.e. a person may fall from median to below median if the market rate of pay increases substantially.

8.7 Further performance awards

All of the corporate population are eligible for an annual bonus. The level of the bonus is determined by the individual's performance rating and business performance. The individual bonus amount employees are eligible for increases with seniority, as a larger proportion of their pay becomes at risk. At all levels a consistent range is set for the individual bonus calculation of 75% to 125% of their individual bonus eligibility. The line manager decides where in this range the individual's bonus will fall and must operate within their budgeted amount. For example, if a band 6 manager is eligible for 12% of salary as a bonus award, their manager could reduce this to 9% or increase to 15% of salary. Market assessment will help managers determine an appropriate level of bonus within this range with total remuneration being considered against market information to determine what an individual's total package should amount to.

Some employees on collective arrangements are eligible for monthly/quarterly bonuses or commission schemes. These schemes are focused on driving customer service or sales-related behaviours.

8.8 Cost of pay progression

Various factors affect the annual base pay budget, set by the company. External factors include the economic climate, and, considering the overall package, how the company compares in the market. Internal factors include the performance of the company and affordability in context of the overall operating plan. In 2014, the budget for the corporate population was 2.5%.The available base pay budget for managers is the combined budget figure for each of their team members and it is the manager's responsibility to determine how this is split between their team, based on their performance. The highest level of increases that were applied in 2014 was almost 6%.

8.9 Advantages and disadvantages of using the model

The pay progression model in operation is formulaic but the manager element that allows them to make a final decision on the pay increase to award by flexing the guide pay rises resulting from the formula is considered a strong advantage of this model. If the manager component was removed, it is thought that managers would not endorse the pay rise to their team members and blame the formula for progression decisions. The manager component brings a personal element to the pay review discussion; where managers must take ownership of the decision, explain it to their staff and have a meaningful conversation around performance. However, the application of the formula also controls the budget. Under this particular model, the organisation knows exactly what will be spent at the outset as all guide pay rises and associated managers' budgets are based on the overall company budget. The model also prevents managers from awarding increases as they wish which could take some individuals far beyond the market rate for their role or alternatively slow their progress to the market median.

It is thought that in an organisation of this size, without such a formula approach, the global pay review would be too difficult to manage. In a context of limited resources to spend on reward and keep pace with the market, this pay progression model delivers a formula approach which fits with the overall pay for performance culture. However, it divides the resource pool into fair allocations for each line manager to then apply their judgement on how to reward an individual.

Under more simplistic versions of this pay progression approach, which do not take account of position relative to the market, a higher performer may never have their higher increase reduced (if they are paid well above market) as line managers may not wish to take money away from their high performers and as a consequence less funding is available to move lower paid employees towards their market median.

The formula approach also provides a degree of consistency to the whole organisation. If managers move from one part of the business to another, the formula approach to pay progression provides them with a frame of reference for how to manage their employees, similarly, employees moving within the business experience consistency in how their pay is managed.

8.10 Evaluations and staff feedback

'Wash-up sessions' with focus groups of HR and business unit leaders are conducted at the end of each pay review to understand how the process has worked and what areas require improvement. One of the biggest challenges identified by these sessions was that managers wanted to make changes to their pay recommendations outside of the timeframe, once the process had been concluded and the proposals had been communicated to payroll. This is hugely costly to rework and the company is attempting to identify ways to prevent these late revisions.

9 Case study 4: Pay progression at a specialist construction firm

9.1 Background

The case study is a site-specific, highly specialist construction company. The company operates under a target cost contract with the non-departmental public body that owns the site. Since 2012, the company has been a wholly-owned subsidiary of a larger consortium.

The company currently employs approximately 1,000 people within support, technician, professional and leadership roles. Professionals are the largest employee group, which includes engineers, project managers and specialists. There are three recognised trade unions at the site: two are general trade unions and one is professional-focused.

Key points

- In December 2010, the company moved from a seven graded incremental pay structure, with fixed points, to four broad bands: Support; Technician; Professional; and Leadership.
- Under the current system, there is no guaranteed pay progression for employees, but in determining whether an individual is eligible for an pay increase and the size of any increase, the company takes into account: an annual assessment of their 'total contribution', which considers both technical and behavioural competencies and performances against objectives; and current salary position within the pay range relative to other employees within the same job role.
- An annual cost of living rise is also negotiated with the trade unions.
- The company moved to a broad banded pay approach primarily because flexibility to move people between jobs is going to be an important feature of how they will manage their resource allocation in future. The broad bands allow employees to change their specific jobs within an overall job role without it affecting their pay. The move away from the seven graded structure was also to ensure the company was equal pay compliant.
- The use of competency criteria to determine progression has provided more consistency in the assessment of individuals across different jobs. An aim of moving to this form of progression was to give line managers a clearer and more balanced structure for carrying out assessments linked to progression.
- There is a single budget for pay progression, which is separate to any cost of living rise negotiated with the trade unions. The progression pot, worth 1% of total base pay, is apportioned resulting in individual pay increases varying from zero to 10%.
- Since the new progression system has been implemented the number of employee appeals against pay progression decisions has reduced.

9.2 The type of pay system used

In December 2010, the company moved from a seven graded incremental pay structure to four broad bands: Support; Technician; Professional; and Leadership. Within each of the new bands job roles have been identified and there are sub ranges within the bands that apply to each job role, meaning many roles have progression maximums that are well below their pay band's maximums. For example, within the professional band there is a job role for specialist engineers and another for principal specialist engineers, and the two have different but overlapping pay ranges. Within each of the job roles, the pay band is open, with only a minimum and a maximum point, with no specified points in between. The hierarchy of job roles is based on job families.

9.3 New recruits and trainees

On appointment to a specific job, new recruits can start anywhere in the appropriate pay band and in determining starting pay, the company takes account of:

- The qualifications and experience of the prospective recruit
- The need to offer a salary that reflects relevant market rates; and
- Internal relativities with existing employees in the same role.

New recruits will be eligible for consideration for pay progression at the first annual salary review after they join, provided that they have completed at least three months' service by the end of the reporting period.

Apprentices and trainees are paid an annual salary appropriate to the year of their apprenticeship or training. Newly qualified craft employees, who have just completed their apprenticeship, will spend approximately two years in the 'Support' pay band where the scope for progression between the minimum and maximum of the band amounts to about £7,000, before moving into the Technician Craft range, where the band is broader at £13,000, offering more scope for progression.

Table 9.1 Grade structure

Pay band	Job role	Width of pay range (between min £pa and max £pa)
Senior Management	Senior Management	Personal Contract terms
Leadership	Senior Project Manager Support Services Manager	Not disclosed
Professional	Principal Engineer/Specialist Project Manager/Senior Facility Manager Assistant Project Manager/Facility Manager Engineer/Specialist Function/Technical Support Manager	£20,000
Technical	Supervisor Advisor/Specialist Support Services Technician Engineer Technician Craft	£13,000
Support	Craft/Chargehands/Senior Administrator Administrator/Analyst/Operator	£7,000
Apprentice/Trainee	Apprentice Year 4 Apprentice Year 3 Apprentice/Lab Trainee Year 2 Apprentice/Lab Trainee Year 1	Not disclosed

9.4 How pay progression operates

Annually, the company's employees are eligible for two pay increases:

- An annual cost of living rise negotiated with the company's trade union co-ordinating committee applied across the board.
- A potential pay progression payment applied at the annual salary review. This progression payment is made at the beginning of the financial year, on the same day as the cost of living rise.

There is no guaranteed progression increase for employees, but in determining whether an individual is eligible for an increase and the size of any increase, the company takes into account:

- an annual assessment of their total contribution; and
- their current salary position within the pay range relative to other employees within the same job role; eg first, second, third or upper quartile of the pay range.

Pay progression may be withheld from employees whose performance is identified as being unsatisfactory under the company's unsatisfactory performance procedure or as a result of disciplinary action. Pay progression is also slower for those occupying the higher quartile in their pay scale. For example, if an individual is paid in the top quartile of the range and the individual is performing well, in order to progress further they would have to consistently be exceeding the requirements of the job, under the justification that this is just what is expected of them as they are being paid at this top level. The overall principle adhered to is that all employees should be paid equally compared with others who are in comparable jobs and are performing the job at an equivalent level.

Under the new pay arrangements, some employees have now reached the progression maximums of their pay bands because they are performing above the expectations for the job role. However, there is no progression beyond this maximum. The only additional pay that individuals at the maximum are eligible for is the company bonus but this applies across the board to all employees, not just those at the pay band maximum. Therefore if someone has reached the top of their scale, the only pay increase that is available to them is through the application of a cost of living rise negotiated with the trade unions, which will revalorise the top of the scale.

It is currently unknown how long it would take an employee to progress from entry level to the progression maximum as this has not yet happened under the new arrangements. However, the key criterion for the operation of this system is how individuals sit comparable to others in the job role, rather than how long it takes to get to the maximum of the pay band. The width of each pay band varies across the four broad bands, but there is logic to the pay band widths: for example, Support is shorter in length (£7,000) and expected to be progressed through more quickly as employees become competent in their role; whilst the Professional band is wider (£20,000) to accommodate differing expertise and experience. It is possible for individuals to cross the four broad bands, either through job evaluation which has determined that their role has changed; or simply by applying for a job role in a different band. The system also allows an individual to request a job evaluation if they believe their role has changed significantly.

Pay progression is a key element of the company's reward strategy, enabling the business to recognise and reward individuals for their contribution to delivering the programme and encouraging appropriate behaviours.

9.5 Criteria for progression

The company feels that contribution-based progression can be viewed as a more sophisticated interpretation, or broadening of performance related pay, which ensures staff are not measured simply on objectives, but also on competence and behaviour.

At the company, an individual's total contribution is reviewed against three parameters:

- *Technical competence:* This assesses whether the individual is meeting the technical competence requirements for the job they are performing. All job roles have an associated competence framework with defined levels of attainment.
- *Delivery:* This assesses how the individual has performed against their specific objectives set during the year and the key deliverables for each job.
- *Behavioral competencies*: This assesses the core behaviors that are common to everyone in the company. For example, their approach to safety and security; team working and communications. For line managers there is also a set of management behavioral competencies and those in the leadership pay band are also assessed against a set of leadership competencies.

A panel of senior managers and HR determine the appropriate rises based on the markings generated from the above assessments and the individual's current position in the salary range.

For existing staff, upon appointment to a new job, there is no automatic pay increase. An individual salary review will be carried out to determine if a pay increase should be applied and the size of any increase. In determining salary on appointment, the company takes into account:

- the pay range for the new job; and
- the current salary position within the pay range relative to other employees within the same job role.

The company does not use market pay as anchors in its broad bands but it does conduct regular benchmarking to ensure that pay is competitive, particularly when compared with other organisations operating in the same sector, and to ensure that pay is broadly comparable in terms of the set ranges. Benchmarking has been conducted annually since the new pay arrangements were introduced in 2010.

9.6 Cost of living increase

All employees are eligible for an annual cost of living award, which is negotiated with the trade unions. Any increase awarded revalorises the minimums and maximums of the pay ranges. The annual cost of living increase is not directly linked to RPI/CPI, but is guided by the parent company, which sets an overall limit to maintain parity with other parts of the business.

9.7 Further performance awards

Outside of the cost of living award and annual salary review, the only further pay awards employees are eligible for is the annual company bonus. This bonus is based on three dimensions: safety performance improvements; the achievement of the company's project milestones; and measures related to the fee earned through running the contract for the site. The bonus is available across the board, applying to all grades and can be worth up to 5% of base salary for all employees. Those in the Leadership band can also earn an additional 5% based on their performance against their individual objectives.

9.8 Change in pay arrangements and reasons for the progression model used

Prior to the new broad band system, the company operated a seven grade incremental structure, with fixed spine points within each grade. Progression was mechanistic with a direct link between the number of spine points awarded and the annual performance review box marking which ranged from 1 (exceptional) to 5 (unsatisfactory). Under the old system, an individual joining on the minimum of the pay grade for the job would progress to a 'standard' pay point within four years of appointment and then progression from 'standard' pay to the maximum of the grade was discretionary based on performance above the satisfactory level. The position of the standard pay point changed the higher up the grading structure an individual progressed. For example, for the lowest job, the standard pay point was at the upper quartile for the range; whereas at the top of the structure, 'standard' pay was set at the median. These standard pay points were not *directly* linked to the market.

When individuals were assimilated across from the old to the new pay structure, it was designed so that all employees had some headroom to progress under the new system. There were some individuals who had been sitting at the maximum of their old pay scale, but through the use of the broad band system, these employees simply transferred across to the appropriate new band on their current salary, which in no case was the maximum of their new scale.

Also, when the company moved to this new pay system, it introduced generic job descriptions for all jobs. Under the previous system the company operated with about 400 tailored job descriptions, but this has subsequently been reduced to approximately 100 generic job descriptions. This ensures that employees are now being assessed against the same key deliverables that have been identified as important to that role.

The company moved to a broad band pay approach primarily because as the company moves forward, flexibility to move people between jobs is going to be an important feature of how they will manage their resource allocation. Broad bands allow people to change their specific jobs within an overall job role without it affecting their pay.

The move away from the seven graded structure was also to ensure the company was equal pay compliant. Before the implementation of the new system, the company had successfully defended a long running job evaluation dispute that had involved ACAS. This dispute had also highlighted the need to strengthen its focus on equal pay and this coincided with the company wishing to modernise its approach to pay and grading.

9.9 Hard to recruit/specialist roles

Any hard to recruit/specialist roles sit within the existing four broad bands but a market premia may be applied for a particularly specialist role or one which cannot be recruited into within the existing pay range for that role. Alternatively these hard to recruit/specialist roles can be employed on a personal contract which removes the individual from the standard pay structure.

9.10 Cost of pay progression

There is a single pay pot which is allocated to control the cost of pay progression within the company. This pot is worth 1% of total base pay as at 31 March. The pot allocated to pay progression is separate to the annual cost of living award negotiated with the trade unions. However, in some previous pay negotiations the 1% pay progression pot was increased at the expense of a lower cost-of-living rise. This was driven and negotiated by the trade unions.

The average pay progression payment is 1% - in line with the progression pot; but individual increases can range widely from 0% to 10%. The small 1% progression pot has placed some financial pressures on the progression system as line managers have not always been able to reward some employees to the extent that they may wish, but the 1% budget has not had any other significant implications for the operation of the new system.

9.11 Advantages and disadvantages of using the model

The use of contribution-based criteria to determine progression has provided more consistency in the assessment of individuals across different jobs. An aim of moving to this form of progression was to give line managers a clearer structure for carrying out assessments than had been present previously; and also to ensure there was a balance in the assessment of individuals across the different dimensions of their job. Previously, the general trend had been to focus on the individual's outputs and their delivery, at the expense of looking at the competencies employees possessed and the behaviours they demonstrated.

This change to assessing total contribution was a move away from just being concerned with *what* people achieved, to pay progression placing a value on also *how* an individual achieved the objectives and requirements of their role.

There, of course, remains an element of subjectivity in the assessments, which is impossible to completely remove, as all assessments are arrived at based on the view of a line manager but the total contribution model has improved the parameters for these judgements, which in turn enable better and more honest conversations about how staff are performing and the behaviours they are demonstrating.

Also because the mechanistic link to pay progression has been removed, under the new system if an individual has development needs, they may still be eligible for some level of pay progression, because , for example, someone who is relatively low in the pay band would be expected to still have these development needs. This has removed the need for line manager to 'mark up' the performance of these employees in order to ensure a pay award was applied.

9.12 Evaluations and staff feedback

All pay increase recommendations arising from the annual salary review are subject to an Equality Review carried out jointly by the company management and the trade unions. This helps ensure they are not creating any widening of pay equality gaps. The company was aware that when they first moved across to these new progression arrangements there were some job roles where there was a risk of being open to equal pay issues and the new system has provided a mechanism which can attempt to correct this through progression combining the assessment of an individual's current salary position within the pay range relative to other employees within the same job role; and their total contribution and removing the indirect link to service. The equality reviews that have been conducted since the new model's implementation have shown significant improvement, compared with the situation before 2010.

When the new progression model was first introduced, employees were initially wary because there were no guarantees of pay progression, nor were managers able to state exactly what employees could expect to receive at the annual salary review. However, employees have the right to appeal against any decisions on the pay progression they are awarded and since the new progression model has been implemented, the number of appeals has reduced. It is believed that the new system enables managers to reward individuals in a more appropriate manner than under the previous incremental system.

Pay progression is not an element which is evaluated by the staff survey but later in 2014; the company intends to conduct a formal review of the overall impact of the new pay progression model and the effectiveness of its operation.

10 Case study 5: Pay progression at a bank

10.1 Background

This bank is a leading provider of long-term savings and investment solutions. The company operates internationally but the progression arrangements discussed in this case study apply to UK employees only. There are 4,500 employees in the UK, excluding an investments business which has separate pay arrangements. There is no union recognition at the company but there is a Staff Association.

Key points

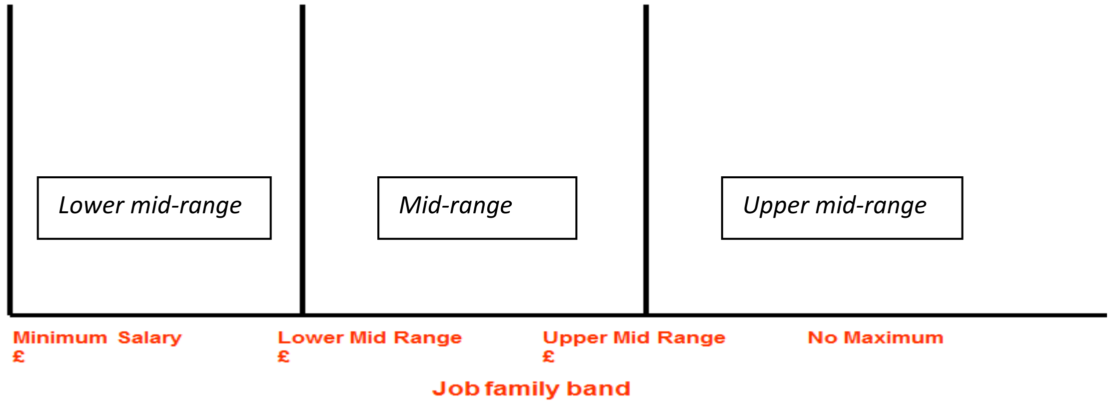
- The pay system is based on 15 functional job families. Across all 15 job families there are 49 broad pay bands. Within each pay band there are three reference points: minimum, lower midrange and upper midrange (see Figure 10.1).
- Across most salary bands, the minimum of the range is targeted around 70% of a weighted average midpoint which is calculated from the relevant market data across a range of jobs in each job family; the lower midrange reference point sits at 85% and the upper midrange at 115% of this weighted average midpoint.
- The overall approach to reward is through pay for performance and progression is determined through a flexible pay matrix which takes into consideration performance rating and position in the salary range. Assessment of performance is based on an individual's output against their performance goals agreed with their line manager during each year.
- At the annual salary review a single pay pot is determined. There is no separate cost of living increase. Once the pay pot has been determined, the flexible pay matrix is determined and applied. A 'target award' for each individual is communicated to managers and managers are also provided with a range within which they may flex the target award.

10.2 The type of pay system used

The pay system is based on 15 functional job families. Across all 15 job families there are 49 broad pay bands. The number of pay bands in each job family ranges from between two and five. Within each pay band there are three reference points:

- minimum;
- lower midrange;
- upper midrange.

Figure 10.1: Reference points within each pay band



The minimum reference point indicates the minimum an individual can earn within their salary band; a salary falling between the minimum and the lower midrange will apply to an individual who is developing in their role; a salary between the lower and upper midrange indicates the individual is competent in the role. There are no maximums to the salary bands and outside of these three reference points the bands are completely open, although no employee can be paid less than the minimum reference point of their salary band. However, in a small number of job family bands employees are paid well above the upper midrange value.

The pay bands are pitched around a market median. Due to the number of varied jobs within each functional job family, the market data for each job is different. In order to determine a market median, a weighted average for all the market data in each job family is used: so, if there are 10 jobs in a job family band, the weighted average is calculated using the market median for each job. Across most salary bands, the minimum of the range is targeted around 70% of this weighted average midpoint; the lower midrange reference point sits at 85% and the upper midrange at 115% of the weighted average. The weighted average midpoint is not communicated outside of the reward team. There is an overlap between salary bands within job families.

For the annual salary review, which is effective from 16 March each year, a single pay pot is allocated. In determining the size of the pay pot, the company looks externally to see where it is positioned against the financial markets, how pay practice compares with the market, company affordability and economic factors. As a result, there is no guaranteed pay increase for individuals each year.

Once the pay pot has been determined, the flexible pay matrix is modeled. A 'target award' for each individual is communicated to managers, which if applied would ensure that the budget agreed is fully utilised without under or over spending. Managers are also provided with a range within which they may flex the target award. For example, the target award may be 3%, but the available range may be between 2% and 4%. Managers have the discretion to flex the award around the level of the target award and within the recommended range. If a manager wants to apply more than the target award for an individual they need to award someone else less to ensure their budget balances (See Table 10.1).

Table 10.1: Flexible pay matrix ranges based on position in salary range and performance rating

	Exceptional	Strong	Good	Adequate	Unsatisfactory
Lower midrange	4.2% - 7.8%	2.1% - 4.9%	1.3% - 3.8%	0.5% - 1.5%	0
Midrange	3.2% - 5.9%	1.8% - 4.2%	1% - 3%	0	0
Upper midrange	2.1% - 3.9%	1.2% - 2.8%	0.4% - 1.1%	0	0

10.3 New recruits and trainees

The placement of new recruits into the pay bands depends on their individual skills and experience. If the recruit lacked the skills/experience needed to be competent in the job from the beginning they will typically be placed towards the lower end of the pay band; however, if the individual is experienced and can competently perform from day one, they will typically be paid in the midrange.

If anyone new joins the company towards the end of the business year or between 1 January and the pay modelling at the end of January, they will be rated as 'Undefined', which for budget purposes means the manager will be able to use the good flexible ranges. It's the manager's decision if they want to award any increase or use the budget for others that they manage.

The pay progression arrangements for graduates are the same as for all employees, with pay increases guided by the flexible pay matrix. However, for some graduates, for example in the finance function, their salary can also increase with exam passes.

10.4 How pay progression operates

The overall approach to reward is through pay for performance and progression is determined through performance ratings and position in the salary range. There are six possible performance ratings: 'undefined' (to capture the small number of employees new into the role/or those who have been on maternity leave /sick leave for the majority of the year etc); 'unsatisfactory'; 'adequate'; 'good'; 'strong'; and 'exceptional'. The pay awards for the 'undefined' cohort are generally in line with the 'good' rating. Typically the flexible pay matrix will show that for 'unsatisfactory' employees, there is a zero pay increase. Those low in their pay band and rated as 'Adequate' may still be eligible for a salary increase.

The rate of progression is determined by the pay pot per cent available, performance rating, and the individual's position in the salary range. For example, exceptional performers in the lower midrange of their pay band would receive higher increases than exceptional performers in the upper midrange. There is no cap to the salary progression of employees in the upper midrange of a pay band and as long as the employee is performing at a high level (equivalent to 'good'; 'strong'; or 'exceptional') the individual will continue to be eligible for a salary increase each year.

The length of time it takes to progress from the minimum of a pay range to the midrange or upper midrange depends on the size of the salary pot each year, the application of the flexible pay matrix and the manager's judgement on how they progress the individual's salary. To provide an example, the minimum salary for a Customer Service Representative is £13,985. The lower midrange is £16,185 and the upper midrange for this role is approximately £21,900. A 'good' performer entering the pay range in the lower midrange (a salary between the minimum and lower midrange) could perhaps expect to progress to the midrange (a salary between the lower and upper midrange) in two to three years. Upon promotion to a higher salary band, a pay increase of about 5 to 10% is awarded on average, though there is no minimum increase attached to promotion.

Outside the annual pay review cycle, business areas can increase individual's salaries as part of pay progression and or responding to market challenges. The number of people who receive an out of cycle increase is small. There is no central budget so the business areas need to find the funding from within their own budgets. Awards could be up to 10%.

10.5 Criteria for progression

Assessment of performance is based on an individual's output against their performance goals agreed with their line manager during the year. Managers are encouraged to award an appropriate performance rating which places value on what has been achieved as well as how an individual achieved their goal. This consideration is a move towards a more sophisticated interpretation of pay for performance which broadens the measurement of performance by rewarding employees for the way in which goals are delivered, the 'how' of the job as well as the 'what', not just behaviourally, but through skill/competency acquisition and in September 2014, the organisation intends to fully introduce competency assessment into the performance management approach.

10.6 Cost of living increase

The single pay pot allocated for the annual salary review includes consideration of any cost of living factors, therefore there is no separate cost of living increase applied. To consider cost of living factors, the salary bands are reviewed annually against the market. So in theory the band's reference points could move by more or less than the pay pot per cent. If the bands increase, the individual's pay doesn't unless the manager makes an award applying the flexible pay matrix. The bands are reviewed at the same time as the annual review and the modelling is carried out on the new bands.

10.7 Further performance awards

In addition to the annual salary review, employees are also entitled to participate in the company bonus scheme. The bonus pool available to employees is based on company performance during the business year and is not guaranteed. There are three bonus groups in operation which reflect the level of jobs: standard, higher and senior. Similar to salary, the individual award is determined by the application of a bonus grid which takes into consideration the performance rating and distribution of ratings, per bonus group, across the business unit.

In the management job family, the standard bonus pot is payable to the equivalent of team mangers eg first line managers; the higher bonus pot is available to middle management who would directly manage a number of team managers and indirectly a department and the senior bonus pot is payable to senior managers who would report to other senior leaders or executives.

10.8 Change in pay arrangements and reasons for the progression model used

The flexible pay matrix approach has been operating for two annual pay reviews. Prior to this, every manager was awarded the same budget in line with the overall pay pot, regardless of the performance level of their direct reports. This budget was then allocated at manager's discretion. Managers were encouraged to consider the individual's position in the salary range when determining salary increases but it was common for managers to spend most of their budget rewarding their high performers, regardless of where they already sat in their pay range.

The move to the current matrix approach shifted the focus to the performance and delivery of objectives and provided greater transparency and fairness to the allocation of the overall pay pot. The change also reinforced the strong performance culture that the bank is trying to drive forward and provides greater consistency and speed to the annual pay review, whilst also maintaining a level of flexibility and discretion for the manager.

The overall driver for this change was feedback from employees showing they wanted a clearer link between their performance and salary. From the business perspective, the bank also wanted to create a simpler and more cost efficient process. Under the previous system, the annual pay review was a drawn out and lengthy process which involved many conversations amongst managers The new system, which uses an online tool to model the target award and ranges, which managers can adjust at their discretion within budget, has reduced the pay review process down from twelve weeks to three weeks.

The first year the flexible pay matrix was introduced, the company published both the target award and the flexible pay ranges that the manager could award between. This communication to employees, however, resulted in some conversations with employees focusing more around why, for example, if the target award was 2% the employee only received 1.8%, rather than focusing the conversation of how the individual actually performed during the year. To avoid this, this year the company only communicated the ranges to employees, with only managers having access to the target award levels. The company did not receive any feedback from employees on this change.

10.9 Hard to recruit/specialist roles

The approach to pay progression is the same for all roles and no special pay arrangements exist for hard to recruit or specialist roles. For some hard to recruit roles (although this is not a regular occurrence), there can be 'out of cycle' pay reviews, however, there is no central budget for this and any in-year pay adjustments must be met by the business unit's budget. Any hard to recruit roles are typically found at the senior levels and the lack of a maximum above the upper midrange helps to recruit these if a higher salary is needed for the recruitment offer. It is thought that the lack of a maximum to the salary ranges provides good flexibility for recruitment where needed.

10.10 Cost of pay progression

In 2014, the overall pay pot was worth 2.5%.

10.11 Advantages and disadvantages of using the model

By implementing the flexible pay matrix, the bank expected to achieve a shift in focus onto performance and delivery of goals, effective performance management by clearly linking salary to performance, transparency for people as to how pay is determined, a step change in how the pay pot % is distributed to and applied by managers, greater consistency but ensuring flexibility for managers as well as simplicity and speed. Based on feedback and analysis to date this has been achieved.

The main lesson that has emerged from the change from the previous system to the current matrix approach is that there is some disconnect between managers' and employees' understanding of how the salary review process now works. Whilst managers are comfortable with the new approach, some employees lack understanding on the approach to pay. Some more work is required in future utilising the range of information available on the company intranet and communicating the reward process (see below).

10.12 Evaluations and staff feedback

In April 2013, after the flexible pay matrix had been implemented and used to determine the 2013 salary review, the company conducted an evaluation to determine how it had worked. This evaluation consisted of targeted surveys to large numbers of the employee population and face to face focus groups with managers and employees to gather their feedback.

Very positive feedback about the new salary approach was obtained from managers but the feedback from employees was slightly less positive and this was attributed to their weaker understanding of how the new approach worked. Based on the overall positive feedback a flexible bonus grid was developed, introduced and used in February 2014 further strengthening the link between performance and reward.

There is a realisation that it takes time to embed change and that the company is well on the road to achieving success.

11 Case study 6: Pay progression at a public research university

11.1 Background

This publicly funded university – an international leader in research in the natural sciences – employees a total of 7,500 workers, with a full-time equivalent population of between 6,000 and 7,000 individuals. The university's staff is divided into five job families: an academic and research family focussed on academic research; a learning and teaching focussed on teaching and learning technology; a professional services family which provides administrative and specialist support across the university; an operative services family which runs student and staff services such as security, catering and cleaning; and a technical services family which provides support to the university's research staff.

Key points

- The pay system at the university operates through five job families, which are placed on two distinct pay spines. Within these spines, workers within most roles move through distinct pay grades, progressing on an annual, automatic basis.
- Towards the top of most pay grades is a discretionary zone, the incremental points of which are only open to those staff assessed to be making a more-than-standard contribution to the university.
- Senior staff do not receive annual pay increments, but instead are paid a fixed-salary based on individual negotiations.
- In addition to incremental payments and annual cost of living awards – which are normally paid on a percentage basis and applied across the board – staff are able to make representations to management during annual 'pay relativity exercises' if they feel that their individual contribution, a growth in their role, or wider market trends warrant an additional pay award.

11.2 The type of pay system used

The university operates a number of pay systems. For operational staff whose roles are unlikely to change – eg security and catering staff – workers are paid on fixed salaries. All other roles outside of the academic and research family are paid within a series of set pay 'levels' (i.e. grades), which are in turn placed within a single pay spine (see Figure 11.1). All roles within this spine up to senior management level – up to the top of level 5 – are eligible for incremental progression payments. Senior management roles and above become ineligible for incremental payments, and instead fixed salaries are offered to heads of departments, directors and other similar roles. The roles on these fixed salaries have two guaranteed minimum rates – at the bottom of levels 6 and 7 – above which staff are paid according to negotiations.

Within this single pay spine, differences are found between job families: while certain roles within the professional, technical and operational families begin in level 1, teaching roles begin at level 3. Likewise, no roles within the operational family fall within level 5 or above – any operational staff promoted up to these levels are re-classed as being part of the professional services family. Similarly, levels 6 and 7 of the spine only contain roles from the professional services family.

Figure 11.1: Pay structure for non-academic job families (levels 3b to 6)

Spine Point	Financial Year 2013
52	£64,400
51	£62,550
50	£60,830
49	£59,200
48	£57,570
47	£56,010
46	£54,490
45	£53,000
44	£51,590
43	£50,190
42	£48,830
41	£47,540
40	£46,260
39	£45,040
38	£43,820
37	£42,670
36	£41,540
35	£40,440
34	£39,380
33	£38,330
32	£37,350
31	£36,340
30	£35,420
29	£34,500
28	£33,590
27	£32,750

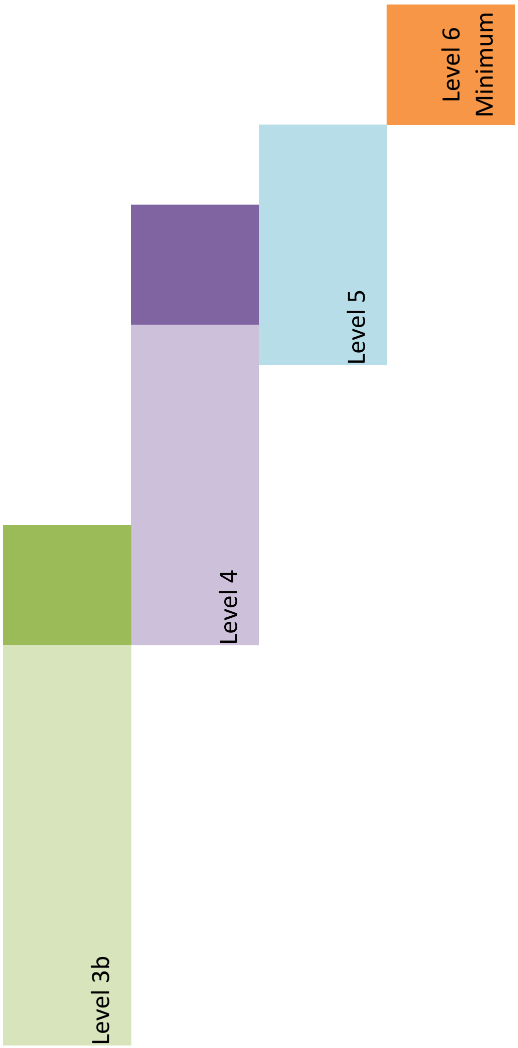
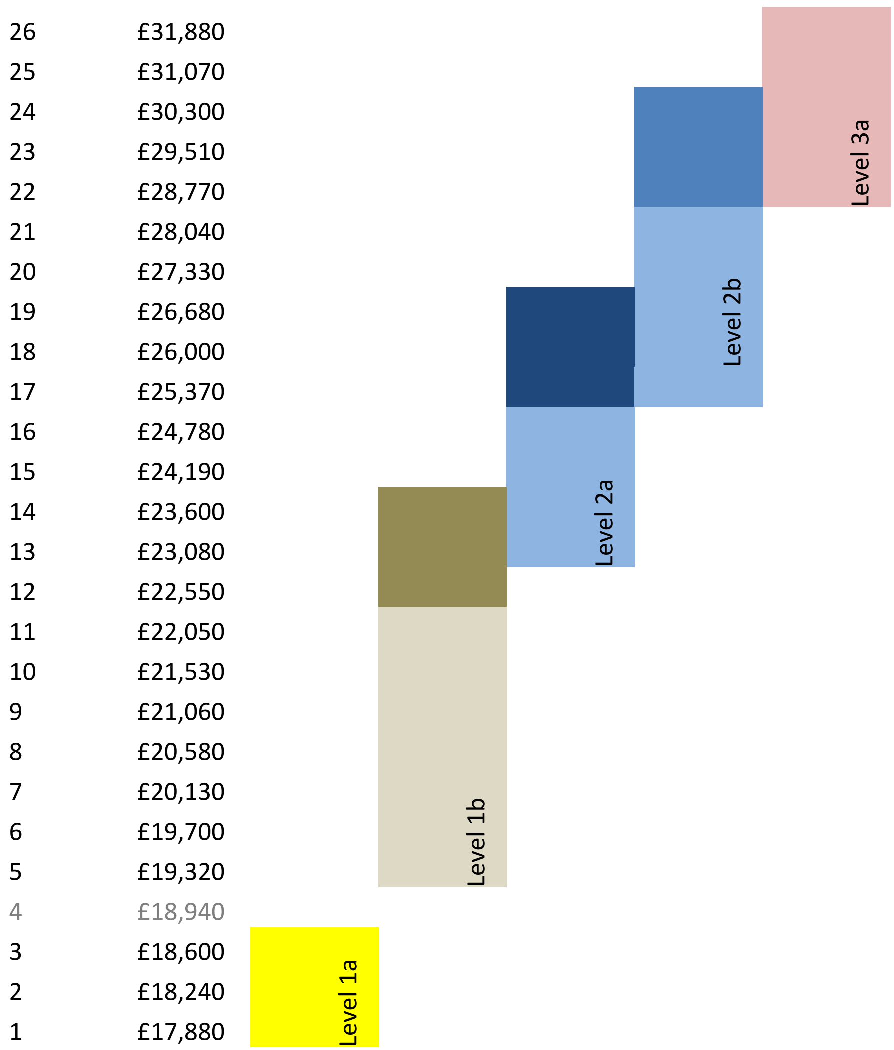


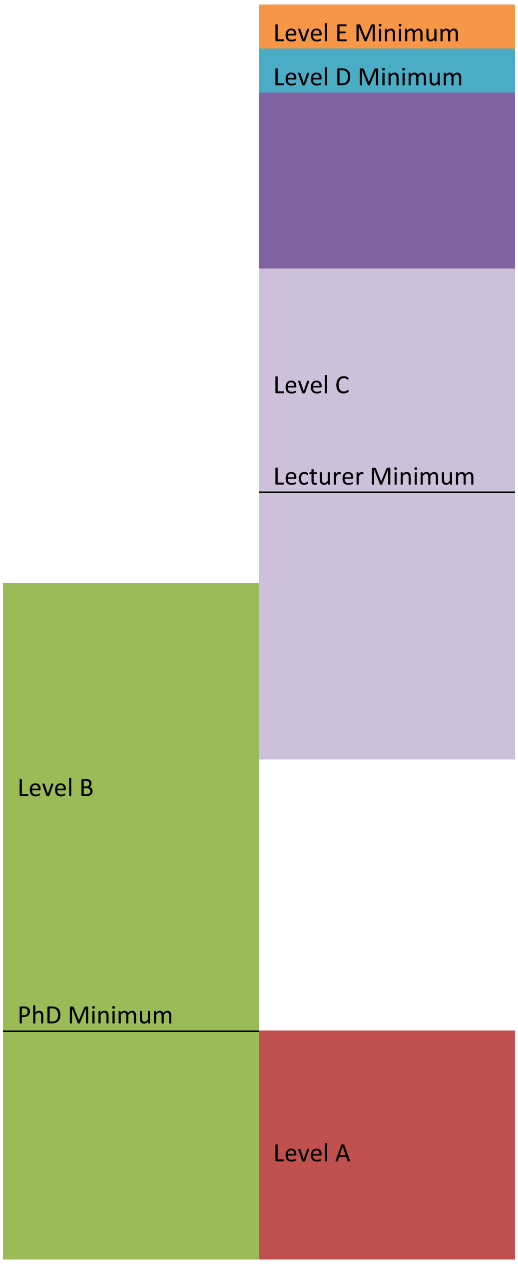
Figure 11.1: Pay structure for non-academic job families (levels 1a to 3a)



For the academic and research family, the university again operates an incremental spine for 'entry level' and 'secondary level' researchers and lecturers. Entry level researchers – who are seen as needing further training or formal development before taking on senior research positions – will enter the scale within level A of the pay scale (see Figure 11.2). Those that join the university in the early stages of their research career will be placed in a role within level B. Roles that require experienced individuals with teaching, leadership and/or management responsibilities are placed within level C. Above these three levels, which paid on an incremental scale, senior lecturers, readers and professors receive fixed-salaries within levels D and E – the latter of which is reserved for those with international renown. In these two upper levels, staff are again guaranteed a minimum salary, above which wages are determined through negotiation.

Figure 11.2: Academic and Research Family Pay Structure

Spine Point	Financial Year 2013
Level E	£70,350
Level D	£55,340
47	£56,010
46	£54,490
45	£53,000
44	£51,590
43	£50,190
42	£48,830
41	£47,540
40	£46,260
39	£45,040
38	£43,820
37	£42,670
36	£41,540
35	£40,440
34	£39,380
33	£38,330
32	£37,350
31	£36,340
30	£35,420
29	£34,500
28	£33,590
27	£32,750
26	£31,880
25	£31,070
24	£30,300
23	£28,930
22	£28,200



11.3 New recruits and trainees

Entry level staff within the academic and research family – eg those without a PhD in a relevant field – are eligible for an automatic promotion to level B, with their pay guaranteed to fall within the upper two thirds of this level, upon the attainment of their qualification. Likewise, staff are guaranteed a move up to the middle of level C upon becoming a lecturer (see Figure 11.2).

New recruits across the university would not be expected to start at the bottom of their role's relevant level: instead, negotiations can affect where within a level an individual starts on.

11.4 How pay progression operates

For staff sitting within the two incremental scales (non-academic and academic and related), progression is largely automatic. Staff will receive an annual increment unless they have been placed on a disciplinary or poor performance process and have received a specific warning that they will not receive an automatic increment. However, there are some exceptions to this: the incremental points at the top of most pay levels – represented by the shaded areas in figures 11.1 and 11.2 – are awarded on a discretionary basis, and are reserved for high-performing individuals, based on managerial or faculty appraisals of individual contribution.

Due to the wide range of many of the university's pay ranges, it would be usual for a staff member to join at the bottom of a level and move all the way through to the top. In practice, significant progression is expected to occur through promotion between levels/grades, particularly within the academic and research family – eg an academic may expect to become a lecturer after three years of working within a role that sits in level B.

11.5 Cost of living increase

In addition to moving up their incremental pay scales, all staff are eligible for a general cost-of-living increase, which is agreed through local negotiations with the university's trade union side on an annual basis. In the financial year of 2013, a 2% cost of living award was made available for all staff. When entering into these negotiations, the university looks at a number of different benchmarks, which take into account trends in the university sector, the city in which the university is based, and international salary trends, in addition to pay decisions made for other universities' staff reached through national-level collective bargaining.

11.6 Further performance awards

A staff member may have their progression accelerated, or receive a non-consolidated bonus, if their role is scrutinised and salary remedially adjusted during the university's annual 'pay relativity exercise'. During these annual reviews, which occur throughout the university, managers and/or faculty boards review individuals' pay according to four distinct criteria: whether their salary is in line with equal pay legislation; whether their salary allows for the retention of high quality staff; whether their salary reflects changes in the market rate, and whether their salary reflects any formal or informal growth in the individuals' role and/or exceptional contribution from the individual.

During these reviews, benchmarking data and total salary data is sent to individual managers, who are expected to use this information to review each member of staff for whom they are responsible. In addition, members of staff – who are made aware when salaries are due to be reviewed – are allowed to make representations to their manager. Here, they may claim that their salary is either out of synch with the market or pay legislation, or that they have done something exceptional in the past year that deserves recognition and reward.

If managers decide to take remedial action on the back of these assessments, they are permitted to either award a non-consolidated one-off payment, accelerate the individual's progression through their incremental scale, or offer a consolidated payment to staff on fixed salaries. In practice, when these payments are effectively imposed due to the identification of an equal-pay issue, awards will be made on a consolidated basis. Likewise, permanent rises are normally offered if an award is made in recognition of the growth in one's role, whereas one-off bonuses are made for exceptional contributions.

11.7 Change in pay arrangements and reasons for the progression model used

The university's pay system was overhauled in 2004, when the then-head of HR, along with a number of faculty dons and heads of departments, and on the advice of consultants from the Hay Group, sought to create a flexible system of pay that allowed individual departments and faculties to attract and retain internationally renowned staff. Therefore, a system that allowed for the awarding of discretionary payments made on the basis of managerial appraisals of (potential) contribution was called for.

However, the university simultaneously pushed to increase the transparency and perceived fairness of its pay system– being particularly conscious of the need to harmonise workers' terms and conditions so as to abide by equal pay legislation – and so in addition to preserving managerial flexibility, the university sought to simplify its pay scales. This saw the creation of just two pay spines, where previously there been around 30 individual pay scales, each with different progression routes and terms and conditions.

The decision to create a dedicated pay spine for the academic and research family, separated as it is from all others, was made at this same time, in recognition of the fact that workers within this group are subject to very different career trajectories than others in the university: where the growth in an academic and research staff's career is often based on individual development, all other workers' career paths are based more on whether posts above their current one becomes available. Therefore, the academic and research family's grades were made purposefully wide, so as to allow staff to be awarded annual increments over prolonged periods in recognition of those that develop their career within a single role.

The university's pay system has undergone further changes since 2008, driven by the economic environment. Before 2008, the university ran an annual senior pay exercise for individuals on fixed salaries, and staff on incremental scales were eligible for discretionary bonuses based on appraisals of performance. The university froze both of these activities in 2008, in recognition of the tightening economy. However, during the university's previous staff survey – conducted three years ago – it was found that staff felt they were not being adequately rewarded for individual performance. With HR therefore looking at how to adjust individuals' salaries outside of the annual cost of living rise, the university-wide pay relativity exercises were introduced at this time, in the hope that individual circumstance could again help determine individuals' salaries, but within a more transparent framework than that used before.

11.8Hard to recruit/specialist roles

'Ideally', staff should not move above the top of their pay level. Instead, high-performing or contributing staff are expected to be eligible for promotion when as they move towards the top of their level. However, managers are able to make one-off non-consolidated payments to staff above the top of their pay level. In practice, this occurs most frequently within grade C of the academic and research scale, when one-off payments are used to meet the salary demands of lecturers whose academic specialisms have a high market rate in the UK and/or internationally.

Such awards are made on a case-by-case basis, with decision-makers within each faculty expected to consider what contribution a staff member in receipt of regular non-consolidated payments could make to the university. The size of these non-consolidated bonuses vary, and are not set with regard to the size of the hypothetical increment a staff member could otherwise have expected to receive.

11.9Cost of pay progression

For the university's pay relativity exercises, no single pay pot is made available. Instead, individual departments and faculties need to make individual assessments of affordability, before making their intended budget known to the university's HR department. In practice, this leads to large variations in the 'progression' budgets of the university's numerous faculties and departments. This variation filters down so that the individual bonuses and/or consolidated payments made to staff vary greatly across the university.

Wanting to address this issue, the university attempted last year to set a dedicated 'pay relativity pot', so that each department could receive a guaranteed minimum budget for these exercises. However, the university had hoped to fund this pay pot by diverting some of the money currently used to finance cost of living increases. This suggestion was not accepted by the university's trade union side, and the university could not progress with this plan.

11.10 Advantages and disadvantages of using the model

The university is currently reviewing its salary structure, as the widths of its largest levels/grades are causing problems for the university in terms of age discrimination legislation.

Another issue that the university is aware of is the fact that, lacking a central pay pot, the outcomes pay relativity activities depend as much on the resources of a department/faculty as they do on an individuals' contribution. It is also felt that managers may need to receive dedicated training so as to achieve a greater consistency in pay relativity outcomes: at the moment, managers are liable to both over- and under-spend in comparison to others, depending on their individual management style.

Furthermore, the university is concerned about how its fixed-salary system – used for senior staff – works in practice. There is a view that these workers' salaries are mostly determined by how well individuals' represent themselves during negotiations. This is seen to be an opaque system, which at worst threatens the university's compliance with equal pay legislation. Observing how other universities have implemented pay banding for professors, the university is considering a zoning of senior staff's pay: this would see faculties announcing expected salary minimums and maximums for each role after an assessment of available market data, so that staff have a better awareness of where to pitch their negotiations.

Due to these concerns, which are shared by the university and trade union side alike, the last four annual pay negotiations have touched upon the underlying structure of the university's pay system. Last year's agreement went further, and required the university to conduct a general review of its pay structure, in order to determine whether it is still appropriate for the organisation. This has led to the creation of a joint working group between the university and three recognised trade unions, which has undertaken a review of the university's spine point system, and is now requesting permission to model new salary structures for future testing.

11.11 Evaluations and staff feedback

On the basis of surveys conducted for this and other reasons, it appears that staff are generally happy with the incremental pay scales in principle, and feel that they are well paid with relation to the market. However, concerns have been raised about a perceived lack of transparency and consistency in the university's pay relativity exercises.

Appendix 1 – Survey

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Pay progression in the private sector: IDS survey for the OME

1. Welcome

Thank you for taking the time to complete this questionnaire. This data will help to inform important research examining how progression operates in the private sector which we are undertaking on behalf of the Office for Manpower Economics and the public sector pay review bodies.

The Government has announced its desire to reform pay progression in the public sector. Many of the decisions about how pay operates for public sector workers are linked to how pay is thought to operate in the private sector and the aim of this research is to produce an independent, evidence-based report detailing how progression operates in the private sector.

The survey should take around 10 to 15 minutes to complete and no information will be attributed by company name. The more responses we receive the stronger our evidence will be, so we would be very grateful if you can take the time to complete this survey.

The deadline for submitting completed questionnaires is Friday 9 May 2014. All participants will receive a full summary of the results on publication later this year.

Thank you for your help with this survey. If you have any questions, please do not hesitate to contact me on 020 7422 4946 or at louisa.withers@thomsonreuters.com.

2. General details

1. Please provide your details below. These are only requested for following up queries and to send you a summary of the key findings.

Name

Job title

Organisation

Telephone

Email

2. How many employees does your organisation employ?

Total

Managerial, professional and technical

Customer, caring and admin

Skilled trades and operatives

3. In which sector does your organisation mainly operate?

- ◯ Agriculture and mining
- ◯ Manufacturing
- ◯ Electricity, gas and water supply
- ◯ Construction
- ◯ Retail and wholesale
- ◯ Transport
- ◯ Accommodation and food services
- ◯ Information and communication
- ◯ Finance
- ◯ Professional services
- ◯ Education and health
- ◯ Arts, entertainment and recreation
- ◯ Other

Other (please specify)

3. Pay system

***4. Which of the following best describes the pay system that covers the majority of employees in your organisation?**

- ◯ Incremental scale/range(s)
- ◯ Salary range(s)
- ◯ Spot rate(s)/single salary(ies)

4. Your organisation's pay structure (2)

5. Which group(s) of staff does this pay structure cover? (Please tick all that apply)

- ☐ Senior managers/executives
- ☐ Professional and technical
- ☐ Customer, caring and administrative staff
- ☐ Skilled trades and operatives

6. Are all employees covered by a single pay range?

- ◯ Yes
- ◯ No (please indicate how many different pay ranges your pay structure contains)

7. What are your pay ranges based on?

☐ Grades

☐ Roles

☐ Job families

☐ Job evaluation

☐ Other, please specify:

8. Which of the following types of increases or payments does your organisation pay?

	All employees	Senior managers/executives	Professional and technical staff	Customer, caring and admin staff	Skilled trades and operatives
Cost-of-living pay rise	☐	☐	☐	☐	☐
Performance-related pay rise	☐	☐	☐	☐	☐
Progression increase	☐	☐	☐	☐	☐
Promotion	☐	☐	☐	☐	☐
Bonus	☐	☐	☐	☐	☐

5. Pay progression

9. Pay progression is the mechanism by which an individual's salary increases while remaining in the same role, in addition to cost of living/market pay increases, to reward continued development/experience/skills.

Reading the definition of progression above, do you operate a form of pay progression for employees at your organisation?

○ Yes

○ No

6. Pay progression at your organisation

10. Which of the following factors determine progression within the pay range? Please tick all that apply and if the factors for progression vary by employee group please indicate in the columns.

	All employees	Senior managers/executives	Professional and technical staff	Customer, caring and admin staff	Skilled trades and operatives
Length of service/standard automatic increment	☐	☐	☐	☐	☐
Performance	☐	☐	☐	☐	☐
Behavioural competencies	☐	☐	☐	☐	☐
Skills acquisition and development	☐	☐	☐	☐	☐
Contribution (eg performance + competencies)	☐	☐	☐	☐	☐

11. Of those ticked above, what is the most important factor for progression at your organisation?

12. How is progression paid?

- ◯ As a separate payment to a general/cost-of-living pay rise
- ◯ As part of the overall award for the year

7. Pay progression factors

13. Is incremental progression automatic?

- ◯ Yes
- ◯ No

14. Do employees have to receive a specific minimum performance rating to progress?

- ◯ Yes
- ◯ No

15. How is performance measured? (Please tick all that apply.)

- ☐ Individual targets/appraisal
- ☐ Against team results
- ☐ Against organisational results

16. Is it possible to accelerate progression by awarding faster progression/multiple increments at a time in recognition of particularly good performance?

- Yes
- No

If so, what is the maximum number of increments that may be awarded at any time compared to the standard?

17. Do employees receive a pay increase for acquiring or developing specific skills?

- Yes
- No

18. If contribution determines progression, please indicate how your organisation defines and measures contribution:

- Performance + competency
- Other factors (please provide more details)

8. Extent of pay progression

19. How frequently are progression increases/increments awarded? (If this varies, please tick the one that applies to your largest staff group and give details of any other arrangements below.)

- [ ] More frequently than 6-month intervals
- [ ] Every 6 months
- [ ] Annually
- [ ] Less frequently than annually

Please give details of any differing arrangements for smaller groups of staff

20. How many incremental steps are there in each grade?

21. What percentage increase in salary does an employee typically receive when awarded a progression increase/single increment?

22. At what point on the pay range are new joiners appointed?

- Varies
- Bottom
- In line with target rate
- At another fixed point (please give details)

23. Please outline any special arrangements applicable to pay progression for specialist or hard-to-recruit groups of staff.

9. Extent of pay progression (2)

24. How long (in years) does it typically take a standard performer to progress from entry level to the top of the pay scale/the progression maximum?

25. Does this vary by performance or grade? If so, please give details.

26. What pay increases, if any, do employees receive once they reach the progression maximum? (Tick all that apply.)

- [ ] No further pay increases
- [ ] Cost-of-living increases/revalorisation of pay ranges
- [ ] A one-off non-consolidated bonus
- [ ] Regular (non-consolidated) bonuses eg annual
- [ ] Discretionary increases
- [ ] Formal mechanism allowing for further progression (please give details in box below - for example, whether this is incremental or performance-related)

27. If you pay non-consolidated bonuses to employees at the progression maximum, please outline how these are determined.

28. Does the treatment of pay increases beyond the progression maximum vary by group (eg specialist staff)?

- ( ) No
- ( ) Yes (please give details)

***29. Do you operate separate pay ranges or spot rates for trainees eg new graduates?**

- ( ) Yes
- ( ) No

10. Progression for trainees

30. Are trainees subject to more frequent reviews?

- Yes
- No

If so, please indicate how often these take place.

31. Please outline how a trainee would move onto the normal pay range for his or her job.

11. The role of the market

***32. Are pay rates or ranges set by reference to the market?**

- Yes
- No

12. The role of the market (2)

33. Where does the market rate sit within your pay range(s)?

- Minimum
- Lower quartile
- Median/midpoint
- Upper quartile
- Maximum

34. How do you measure the market? eg benchmarking, local adverts

35. How frequently do you review jobs against the market?

36. Is the rate of progression different for employees paid above the market rate?

- Yes
- No

If so, please give brief details

37. Do you share market information with employees?

- Yes
- No

13. Further questions

38. What is the annual budget for progression as a percentage of your annual paybill?

39. Does this change year-on-year?

- Yes
- No

40. For how long has your organisation used this form of progression system?

41. Has your organisation made any other recent changes to its pay progression system or does it plan to?

- Yes
- No

If so, please give details.

42. Do you evaluate your pay progression system regularly?

- ◯ Yes
- ◯ No

43. If you evaluate your pay progression system regularly, how is this done? (Tick all that apply.)

- ☐ Staff surveys
- ☐ Exit interviews
- ☐ Other (please specify)

44. What yardsticks or criteria are the system evaluated against, if any?

14. Your organisation's pay structure (2)

45. What group(s) of staff does this cover? (Please tick all that apply)

- ☐ Senior managers/executives
- ☐ Professional and technical
- ☐ Customer, caring and administrative staff
- ☐ Skilled trades and operatives

46. Are all employees covered by a single pay range?

- ◯ Yes
- ◯ No (please indicate how many different pay ranges your pay structure contains)

47. What are your pay ranges based on? (Only tick the one that applies.)

- ☐ Grades
- ☐ Roles
- ☐ Job families
- ☐ Job evaluation
- ☐ Other, please specify:

48. Which of the following types of increases or payments does your organisation pay?

	All employees	Senior managers/executives	Professional and technical staff	Customer, caring and admin staff	Skilled trades and operatives
Cost-of-living pay rise	☐	☐	☐	☐	☐
Performance-related pay rise	☐	☐	☐	☐	☐
Progression increase	☐	☐	☐	☐	☐
Promotion	☐	☐	☐	☐	☐
Bonus	☐	☐	☐	☐	☐

15. Pay progression

49. Pay progression is the mechanism by which an individual's salary increases while remaining in the same role, in addition to cost of living/market pay increases, to reward continued development/experience/skills.

Reading the definition of progression above, do you operate a form of pay progression for employees at your organisation?

○ Yes

○ No

16. Pay progression

50. Which of the following factors determine progression within the pay range? Please tick all that apply and if the factors for progression vary by employee group please indicate in the columns.

	All employees	Senior managers/executives	Professional and technical staff	Customer, caring and admin staff	Skilled trades and operatives
Length of service/standard automatic increment	☐	☐	☐	☐	☐
Performance	☐	☐	☐	☐	☐
Behavioural competencies	☐	☐	☐	☐	☐
Skills acquisition and development	☐	☐	☐	☐	☐
Contribution (eg performance + competencies)	☐	☐	☐	☐	☐

51. Of those ticked above, what is the most important factor for progression at your organisation?

52. How frequently are progression increases awarded?

- ○ Annually
- ○ Every six months
- ○ At some other interval eg 3 months, 2 years, as and when (please specify)

53. How is progression paid?

- ○ As a separate payment in addition to a general/cost-of-living pay rise
- ○ As part of the overall award for the year

17. Pay progression factors

54. If performance determines the extent of an individual's progression increase, how is this measured?

- ☐ Individual targets/appraisal
- ☐ Against team results
- ☐ Against organisational results

55. Is there a direct link between an individual's performance rating and the percentage pay increase he or she receives?

- ○ Yes
- ○ No

If so, please explain how this works.

56. Do employees receive a pay increase for acquiring or developing specific skills?

- Yes
- No

57. If contribution determines progression, please indicate how your organisation defines and measures contribution:

- Performance + competency
- Other factors (please provide more details)

18. Extent of pay progression

58. At what point in the pay range are new joiners appointed?

- Bottom
- In line with target rate
- Elsewhere (please give details)

59. Please give details of any different arrangements in place for new staff in specialist or hard-to-recruit positions.

60. How far up the pay range can standard performers progress?

- ◯ No upper limit
- ◯ To the pay range maximum
- ◯ To a 'target rate' below the pay range maximum

61. If you use target rates, how are these determined?

- ◯ Equivalent to market rate (we will ask for more information on market factors later on in this survey)
- ◯ Other criteria (please specify)

62. Please outline any special arrangements applicable to pay progression for specialist or hard-to-recruit groups of staff.

19. Extent of pay progression (2)

63. How long (in years) does it typically take a standard performer to progress from entry level to the top of the pay scale/the progression maximum?

64. Does this vary by performance or grade? If so, please give details.

65. Does an individual's position in the pay range have an impact on the level of his or her pay increase (ie do high performers towards the top of the pay range receive less than high performers who are further down)?

66. What pay increases, if any, do employees receive once they reach the progression maximum? (Tick all that apply.)

- ☐ No further pay increases
- ☐ Cost-of-living increases/revalorisation of pay ranges
- ☐ A one-off non-consolidated bonus
- ☐ Regular non-consolidated bonuses
- ☐ Discretionary increases
- ☐ Formal mechanism at top of pay range allowing for further progression (please give details eg criteria)

67. Does the treatment of pay increases beyond the progression maximum vary by group (eg specialist staff)?

- ◯ No
- ◯ Yes (please give details)

***68. Do you operate separate pay ranges or spot rates for trainees eg new graduates?**

- ◯ Yes
- ◯ No

20. Progression for trainees

69. Are trainees subject to more frequent reviews?

- Yes
- No

If so, please indicate how often these take place.

70. Please outline how a trainee would move onto the normal pay range for his or her job.

21. The role of the market

***71. Are pay rates or ranges set by reference to the market?**

- Yes
- No

22. The role of the market (2)

72. Where does the market rate sit within your pay range(s) eg median, maximum?

73. How do you measure the market?

74. How frequently do you review jobs against the market?

75. Where does your organisation seek to position itself relative to the market?

- Lower quartile
- Mid-range
- Upper quartile

76. Is the rate of progression different for employees paid above the market rate?

- Yes
- No

If so, please give brief details

77. How do you share market information with employees?

23. Further questions

78. What is the annual budget for progression as a percentage of your annual paybill?

79. Does this change year-on-year?

- Yes
- No

80. For how long has your organisation used this form of progression system?

81. Has your organisation made any other recent changes to its pay progression system or does it plan to?

- Yes
- No

If so, please give details

82. Do you evaluate your pay progression system regularly?

- Yes
- No

83. If you evaluate your pay progression system regularly, how is this done?

- Staff surveys
- Exit interviews
- Other (please specify)

84. What yardsticks or criteria are the system evaluated against, if any?

24. Your organisation's pay structure (2)

85. Which group(s) of staff does this pay structure cover? (Please tick all that apply.)

- Senior managers/executives
- Professional and technical
- Customer, caring and administrative staff
- Skilled trades and operatives

86. Are salaries set by reference to the market?

- Yes
- No

Other (please specify)

87. Are any other forms of pay system in place for other groups of employees?

◯ Yes

◯ No

If so, please give brief details of the type of pay system and the staff to whom this applies

88. Which of the following types of increases or payments does your organisation pay?

	All employees	Senior managers/executives	Professional and technical staff	Customer, caring and admin staff	Skilled trades and operatives
Cost-of-living pay rise	☐	☐	☐	☐	☐
Performance-related pay rise	☐	☐	☐	☐	☐
Progression increase	☐	☐	☐	☐	☐
Promotion	☐	☐	☐	☐	☐
Bonus	☐	☐	☐	☐	☐

89. Pay progression is the mechanism by which an individual's salary increases while remaining in the same role, in addition to cost of living/market pay increases, to reward continued development/experience/skills.

Reading the definition of progression above, do you operate a form of pay progression for employees at your organisation?

◯ Yes

◯ No

25. Promotions for staff on spot rates

90. Is promotion available to a higher spot rate or salary?

◯ Yes

◯ No

91. How do you assess candidates for promotion to a higher rate? (Tick all that apply.)

- [ ] Must apply for promotion to a specific role
- [ ] Job must grow
- [ ] Work must be available at the higher level
- [ ] Sufficient funding must be available to pay the higher salary
- [ ] Other (please specify)

92. How frequently are promotion opportunities provided?

- ( ) More frequently than 6 months
- ( ) Every 6 months
- ( ) Annually
- ( ) Less frequently than annually

26. Further questions

93. For how long has your organisation used this pay system?

94. Has your organisation made any other recent changes to its pay system or does it plan to in the near future?

- ( ) Yes
- ( ) No

If so, please give details

95. Do you evaluate your pay system regularly?

- ( ) Yes
- ( ) No

96. If you evaluate your pay system regularly, how is this done?

- [ ] Staff surveys
- [ ] Exit interviews
- [ ] Other (please specify)

97. What yardsticks or criteria are the system evaluated against, if any?

27. Other increases to pay

***98. Do employees receive annual general or inflation-related pay increases?**

- ( ) Yes
- ( ) No

28. Other increases to pay (2)

99. What factors are considered when determining the general increase? (Please tick all that apply.)

- [ ] Retail Prices Index (RPI inflation)
- [ ] Consumer Prices Index (CPI inflation)
- [ ] Competitor pay data
- [ ] Role-specific pay data
- [ ] National pay data
- [ ] Regional pay data
- [ ] Other (please specify)

100. Do you negotiate general or inflation-related pay increases with a trade union or other staff body?

- ◯ Yes
- ◯ No

If yes, please specify which unions.

101. Do you revalorise your pay ranges/spot rates to reflect general or inflation-related increases?

- ◯ Yes
- ◯ No

29. Bonuses

102. Do you operate a bonus scheme?

- ◯ Yes
- ◯ No

30. Bonus details

103. Which staff or groups of staff are eligible for bonuses?

	Yes, eligible for bonus	No, not eligible for bonus
All employees	◯	◯
Senior managers/executives	◯	◯
Professional & technical staff	◯	◯
Customer, caring & admin staff	◯	◯
Skilled trades & operatives	◯	◯

104. What are bonus payments linked to? (Tick all that apply)

- ☐ Individual performance
- ☐ Team or division performance
- ☐ Company performance

105. What is the typical size of bonus payments made?

% of salary

Range of payments

31. Finish

106. In addition to this survey, our partner on this project The Institute for Employment Studies (IES) is conducting more detailed case studies of organisations' pay progression systems. Would you be willing to be contacted to discuss being a case study for this research (on a named or anonymous basis)?

- Yes, I am happy to be contacted
- No

Thank you for your help with this survey. If you have any questions, please do not hesitate to contact me on 020 7422 4946 or at louisa.withers@thomsonreuters.com.

Appendix 2 – Survey routing paths

Questions with routing are indicated in the survey by an asterisk (see Appendix 1). The routing questions for survey are as follows:

4. Which of the follow best describes the pay system that covers the majority of employees in your organisation?

    Incremental salary scale/range(s) → routed to question 5

    Salary range(s)→ routed to question 45, skipping questions 5 to 44

    Spot rate(s)/single salary(ies) → routed to question 85, skipping questions 5 to 84

29. Do you operate separate pay ranges or spot rates for trainees eg new graduates?

    Yes →routed to question 30

    No →routed to question 32

32. Are pay rates or ranges set by reference to the market?

    Yes →routed to question 33

    No →routed to question 38

44. What yardsticks or criteria are the system evaluated against, if any?

    Any response, including no response →routed to question 102

68. Do you operate separate pay ranges or spot rates for trainees eg new graduates?

    Yes →routed to question 69

    No →routed to question 71

71. Are pay rates or ranges set by reference to the market?

    Yes →routed to question 72

    No →routed to question 78

84. What yardsticks or criteria are the system evaluated against, if any?

    Any response, including no response →routed to question 102

98. Do employees receive annual general or inflation-related pay increases?

    Yes →routed to question 99

    No →routed to question 102