CIPD

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Survey report
February 2024

Pay, performance and transparency 2024

The CIPD has been championing better work and working lives for over 100 years. It helps organisations thrive by focusing on their people, supporting our economies and societies. It's the professional body for HR, L&D, OD and all people professionals – experts in people, work and change. With over 160,000 members globally – and a growing community using its research, insights and learning – it gives trusted advice and offers independent thought leadership. It's a leading voice in the call for good work that creates value for everyone.

At ADP, what we do is about people. While we have a strong history of providing solutions for human resource challenges, we strive to do more than that. We challenge ourselves to anticipate, think forward and take action in a way that empowers us to shape the changing world of work.

For 75 years, ADP has been leading the way in defining the future of business solutions. ADP is proud to be named to FORTUNE Magazine's "World's Most Admired Companies®" list for 16 consecutive years.

We are a comprehensive global provider of cloud-based human capital management (HCM) solutions that unite HR, payroll, talent, time, tax and benefits, and a leader in business outsourcing services and analytics. Our experience, deep insights and cutting-edge technology have transformed human resources from a back-office administrative function to a strategic business advantage.

Survey report

Pay, performance and transparency 2024

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1 Foreword from the CIPD

Against a backdrop of economic uncertainty, a tight labour market and a rapid jump in living costs, our latest survey report looks at the main influences driving pay rises. While inflation and the cost of living had the most impact on pay decisions in 2023, this trend looks set to continue throughout 2024, with 44% of our respondents still feeling unable to predict when employee pay might recover from the recent inflationary spike. We look at what impact the cost-of-living crisis has had on 'real' wages, and how employers can help with the financial wellbeing of their employees.

A common factor influencing pay increases is employee performance, and this is another focus of our report. For management, professional and technical staff, employers are most likely to use merit pay while, for the rest of the workforce, bonuses are more common. But what is the impact of performance-related pay? We ask those who use it whether they think it has a positive impact on employee performance, creativity and retention, and if there are opportunities for improvement.

Employees will only respond to rewards and incentives if they are aware of them and judge them to be fair. However, our survey finds that private sector firms can be coy about sharing pay or pension information, both externally (in job adverts) and internally, with their existing staff. With the pay transparency debate hotting up following the enactment of the Pay Transparency Directive in the EU and state initiatives in the US, we look at the advantages of increased visibility of pay – not only in attracting and retaining talent but also in reducing inequality pay gaps – and how this can be achieved.

If pay, performance or transparency are important issues for you or your organisation, read on.

Charles Cotton

Senior Policy Adviser
Performance and Reward, CIPD

2 Foreword from ADP

In the dynamic landscape of workforce management, understanding the intricacies of pay practices is imperative for businesses striving to navigate the ever-evolving terrain of talent acquisition and retention. This report is designed to be an essential resource for organisations seeking deeper understanding of the factors shaping compensation structures across the nation.

Amid economic uncertainty, understanding wage growth is crucial. This report serves as a guiding compass for HR professionals, business leaders and policymakers, offering insights into the factors shaping wage growth in the UK, from macroeconomic trends to industry specifics.

It outlines the pressing issue of the cost-of-living crisis, a phenomenon that has profound implications for both employers and employees. As organisations grapple with the delicate balance between maintaining competitiveness and ensuring the financial wellbeing of their workforce, the insights gleaned from this report will prove instrumental in shaping informed strategies. It's crucial for businesses to strive for gender pay equity by using accurate compensation data. The most reliable insights are found within payroll systems, guiding fair wages, clear raises and unbiased job ads. Let's not just gather data; let's tap into the truth in payroll to address disparities and create inclusive workplaces.

In addition, analysing how employers tie pay to performance enriches the discussion. In today's talent-driven landscape, understanding how organisations motivate and reward their employees is essential. This report clarifies performance-based pay, offering practical insights for businesses aiming to cultivate a culture of excellence.

Lastly, this research examines the balance between transparency and confidentiality in salary sharing. Its insights empower decision-makers to foster trust and collaboration within their teams by striking the right equilibrium in the modern work environment.

Sirsha Haldar

General Manager of the UK, Ireland & South Africa, ADP

3 Introduction

Our survey was conducted at a time when inflation had risen to its highest rate in over three decades. The increase in the cost of living had slashed the purchasing power of employees' wages and forced many employers into raising pay by percentage amounts that they would never otherwise have contemplated.

While the rate of inflation has since come down, prices are still rising, albeit less sharply than before, and therefore for many – especially lower-paid – workers, the cost-of-living crisis continues.

We've also seen a labour market with low unemployment and vacancies at an all-time high. The number of people judged to be 'economically inactive', that is, neither in work nor looking for work, had also risen to record levels, further tightening the labour market and making it more favourable for workers.

This research aims to assess how reward decision-makers have reacted to these economic and labour market pressures, and examines the linkages between pay decisions and employee performance at a time when, arguably, positive outcomes for employers might have been harder to achieve. We also look at pay equality and transparency, which has become much more important recently and may be even more so in coming years.

Although the economic and labour market backdrop as we publish this report is slightly improved from when the survey was conducted in October 2023, many of the effects are still with us. We hope, therefore, that it will help reward practitioners, and all those who input into organisations' pay decisions, to be better informed at a time when their actions remain critical to both employee wellbeing and organisational performance alike.

4 Pay

In the UK, inflation remains historically high, though it has fallen from its peak of 11.1% (as measured by the CPI) in October 2022. While cost pressures are now easing, many employers still report challenges in attracting staff.

This section of the report provides findings on employers' pay increases and the pressures felt by those making pay decisions. We look at both trends from the last 12 months and predictions for 2024 by asking the following questions:

- How has base pay increased in the 12 months to October 2023?
- How has inflation and the cost-of-living crisis influenced pay rise decisions?
- How have pay rises compared with inflation in the last year?
- How will base pay increase in the 12 months to October 2024?
- What will influence pay rises throughout 2024?
- When will real pay recover from the cost-of-living crisis?
- How have organisations been helping their employees during the cost-of-living crisis?

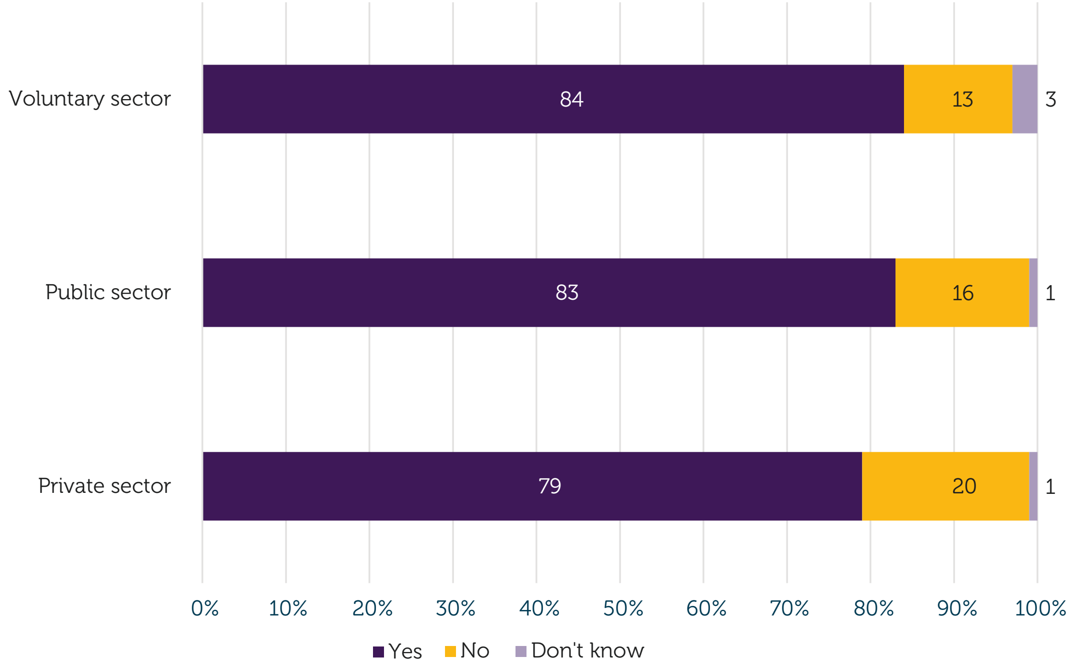
This section ends with recommendations to help organisations promote the financial wellbeing of their employees.

How has base pay increased in the 12 months to October 2023?

Our survey found that 80% of respondents increased their employees' base pay in the year to October 2023. This percentage varies a little by sector, as shown in Figure 1. Voluntary sector employers were the most likely to have done so (84%), followed by those in the public sector (83%) and the private sector (79%).

Figure 1: Voluntary sector organisations were most likely to have increased base pay in the last 12 months

Proportion of employers that increased pay in the 12 months to October 2023, by sector (% of respondents)



Base: All (n=832).
Question: Has your organisation made increases to base pay over the past 12 months?

Larger organisations (with 250+ employees) were more likely than smaller ones to have increased base pay (84% versus 79%).

UK-based organisations with overseas operations were most likely to have increased pay (85%) and a similar proportion of overseas organisations with UK operations did so too (81%). Seventy-five per cent of organisations based solely in the UK made pay increases in the last 12 months.

Many of the organisations that increased base pay in the 12 months to October 2023 already have plans to make further increases in the year to October 2024 (78%).

Of the organisations that didn't increase pay (19%), around half of these (54%) said they also have no plans to do so in 2024.

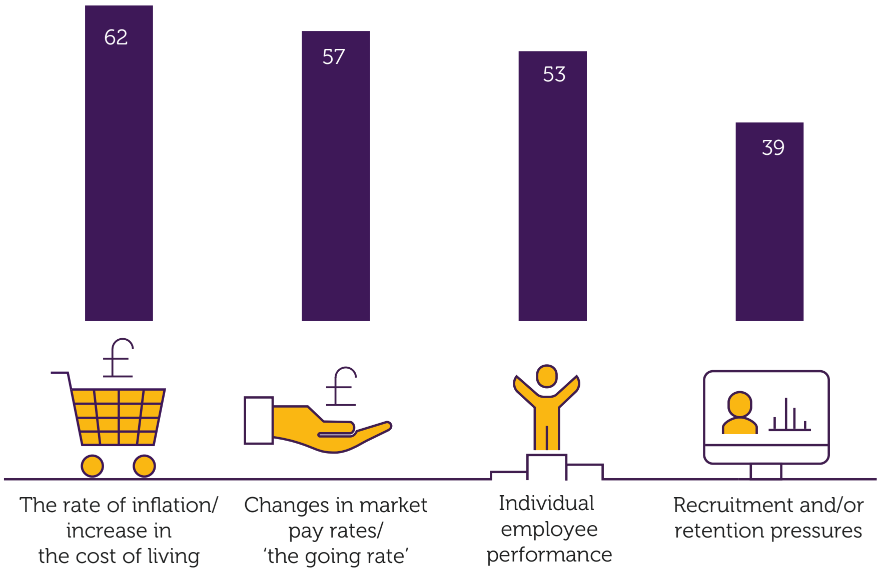
The findings on plans for future increases are described in more detail in Figure 6.

How has inflation and the cost-of-living crisis influenced pay rise decisions?

The impact of rising inflation and the higher cost of living has placed significant pressure on employers to raise pay and, for those that *have* increased pay, this was the most common reason (62%). Changes in market pay rates, individual employee performance, and recruitment and retention pressures were also key considerations, as shown in Figure 2.

Figure 2: The rate of inflation and an increase in the cost of living were the main factors influencing pay decisions in the last year

Factors influencing pay decisions in the year to October 2023 (% of respondents)



Base: All whose organisations made increases to base pay in the last year (n=661).
Question: Other than ability to pay, which of the following factors have been key in influencing base pay increases at your organisation in the past 12 months? Select as many as apply.
Results: Most popular answers.

While recruitment and retention usually figures less prominently than other factors, such as affordability or inflation, when it comes to decisions on annual pay reviews, especially when inflation is high, it is more influential when it comes to decisions on what to pay specific roles. In addition, recruitment and retention issues can vary by occupation, but concerns over inflation/the cost of living tend to affect most employees more or less equally, depending on pay level.

These factors are broadly similar in respect of both managerial, professional and technical (MPT) roles and 'other' roles (who at many organisations make up the bulk of the workforce). However, when it comes to less important influences on pay award decisions, there are some notable differences between the different employee groups. These include the role of performance assessments and the statutory minimum rates of pay.

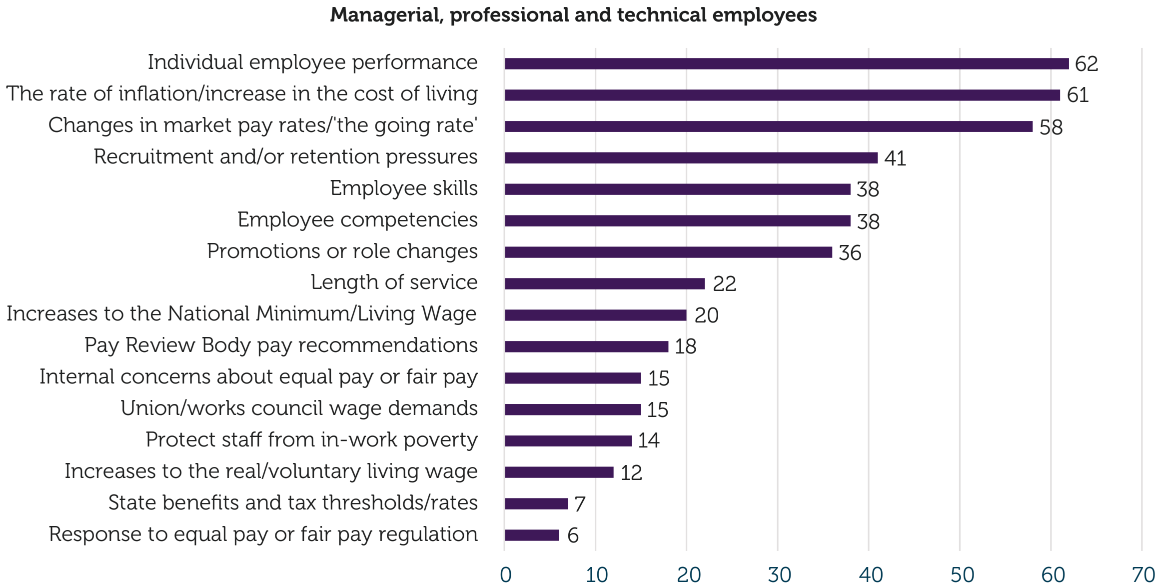
Factors influencing pay rises for managerial, professional and technical staff

Individual employee performance is the leading factor influencing pay rises for MPT staff (62%). Such senior roles are often more commonly assessed on performance and are more likely to have pay increases related to the employee's contribution to the organisation, compared with lower-level employees. However, Figure 3 shows that almost as many respondents (61%) ranked inflation as the next most important factor, and 58% agreed that changes in market pay rates ('the going rate') was also a key factor influencing pay increases.

To a lesser extent, recruitment and retention is also a consideration (41% agree), as are employee skills or role competencies and union/works council demands.

Figure 3: Performance is the greatest influence on base pay increases for managerial, professional and technical staff

Factors influencing base pay rises, by job level (% of respondents)



Base: All whose organisations made increases to base pay in the last year (n=661).
Question: Other than ability to pay, which of the following factors have been key in influencing base pay increases at your organisation in the past 12 months?

Factors influencing pay rises for 'other' employees

As shown in Figure 4, the rate of inflation and the increase in the cost of living was also the top factor influencing base pay increases for 'other' employees, that is, those outside of MPT roles (62% of respondents). This was followed by changes in market pay rates ('the going rate') (57%). This is connected to the inflation backdrop. When inflation rises as high as it did in 2023, and firms are unsure whether, or to what extent, they can match it, they look at what other organisations are doing in respect of pay rises.

Individual employee performance is less of an influence on pay rises for other employees than for MPT staff. Nevertheless, Figure 4 shows that 45% of respondents regard this as an influence on their pay increase decisions. Like the MPT group, recruitment and retention also features as a key influence on pay decisions for other staff (38% agree). This is to be expected but indicates that the state of the labour market was a significant influence on organisations' pay award decisions in 2023.

Considering the other factors involved in employers' pay award decisions, the impact of the National Minimum Wage (NMW) and National Living Wage (NLW) has a larger influence on pay rises for other employees (which is likely to include hourly-paid staff) than for MPT employees (33% versus 20% respectively). Other employees are more likely to be on or near the NLW, and employers are more likely to be concerned with the NLW for these staff than for MPT employees, who tend to be higher paid. At the same time, the fact that one-fifth of respondents expressed concern with the NLW in respect of their MPT workers could be connected with the impact on differentials from successive relatively high rises in the legal wage floor.

Figure 4: Inflation and the cost of living have been the main influence on pay rises for 'other' (non-managerial, professional and technical) roles

Factors influencing base pay rises, by job level (% of respondents)

Base: All whose organisations made increases to base pay in the last year (n=666).
Question: Other than ability to pay, which of the following factors have been key in influencing base pay increases at your organisation in the past 12 months?

While there is no variation in the top three factors according to company size, or according to companies with overseas operations, the ordering of influences does vary a little for organisations based solely in the UK. Changes in market pay rates was ranked most important by these respondents (61%), which was higher than inflation as a factor (59%) and employee performance (52%). These findings hint that UK-based organisations may have a more volatile market for pay rates, when compared with those organisations that either have overseas operations or that are based overseas.

Factors influencing pay rises in different sectors

Certain pay pressures are more important in particular sectors.

In the private sector, performance is the top influence on pay rises for MPT employees, while the rate of inflation is the most influential factor for other employees.

In the voluntary sector, inflation and the higher cost of living was the leading influence on pay decisions for all employee types. However, employee performance was far less influential on pay decisions for managers, with less than a quarter (24%) of voluntary sector respondents citing this, compared with 72% of private sector respondents.

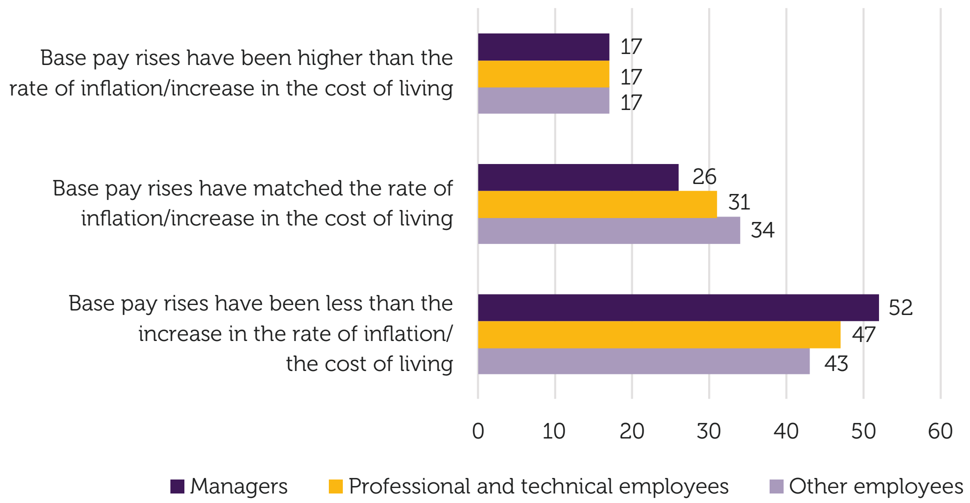
In the public sector, pay increase decisions are influenced by a somewhat different set of factors. While inflation and the cost of living was the biggest influence, the second and third most important factors were not related to performance or the labour market. Pay Review Body recommendations and union demands were the next most popular answers. This reflects the ways in which public sector pay rises are decided on the one hand, and the relatively greater importance of collective bargaining on the other hand.

How have pay rises compared with inflation in the last year?

Overall, around half of respondents reported that base pay increases awarded in the last 12 months were equal to, or higher than, the rate of inflation/increase in the cost of living (see Figure 5). While 43% of base pay rises for managers were equal to, or higher than, inflation in the last 12 months, the proportion for professional and technical employees was greater (47%), and that for 'other' employees greater still (52%).

Figure 5: Half of lower-paid employees received pay rises that were equal to, or higher than, inflation

How base pay increases made in the last 12 months compared to inflation (% of respondents)



Base: All whose organisations have made increases to base pay in the last year (n=666).
Question: Over the past 12 months, how have your organisation's base pay increases compared to the rate of inflation/rise in the cost of living?

The 'other' employee category is often the largest staff grouping in most organisations and is in receipt of what we might regard as the 'main', or most common, pay rise. This group is also more likely to be paid less than their managerial and professional/technical colleagues, and is therefore more at risk of poor financial wellbeing. This is one reason why their pay rises were more often equal to, or higher than, inflation than those for MPT staff, suggesting that pay rises may have been targeted at those likely to benefit more.

This group is also more likely to be covered by the National Living Wage (NLW) uplift which, in 2023, was worth 9.7% – well in excess of the average or median pay rise across the economy. As indicated previously, the influence of the NLW was more prominent for other staff than for MPT staff. Similarly, the latest increase to the voluntary Living Wage, as determined by the Living Wage Foundation, was also significant and will have had more of an impact on the 'other' or main employee group.

Interestingly, when it comes to organisation size, SMEs were more likely than larger organisations to increase base pay for 'other' staff that matched, or was higher than, inflation (58% versus 46% of larger organisations). Senior management in such smaller organisations might feel 'closer' to their staff than in larger, more impersonal organisations and, as a result, were more willing to safeguard the purchasing power of their employees' pay against the rising cost of living. Or, working in a smaller organisation, they are more able to spot the impact of cost of living increases on lower-paid staff and do something about it.

How will base pay increase in the 12 months to October 2024?

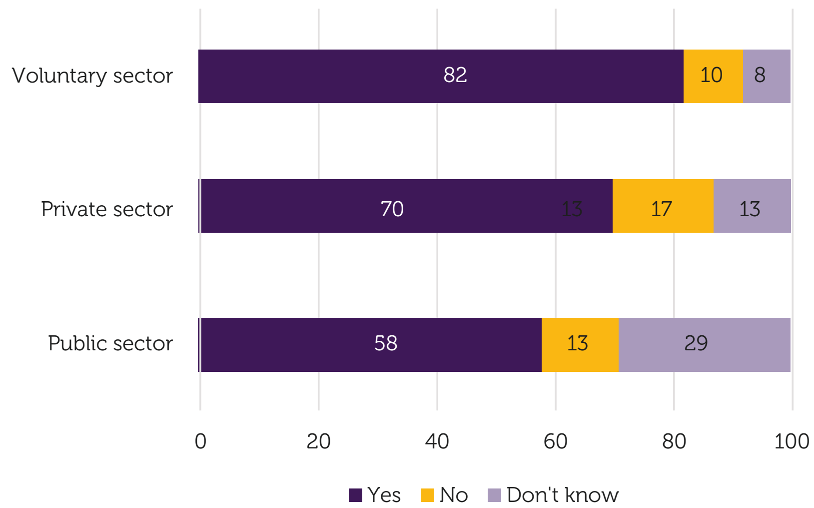
Looking ahead, 69% of respondents said that their organisation already has plans to increase base pay in the 12 months to October 2024. Among the rest, 16% said they did not yet have plans to increase pay and 15% said they did not know. These findings are probably connected to the current economic uncertainty, or with uncertainty around pay decisions, particularly in the public sector. It may also be connected to the timing of completion of the survey.

Planned pay increases vary across sectors (see Figure 6), with employers in the voluntary sector most likely to have plans to increase pay by October 2024 (82%), followed by the private sector (70%) and public sector employers (58%).

Public sector pay decisions are largely out of organisations' hands since pay rises are generally produced either by review body recommendations, by national-level collective bargaining or, in other cases, based on central government decisions. This may explain why 29% of respondents are unsure of their plans.

Figure 6: The voluntary sector is most likely to have planned pay increases in the next 12 months

Proportion of employers with plans to increase base pay in the 12 months to October 2024 (% of respondents)



Base: All (n=832).
Question: Does your organisation have plans to make increases to base pay over the next 12 months?

UK-based organisations with overseas operations are more likely than other types of multinational employers to have made plans to increase base pay over the coming year (81%), compared with just 61% of UK-based organisations.

What will influence pay rises throughout 2024?

Respondents predict that the key influences will continue to be, first, inflation, and second, changes in market pay rates for pay rises (see Figure 7). Even though inflation has come down, and therefore the rate at which prices are rising has slowed, employers and employees alike are conscious that prices are still rising, and at rates much greater than we became used to in the first two decades of the century. For example, in January 2024, food prices were some 7% higher than they were a year previously. Falling inflation may allow for lower pay rises than during 2023, but benchmarking against pay awards made by other employers in the same sectors will remain just as important.

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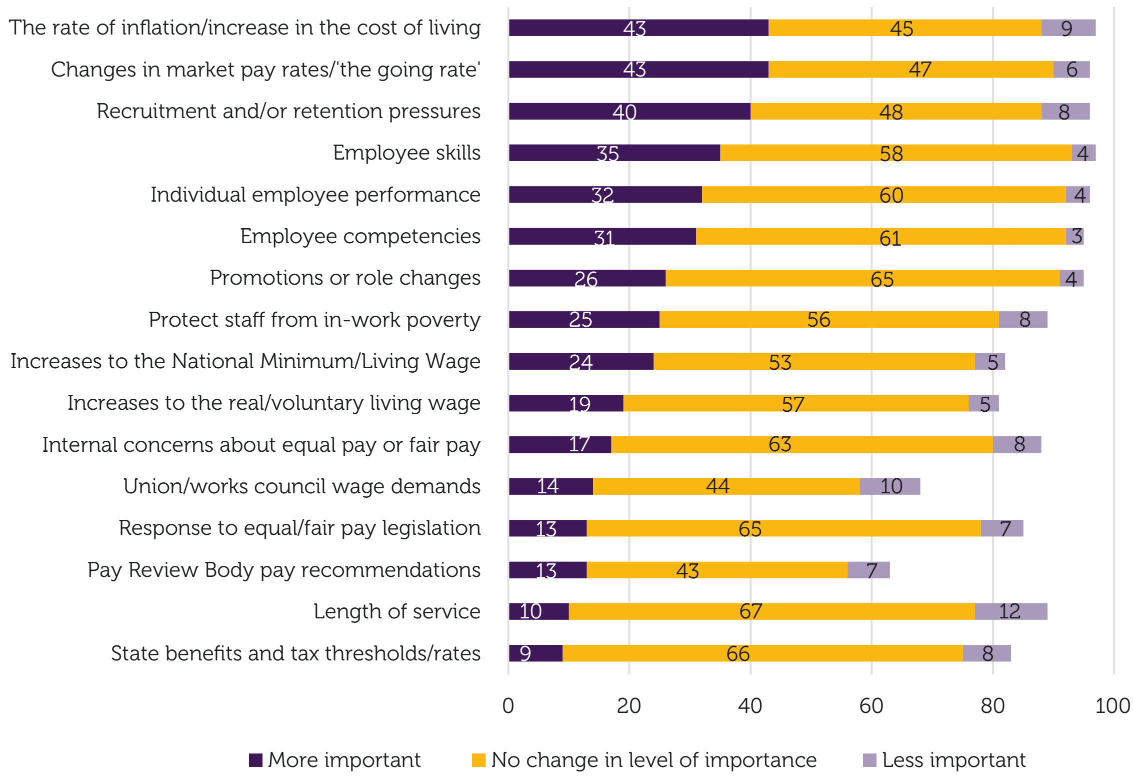
Figure 7: Inflation is predicted to remain a key influence on pay in 2024

Factors driving base pay increases in the 12 months to October 2024 (% of respondents)



Base: All whose organisation plans to make increases to base pay in the next year (n=570).
Question: In the next 12 months, do you predict the following factors will become more or less important in driving base pay increases in your organisation, or will there be no change?

In the private sector, the same three factors – the rate of inflation and the increase in the cost of living (43%), changes in market pay rates (43%), and recruitment and retention pressures (38%) – are regarded as more influential in driving future pay rises. However, in the public sector, respondents predict recruitment and retention pressures will be the most important factor (43%), while in the voluntary sector, keeping up with market pay rises is seen as the foremost influence (50%).

The results show little variation by organisation size. However, influence varies when it comes to ownership or location of operations. While changes in market pay rates and the rate of inflation are the most important for UK-based organisations (47%), overseas-based companies' pay decisions will be more influenced by recruitment and retention pressures (45%), and employee performance and skills (both 37%).

When will real pay recover from the cost-of-living crisis?

Over two-fifths of respondents felt that they could not predict when base pay for most of their employees might recover from the impact of the higher cost of living (see Figure 8). This could indicate that:

- employers may not carry out such analysis and, if they do, they may not wish to publicise this, or

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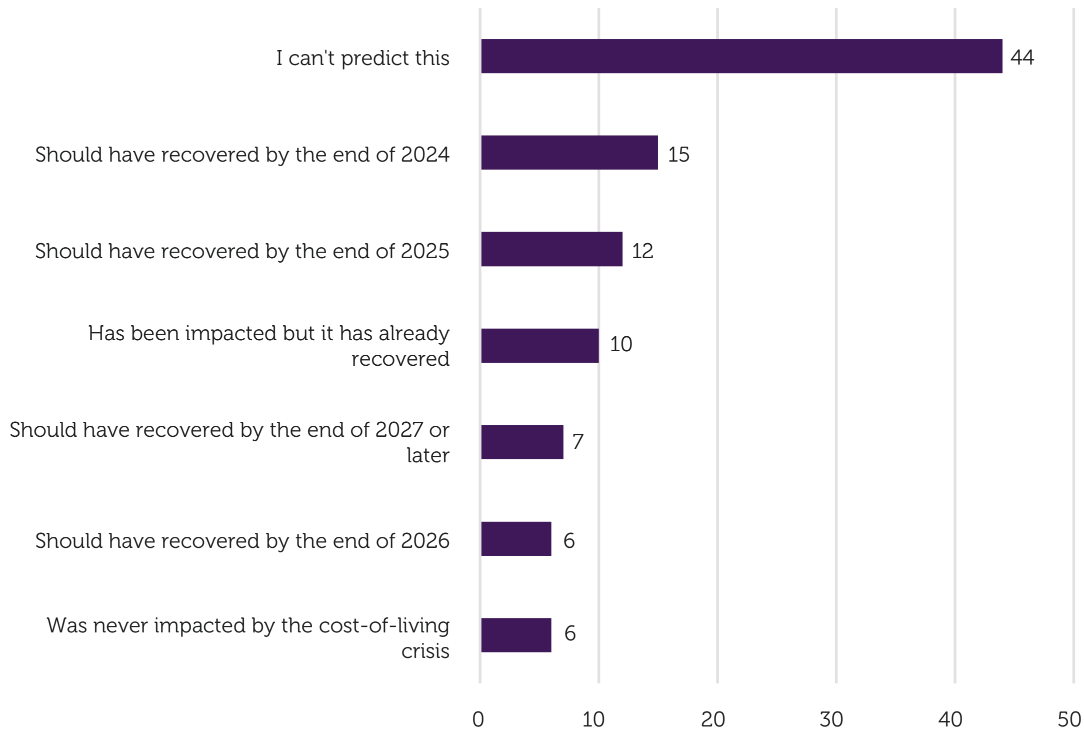
- a level of business uncertainty remains among employers that does not allow for confidence about the timing of recovery.

This finding is most common in the public sector, with 68% of respondents indicating that they are unable to make a prediction, compared with 51% in the voluntary sector and 38% in the private sector.

While 40% of respondents consider that employees' pay at their organisation still needs to recover from the impact of the higher cost of living, a minority (16%) indicated that employees' pay had either fully recovered or had not been affected in the first place. By sector, this response was most prevalent among private sector respondents (18%), then public sector (8%) and finally voluntary sector employers (6%).

Figure 8: Employers are uncertain when pay will recover from the cost-of-living crisis

Predictions on recovery of employees' pay (% of respondents)



Base: All (n=832).
Question: When do you predict the base pay for most of your employees will have recovered in real terms from the impact of the cost-of-living crisis?

Those organisations that implemented a pay increase in the past 12 months that was equal to, or higher than, inflation have a more confident outlook. First, they were able to make predictions on recovery of pay (only 24% of them could not make a prediction, versus 44% of the whole sample), and second, they were more likely to claim that pay in their organisation had already recovered in 'real' terms (19% versus 10% of the whole sample). These respondents also indicated a faster speed of recovery, with 22% predicting that their pay will recover by the end of 2024, compared with 15% of the whole sample. These results also reflect the lesser impact of the cost-of-living crisis among this group of employers, with a larger proportion (11%) reporting that their pay was never affected by the cost-of-living crisis, compared with the overall sample (6%).

How have organisations been helping their employees during the cost-of-living crisis?

Most frequently, employers have helped their employees cope with the higher cost of living over the past 12 months by communicating how the existing benefit package could help (28%), as shown in Figure 9. Where employers have an existing package, highlighting how it can assist employees is a strategy that may help recruit, retain and motivate staff.

Other ways to help employees included:

- highlighting sources of financial guidance and information (25%)
- paying employees a cost-of-living supplement (25%)
- helping with the cost of commuting (19%)
- helping reduce food bills, for example by offering food vouchers or free meals (11%).

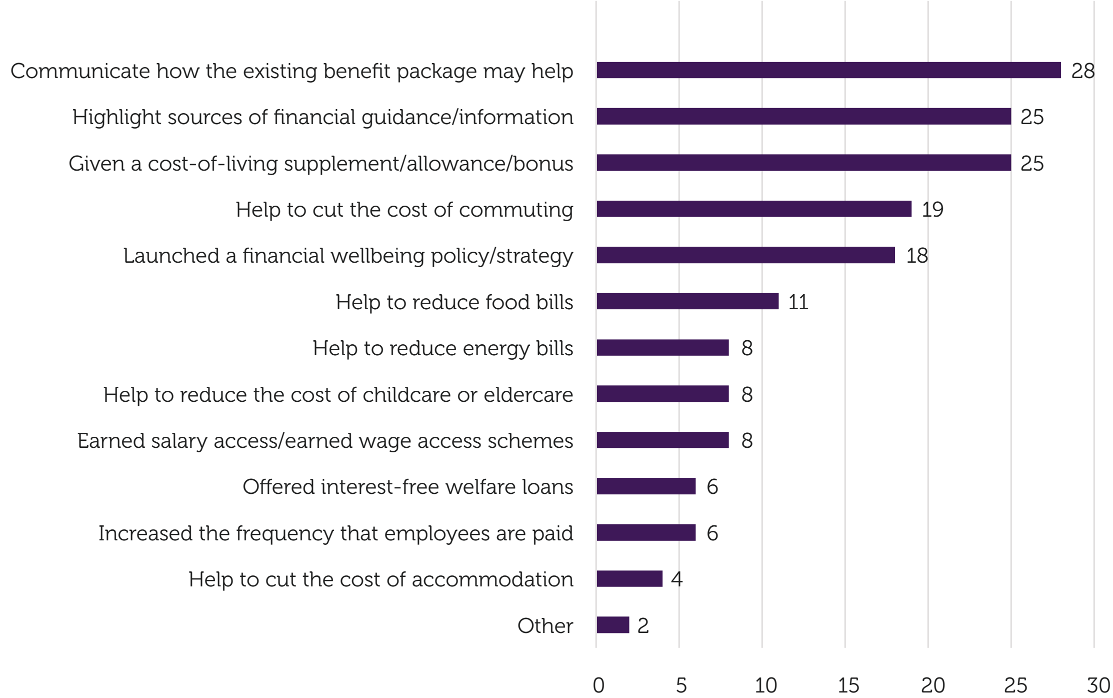
Two employers said they had brought forward the effective date of their pay rise.

The survey also found that 18% of respondents have launched an employee financial wellbeing policy or strategy in the 12 months to October 2023. Not only can such an approach help tackle poor financial wellbeing, but it is important at a time when many employers are struggling to fill vacancies.

However, 38% of private sector and 36% of public sector respondents reported that their organisations had done nothing to help their people with the increase in the cost of living over the past 12 months, compared with only 17% of voluntary sector employers.

Figure 9: Promoting financial benefits packages was the most common action taken to assist employees with the cost of living

Actions taken by organisations to assist employees with the cost of living (% of respondents)*



Base: All (n=832).*
*300 (36%) respondents indicated that none of these actions had been taken.
Question: Which, if any, of the below has your organisation done in the past 12 months to help your employees with the increase in the cost of living?

Employers in the voluntary sector were the most likely to have given their employees a cost-of-living supplement in the last 12 months (38%), compared with 24% of private sector respondents and 22% in the public sector. This finding may be linked to the closeness of this sector to some of the worst effects of the rising cost of living and may have prompted employers to implement such payments. They may also have less scope to raise base pay than private sector organisations so sought a one-off solution.

Larger organisations were more likely than SMEs to give their employees a cost-of-living bonus (28%, compared with 19% of SMEs). It's possible that large organisations have a greater capacity to afford such payments.

There was a slight tendency for those respondents that had made inflation-matching or above-inflation awards to also give lump sum cost-of-living payments (29%), which is higher than the 25% of the whole sample shown in Figure 9. These respondents also indicated that they had communicated their existing benefits package (29%) and highlighted sources of financial guidance (26%).

Recommendations

Employers thinking about this year's pay decisions could consider the following:

- **Affordability:** How much money do you have available to increase pay?
- **The going rate of pay rises:** How will your pay rise be judged by employees and your other stakeholders?
- **Recruitment and retention issues:** Is the organisation finding it easy to attract and hold onto employees?
- **Hard-to-fill vacancies:** Does your organisation have roles that are hard to fill? If yes, can you afford to increase pay? If not immediately, think about other ways you can attract and retain people into those roles, such as flexible working options.
- **Pay and performance:** In the future, does your organisation plan to explore the pros and cons of linking employee wage rises to performance? If it already does this, does it have plans to review its existing approach? If yes to both, you should read the next section about linking pay and performance.
- **Your reward strategy:** Review this to see if you can afford to offer a cost-of-living bonus. If so, make sure it doesn't inadvertently do more harm than good for those who claim Universal Credit or tax credits.[1]
- **Legal implications:** Do any of your employees want to undertake second jobs to cover rising living costs? Find out more about what the implications are for a zero-hours workers wanting to take a second job.[2]

While the rate of increase in the cost of living is falling, things will still cost more than they did previously. To help promote the financial wellbeing of employees, we recommend that organisations:

- focus on paying a fair and liveable wage
- offer financial wellbeing benefits
- provide opportunities for in-work progression.

Ideally, this should all be brought together as a policy. Steps and tips for building an effective employee wellbeing policy can be found in our guide.[3]

If you already have a financial wellbeing policy, consider the following steps to ensure it is working as well as possible for your employees:

- **Review your financial wellbeing policy**[4] and your benefits package: Do your people know what help is on offer and how to get it?
- **Train your managers:** Use our line manager development exercises[5] to ensure your managers provide the right support to staff through the cost-of-living crisis.
- **Empower your employees to be heard**: Make sure you create an inclusive environment that makes employees feel understood and recognised.[6]
- **Build your communication strategy**: This will establish trust during challenging times and create dialogue between managers and employees.[7]

5 Performance

This section looks at the various ways in which employers link employees' performance to their pay, which employee groups are most affected, and assesses the perceived impact and effectiveness of these methods.

We asked the following questions:

- Which employee groups most commonly have their pay linked to performance?
- What are the most common performance-related pay approaches?
- What are the effects of different performance assessments on pay rises?
- How does performance-related pay influence employee behaviours?
- How effective are group performance-related schemes?
- How satisfied are employees with performance-related pay decisions?
- Why do employers decide against linking pay to performance?

The section ends with recommendations if you are considering a performance-related pay approach.

Which employee groups most commonly have their pay linked to performance?

Our findings show that some 60% of respondents said they link either pay rises or bonuses for at least some staff to 'an assessment of their… performance. This could include merit pay, profit-sharing and individual or team bonuses'.

Linking pay and performance is most common in the private sector, with 69% of respondents saying they use one of these approaches for at least some staff, as opposed to 34% in the public sector and just 25% in the voluntary sector.

It is also more common in larger organisations (68%) than in smaller organisations with fewer than 250 employees (where 49% do so).

It is important to note, however, that within those organisations that *do* link pay and performance, not all employees are covered (as shown in Figure 10). When we also take into consideration the 29% of respondents that do not have any link, then overall, pay for performance covers less than half of the workforce.

Of the 60% of respondents that *do* link performance and pay in some way, we asked what proportion of management, professional and technical (MPT) staff, on the one hand, and 'other' employees (non-management, professional and technical employees), on the other, this affects.

Figure 10 shows that MPT employees are the most likely to have their pay linked to performance. This is probably because managers are regarded as the employees who can have the greatest impact on an organisation's bottom line

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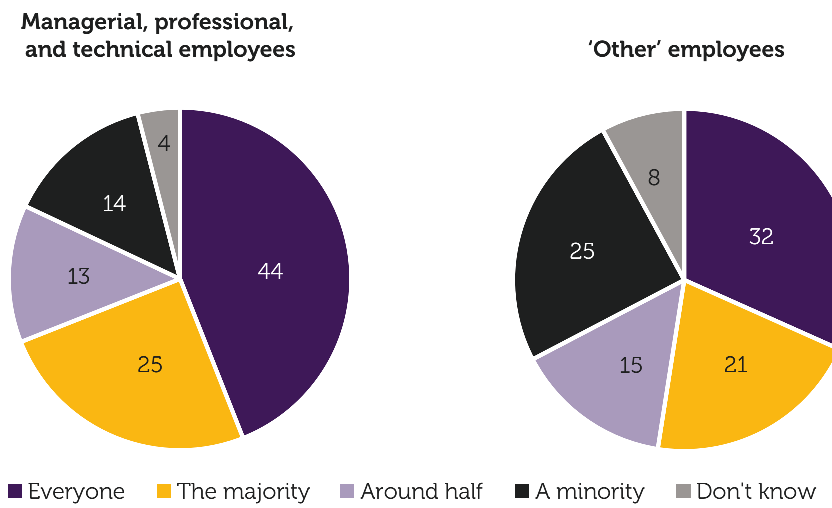
or overall performance. Professional staff such as salespeople would also fulfil this criterion.

Figure 10: Managers are most likely to have performance linked to pay in some way

Popularity of linking employee performance to pay, by job type (% of respondents agree)



Base: All whose organisation links pay rises to performance (n=499).
Question: What proportion of employees has their pay linked in some way to their performance?

By contrast, 'other' employees – which, in many organisations, represents most of the staff – particularly in the private sector, are less likely than MPT employees to have their pay linked in some way to their performance. As well as the lower response rates for the first three categories, it is also important to note the much greater proportion in the 'minority' category than for MPT staff.

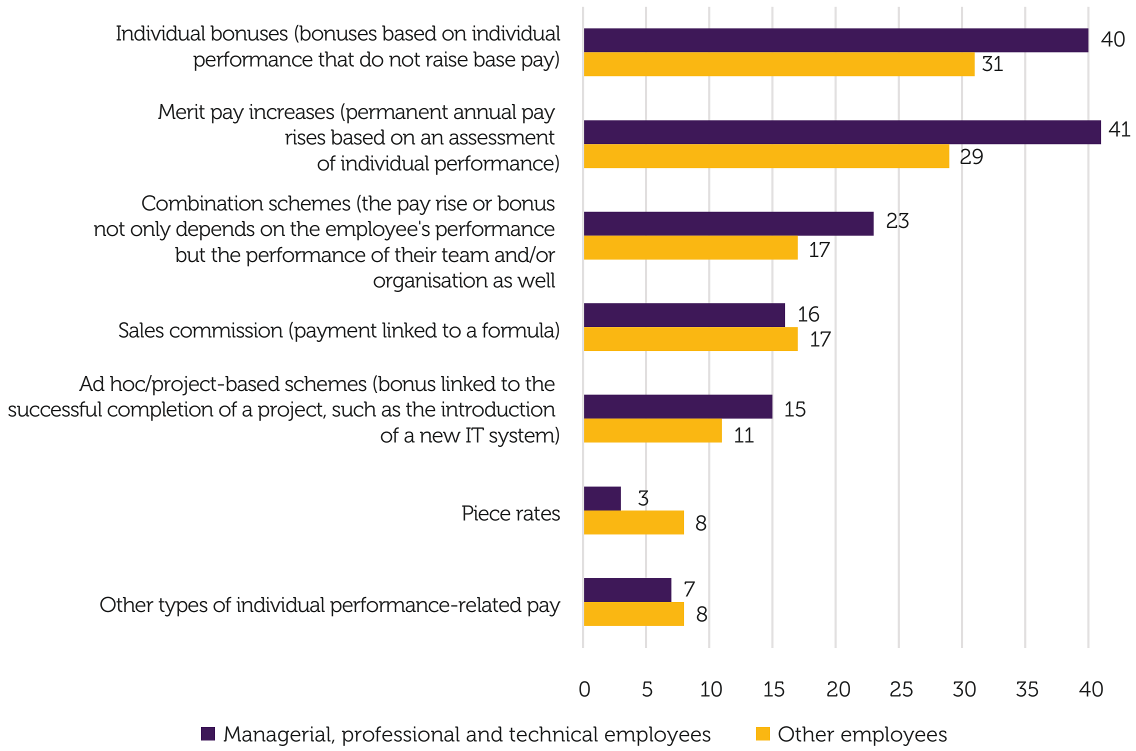
What are the most common performance-related pay approaches?

The most common type of performance-related pay for 'other' employees is individual bonuses, used by 31% of all our respondents. The next most common way of linking pay and performance is via merit-related increases to basic pay (29%), most commonly used in the private sector. Figure 11 shows that other approaches are used less frequently. Combination schemes and sales commission are both used by 17% of respondents.

For MPT employees, merit pay increases are more commonly used than for other employees (41% of respondents use this method), followed by individual bonuses (40%) and combination schemes (23%), with the latter also more common for MPT staff than for 'other' employees. Sales commission is used by 16% of respondents.

Figure 11: Merit pay and individual bonuses are the most popular ways of linking pay and performance

Proportion of all employers linking pay to performance in some way (% of respondents)



Base: All (n=832).
Question: Which of these types of individual performance-related pay does your organisation use for each employee category?

Merit pay rises are most common in the private sector, where they are used for 48% of MPT employees and 33% of 'other' employees. This approach is much less common in the public sector (24% for MPT employees and 19% for 'other' employees) and the voluntary sector (16% for both types of employees).

Similarly, the use of individual bonuses is much higher in the private sector, at 47% for MPT staff and 36% for 'other' employees, but lower in the public sector (20% for MPT staff and 17% for 'other') and the voluntary sector (17% for MPT staff and 16% for 'other' employees).

What are the effects of different performance assessments on pay rises?

While the sample sizes are relatively small, we find that pay rises for those with a higher performance rating ('*exceeding* expectations') were greater than those who merely '*met*' performance expectations. However, as this coincided with a period of higher-than-normal wage growth, the gap between 'met' and 'exceeded' might be distorted.

We found that the employer in the mid-point of our range gave employees who *met* its expectations a merit-based pay rise of 6%, while those that *exceeded* the expected performance received a pay rise of 10%.

Under merit-based systems, the increase for *meeting* expectations is usually the one awarded to the bulk of staff and is often equal to the overall budgeted increase, with differentiation taking place at the extremes – those exceeding performance targets, on the one hand, and those failing to meet them, on the other. In some cases, these proportions are predetermined, often according to segments of a normal distribution.

This is one of the approaches that tends to be least liked by staff, according to research carried out into the operation of performance-related pay.[8] This is because it appears to pre-judge the outcome of performance assessments. When predetermined quotas are implemented at the level of actual teams, managers must either pay all staff the same increase or, if they want to pay someone a higher increase, they must find someone to whom they award a lower increase, and vice versa, something that can affect both individual morale and team cohesion.

In fact, a study of performance-related bonuses at Microsoft found that such an approach (in that context referred to as 'stacked ranking') undermined the type of team-wide cooperation that the company needed to develop its products. This was because, to maintain their performance scores year-on-year, and therefore their bonuses, team members were acting in ways that went against the interests of work teams and thus prevented cooperation and sharing of knowledge and insights. As a result, Microsoft wound the scheme down.[9] Because of this and other examples, such as in the civil service, where quotas for performance rankings have also been abolished, the CIPD advises against 'competitive ranking'-type schemes and suggests these are better replaced by team incentives that highlight the value created by a team, but that also give individuals due recognition of their personal contributions.[10]

How does performance-related pay influence employee behaviours?

Our survey examined respondents' perceptions on the link between (performance-related) pay and employee motivation, and its impact on the following aspects of employee behaviour:

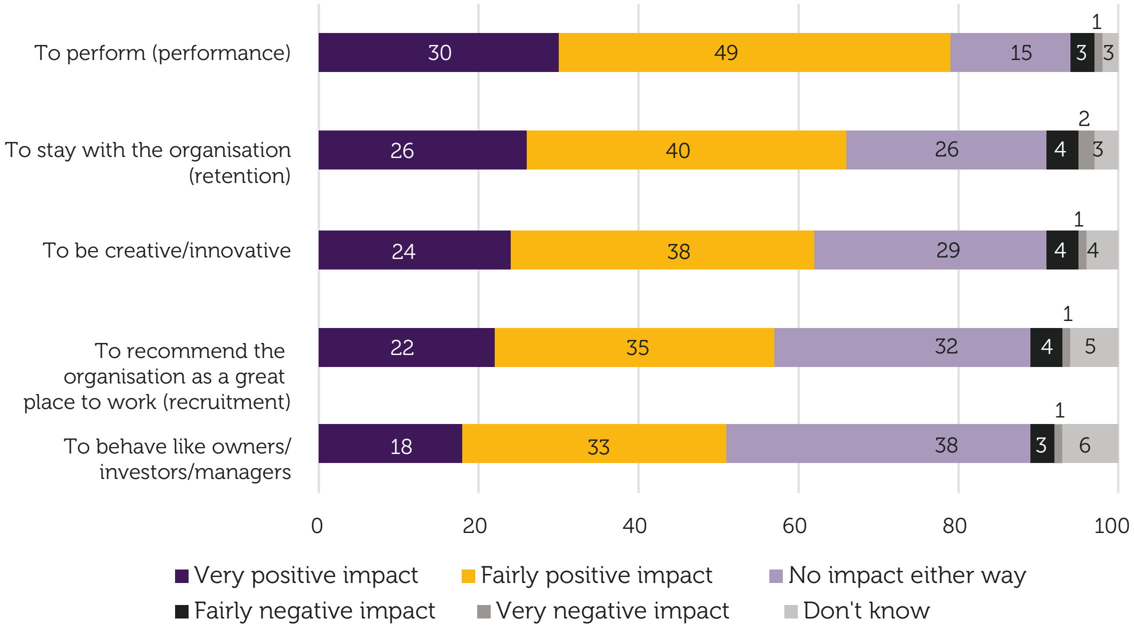
- performance
- retention
- creativity and innovation
- recruitment ('to recommend the organisation as a great place to work')
- 'to behave like owners, investors or managers'.

The question included several options in respect of the direction and extent of the assumed impact.

Figure 12 shows that the most positive impact was perceived to be on performance (with a net positive impact of 79%). This is unsurprising, since the basic wage–effort bargain involved in employment could be argued to precisely entail this. (This may indicate that linking pay to performance could improve performance, but much more investigation, at the level of individual organisations, would be required to assess this properly.) This impact was also perceived particularly positively by smaller organisations (but these are also less likely than larger organisations to link reward to performance).

Figure 12: Linking pay to performance had the greatest impact on performance itself, followed by retention, and creativity and innovation

Impact of linking pay to performance (% of respondents)



Base: All whose organisation links pay rises to performance (n=485).
Question: What impact does linking pay and performance at your organisation have on the following areas of employee motivation?

There was also perceived positive impact on retention (66%) and on creativity and innovation (62%). However, some caution is necessary here since it is not known whether basic pay or bonuses gave rise to this type of outcome or, indeed, what type of performance (individual, team or company-wide) produced the outcomes described.

While most of our respondents claim to be positive about the impact of linking pay and performance on employee behaviour, we do not know what people themselves in these organisations think.

While linking pay to performance appears to have the biggest positive impact on performance itself in the private sector (80%) and the public sector (68%), there are several variations by sector:

- In the private sector, respondents are most likely to report positive outcomes for recruitment (58%).
- In the public sector, there is a more even distribution in positive impact, between retention (50%), recruitment (47%), and on creativity and innovation (46%). On the other hand, 14% said it had a net *negative* impact on their ability to be creative or innovative.

- Generally, the perceived smallest impact in all sectors was on behaving like owners, investors or managers, with 35% of the private sector saying it had no impact here.

In respect of organisation size, linking pay to performance looks to have a particularly positive impact on retention for smaller organisations (72% agree).

Even though most of our respondents regard their existing approaches to linking pay to performance as having a positive impact on different aspects of employee motivation, most employers felt that there is room for improvement in appraising employee performance in particular, but also in rewarding, managing and developing it.

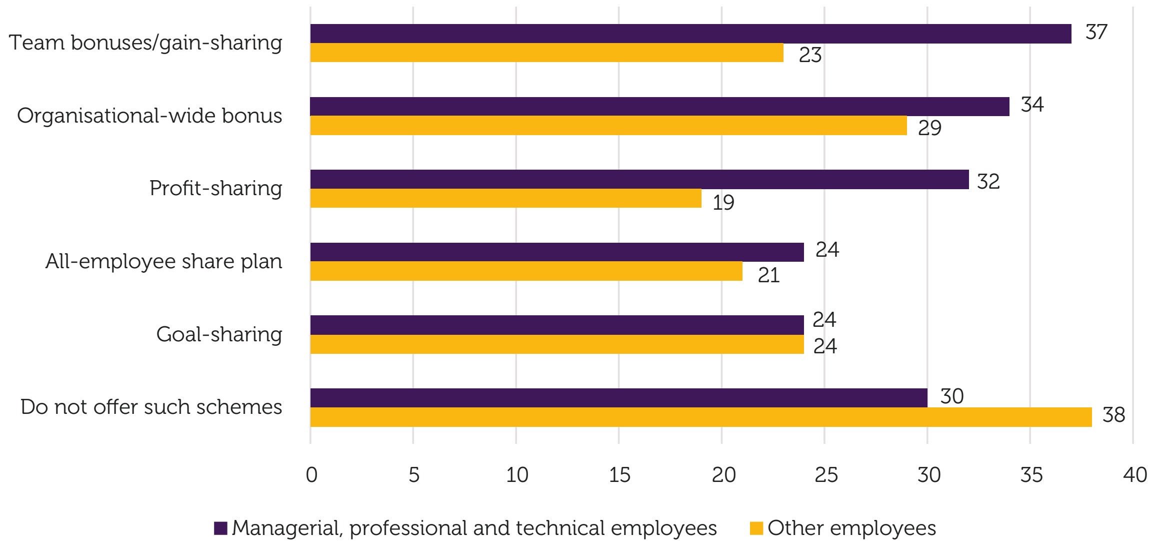
How effective are group performance-related schemes?

When it comes to team and other non-individual bonuses, Figure 13 shows that organisations are more likely to operate almost all of these for MPT (management, professional and technical) staff rather than 'other' staff (the bulk of employees in many organisations). Only one category – goal-sharing bonuses – registered an equal response in both staff groupings.

One potential issue here (and for other questions in which responses are confined to a choice between MPT staff, on the one hand, and 'other' staff, on the other hand) is that the results for managers alone may be skewing the results in respect of the wider 'managerial, professional and technical' grouping.

Figure 13: Management, professional and technical staff are more likely to get bonuses than other employees (although the gap narrows for organisation-wide bonuses)

Use of group performance-related schemes (% of respondents)



Base: All whose organisations link pay rises to performance (n=485).
Question: Which, if any, types of *group* performance-related schemes does your organisation use for each employee category?

It is surprising that 'other' employees are less likely to get organisation-wide bonuses than MPT staff. Indeed, they are more likely to have no schemes available to them. Therefore, it appears that rather than providing single-status pay and conditions for all staff, some organisations are differentiating between staff groups, at least partly on the basis of seniority or position in the hierarchy.

Only a small proportion of organisations (around 16%) have all-employee share plans (AESPs). The relative rarity of such plans may be one reason why the government has consulted on their use, in part as a way of encouraging employers to look at whether, and how, they might be introduced.[11]

In terms of the impact such schemes have on aspects of employee motivation, the most positive impact is perceived to be on retention, followed by recruitment and creativity. Perhaps if staff feel they have some sort of stake in the company, they are also prepared to be more innovative.

The least positive impact was perceived to be on efforts to persuade staff to behave like owners, investors or managers.

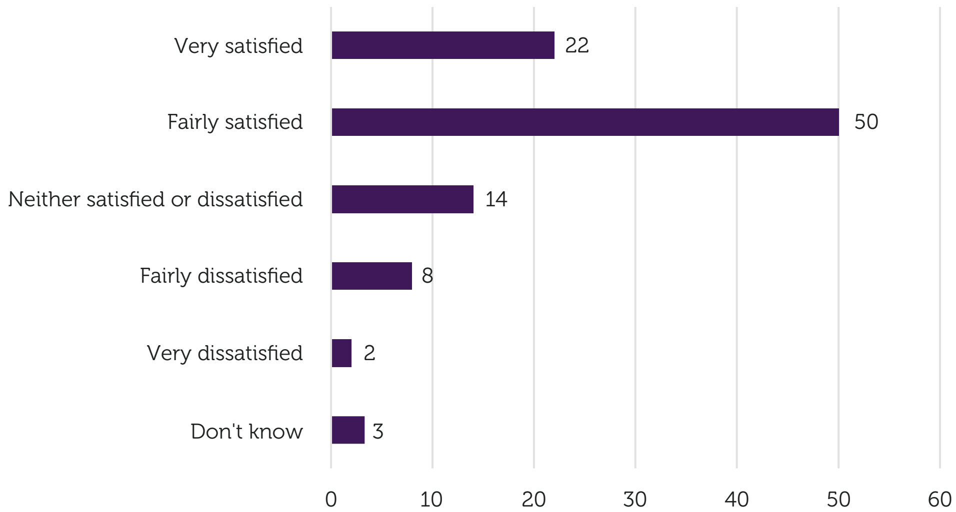
How satisfied are employees with performance-related pay decisions?

Of those employers that link employee pay to performance, 63% said they had assessed whether employees were satisfied with how it made fair performance-based pay decisions, while 27% said that no one had, and 10% did not know.

Among those that *do* assess satisfaction, staff attitudes about the fairness of decisions are, overall, positive (see Figure 14).

Figure 14: Nearly three-quarters of employees are broadly satisfied with fairness in performance-based pay decisions

Employee satisfaction levels on how fair performance-based pay decisions are made (% of respondents)



Base: All whose organisations link pay rises to performance and (in addition) assess whether employees are satisfied with how it makes fair performance-based pay decisions (n=305).
Question: As far as you are aware, how satisfied are your employees with how your organisation makes fair performance-based pay decisions?

Given the controversial, and sometimes contested, nature of performance-related pay, it is important for employers to assess staff satisfaction with decisions in this area. Doing so is simply a matter of carrying out regular surveys of staff opinion which, depending on the type of performance-related pay in operation, might include questions such as: 'How satisfied are you with the outcome of the most recent annual performance appraisal?' Or 'How satisfied are you with access to bonus opportunities at the company?' Not doing so will leave employers at a disadvantage when it comes to understanding how staff feel about such decisions.

Why do employers decide against linking pay to performance?

While some 60% of respondents said they link either pay rises or bonuses for at least some staff to an assessment of their performance, our survey finds that 39% of employers do not do this for any employee. This is especially the case in the voluntary (73%) and public (64%) sectors.

As shown in Figure 15, the main reasons employers choose not to do this are:

- a lack of sufficient budget to differentiate pay rises or bonuses of all respondents
- the concern that such an approach is 'seen as too controversial or divisive', which probably relates most closely to individual bonuses or merit pay
- there is no one pushing for its introduction within the organisation.

Some respondents, particularly those in the voluntary sector, mentioned that research evidence shows that the effects of linking pay and performance are mixed. For example, Dan Pink[12] questions whether money is necessarily the best way to motivate people. He highlights research showing that, while incentives lend themselves to manual work, this is not the case for non-manual work.

Another study[13] found that, while linking pay to performance *can* work, it depends on which type of scheme is used. For example, it found that profit-sharing is not as effective as performance-related pay in terms of job satisfaction, organisational commitment, and trust in management. However, performance-related pay was more likely to make employees feel stressed, which reduced the positive impact of the other attitudes.

The CIPD report on incentives and recognition[14] provides evidence that can support almost every preconception regarding performance-based reward.

Figure 15: Lack of budget was the main reason for not linking pay rises or bonuses to employee performance

Reasons for not linking employee pay rises or bonuses to employee performance (% of respondents)

Base: All whose organisation doesn't link pay rises to performance (n=321).
Question: What are the reasons for not linking employee pay rises or bonuses to employee performance?

One of the main reasons why linking pay and performance is seen as divisive is the perceived concern that it undermines team cohesion. Although merit approaches are often sold with the promise that they can increase staff morale, in practice the use of methods such as quotas for guiding the distribution of supposedly performance-based pay rises or bonuses can produce demotivation, since staff may feel that the outcomes are predetermined to some extent.

Recommendations

While our findings indicate that, broadly, the money spent on linking pay to performance delivers positive workplace outcomes, especially in terms of performance and retention, the following actions are worth considering:

- **Remember that rewards need to reflect the reality of the individual jobs and teams in which they are given:** In some circumstances, connecting pay to individual performance will make more sense, such as where an individual is largely responsible for their own success, but in others, linking pay to collective performance will make more sense, where success depends on collaboration.
- **Ensure rewards are clearly and consistently linked to performance:** How people receive their performance-based pay will vary according to the decisions that the organisation makes about the role. Some people will get a bonus, some will get shares, and others a pay rise. However, operating different types of performance-related schemes and using different ways of rewarding that performance can create complexity for employers in terms of how they manage and talk about these schemes. Having different approaches to linking pay and performance can also create tensions within the workforce about who has the better deal.
- **Make sure rewards, and how they are administered, are seen as fair:** Whether employees perceive a pay decision as fair will depend in part on the information that their employer gives them to make this judgement. If organisations are not transparent or are only partially transparent, the risk is that employees will make their own judgements based on incomplete information. However, employers also need to get feedback from their employees to check they have received this information and understood it.
- **Review ways of developing, appraising, managing and rewarding performance:** This is something that the government has recently decided to do in teaching as, instead of raising performance, the existing system had become overly focused on rating performance.

To help employers evaluate the case of linking pay to performance in their workplace, the CIPD has produced a report[15] looking at the latest evidence.

6 Transparency

This section deals with transparency around pay information generally, both internally and externally, and also the extent to which organisations are addressing the various pay inequalities (including gender and ethnicity) that can arise.

We asked the following questions:

- Why is pay transparency important?
- What is the current extent of pay transparency?
- How does external and internal pay transparency vary?
- What is the extent of workplace pension transparency?
- To what extent do organisations provide pay comparison information internally?
- Are organisations addressing internal pay inequalities?
- How do organisations check their employees' understanding of pay issues?

The section ends with recommendations to consider if you want to increase your pay transparency.

Why is pay transparency important?

At the moment, there is no legal requirement on UK employers to be open to staff or candidates about pay, but it is increasingly regarded as good practice to do so. For example, in the latest edition of *Armstrong's Handbook of Reward Management Practice*, the authors write: "Traditionally, many organisations in the private sector have kept information about their pay policies relatively secret…. This is no longer a tenable proposition. A satisfactory psychological contract cannot be developed unless the organisation spells out its reward policies and practices. Without transparency, people will believe that the organisation has something to hide, often with reason."[16]

There is currently greater debate around pay transparency, following the recent enactment of the EU Pay Transparency Directive,[17] which will affect companies that have operations in the EU. This gives workers "the right to request and receive in writing… information on their individual pay level and the average pay levels, broken down by sex, for categories of workers performing the same work as them or work of equal value to theirs."[18]

As well as the EU directive, the US has also seen several state pay transparency initiatives,[19] and it might not be long before similar measures are considered in the UK.

What is the current extent of pay transparency?

Our findings show that the extent of pay transparency in the UK varies, depending on whether organisations publish details of salary ranges or specific salaries: while there may be some visibility around salary ranges, many organisations are less transparent about specific salaries.

This does not always indicate that employers are trying to *deceive* job candidates (or staff) since, if pay is structured around ranges for particular grades, this is how they are most likely to be advertised externally or internally, rather than the organisation highlighting the specific salaries paid to individuals.

However, there is anecdotal evidence that some employers in the US include salary ranges in job advertisements that are not necessarily a guide to the salary they are prepared to actually pay.[20] What might be unusual is where the structure of pay is based on single or spot rates, but a company nevertheless opts for limited visibility in job adverts or internal communications by only showing a range.

But just because organisations advertise salary ranges, either externally or internally, this does not necessarily mean that they are fully transparent about pay. This is because salary ranges, by definition, generally show only a minimum and a maximum, so such approaches can often conceal more than they reveal.

This is particularly the case where ranges are very broad (for example, greater than £10,000 wide), and where there is no indication of the salary for individuals judged to be fully competent in the role. Progression through ranges is typically by appraisal-related increases within an overall budgeted amount – such that individuals could be anywhere along the range – and it is highly unusual in these circumstances for staff to know how their pay compares with anyone else's or, indeed, what other staff are paid.

How does external and internal pay transparency vary?

Here we explore:

- external transparency (via job advertisements)
- internal transparency for existing staff.

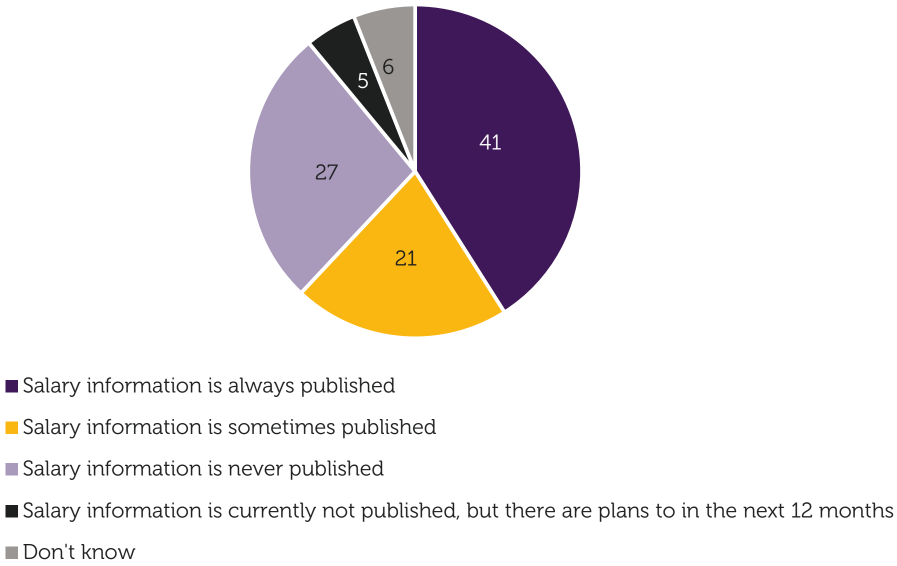
External transparency

When it comes to pay information associated with publicly advertised jobs, organisations are far more likely to publish information on salary ranges than specific salaries.

Figure 16 shows that 62% always or sometimes publish salary range information in their external job adverts, while 38% say they have either not done so (though they may plan on doing so by October 2024), never do so or don't know.

Figure 16: Two-fifths of employers always publish salary ranges in external job adverts

Extent of including salary ranges in external job adverts (% of respondents)

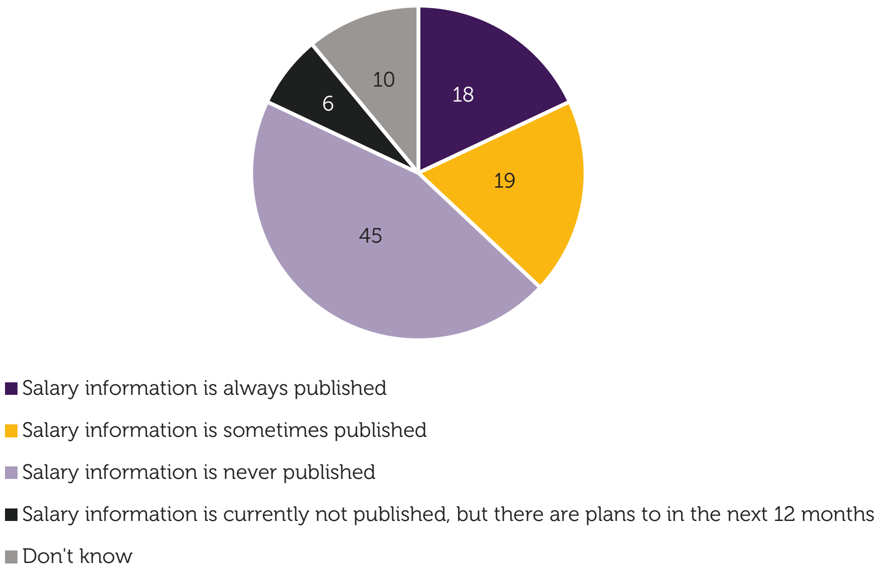


Base: All (n=832).
Question: Does your organisation currently publish salary information in its external job adverts? (Salary ranges.)

By contrast, when it comes to including information on *specific* salaries in external job adverts (as opposed to ranges), the situation is almost the exact reverse, with only 37% always or sometimes publishing specific salary information (see Figure 17).

Figure 17: Only a minority of employers publish specific salaries in external job adverts

Extent of including specific salaries in external job adverts (% of respondents)



Base: All (n=832).
Question: Does your organisation currently publish salary information in its external job adverts? (Specific salaries).

In the private sector, the contrast between salary ranges and specific salaries is even more pronounced. Here, while 53% always or sometimes publish salary ranges, only 29% include information on specific salaries in job adverts (see Tables 1 and 2). In the public and voluntary sectors, however, the prospects for additional transparency are better.

Table 1: Extent of including salary ranges in external job adverts, by sector (%)

	Private sector	Public sector	Voluntary sector
Salary ranges are always or sometimes published	53%	92%	83%
Publication of salary ranges is currently being considered, is never published or respondent did not know	47%	8%	17%

Table 2: Extent of including specific salaries in external job adverts, by sector (%)

	Private sector	Public sector	Voluntary sector
Specific salary information is always or sometimes published	29%	60%	75%
Publication of specific salary information is currently being considered, is never published or respondent did not know	71%	40%	25%

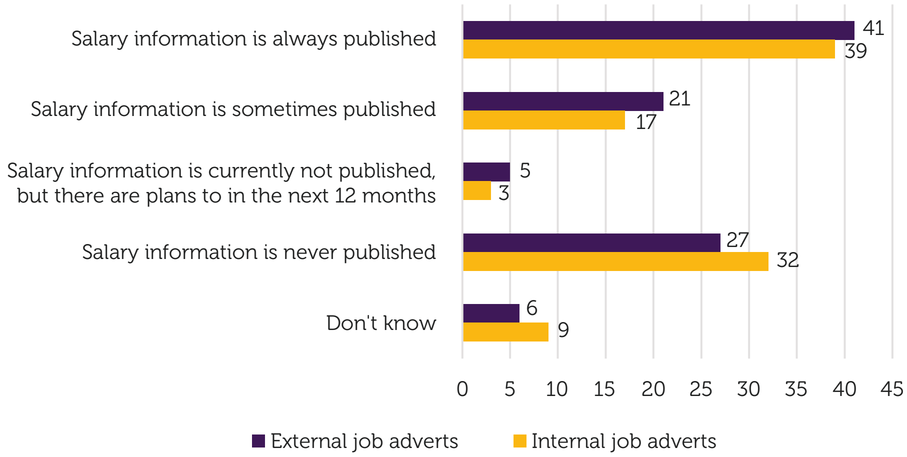
Some employers publish both salary ranges and specific salary details (14%) but, in contrast, 24% of respondents say that they publish neither. This is particularly common in the private sector (31%), compared with the voluntary (5%) and private (2%) sectors.

Internal transparency

If you are prepared to publish pay information in your external job adverts, it might be safe to assume that you will publish pay information in your internal job adverts, and vice versa.

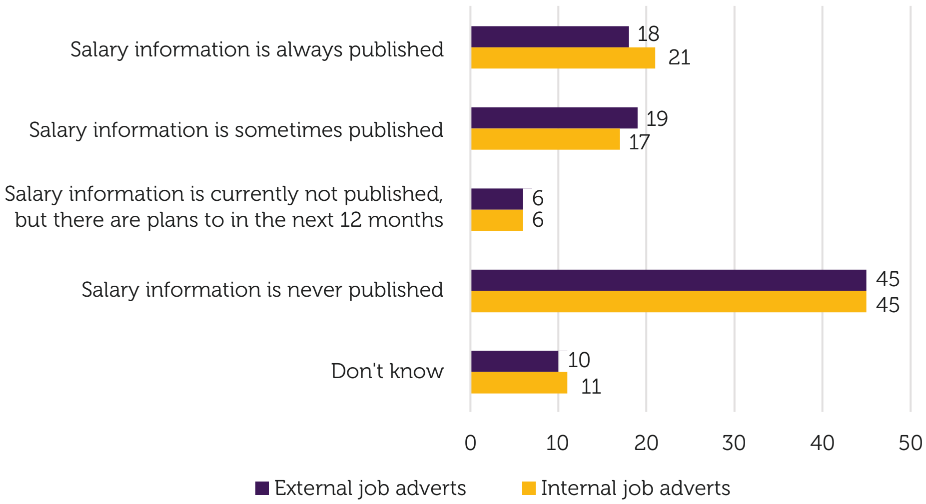
Our findings do echo this assumption: when it comes to advertising jobs internally, our survey finds that the pay information published is broadly similar to the information shared externally, both for salary ranges (Figure 18) and for specific salaries (Figure 19).

Figure 18: Two-fifths of employers always publish salary ranges in internal job adverts
Extent of publishing salary ranges in internal job adverts (%)



Base: All (n=832).
Question: Does your organisation currently publish salary information in its external job adverts? (Specific salaries.)

Figure 19: Nearly half of employers do not publish specific salaries in internal job adverts
Extent of publishing specific salaries in internal job adverts (%)



Base: All (n=832).
Question: Does your organisation currently publish salary information in its internal job adverts? (Specific salaries.)

Unsurprisingly, there is a tendency towards greater transparency in respect of salary ranges than for specific salaries and, as shown in Figure 19, it is more common for specific salaries to *never* be published internally. This is understandable, as many organisations structure pay using salary ranges, especially in private service companies.

Indeed, only 29% of private sector organisations provide information internally on specific salaries (the same proportion as for external job adverts), while the public and voluntary sectors are much more prepared to do so (62% and 76% respectively).

Generally, only 16% of employers publish both salary ranges and specific salary details internally.

Sometimes the use of ranges in adverts reflects employer practice on the internal structuring of pay itself. But even where organisations use ranges rather than scales or pay points, they should consider providing more information in job adverts (as well as introducing more transparency to internal pay structures).

Even if organisations only provide information on pay ranges, rather than scales or pay points, this is a step in the right direction, as opacity around pay can contribute to pay gaps. Indeed, recent research from the EHRC on how to close pay gaps pinpoints a lack of transparency around pay as a major factor in gender pay inequalities.[21]

When it comes to job adverts, for example, employers could indicate a likely starting salary and what this might rise to over two or three years. The fact that organisations choose not to do so might be because of a competitive labour market and concerns that staff might get poached.

However, this can also lead to potential equal pay issues if the organisation recruits someone on a higher salary than an existing staff member of a different gender, especially if they are doing the same job. Internally, scales are more transparent than ranges, but employers can add transparency to ranges by ensuring they are not too broad (certainly less than £10,000 wide and perhaps even narrower) and, as well as minimums and maximums, also show the salaries at full competency for particular roles.

Additionally, publishing pay information when advertising roles might help increase your talent pool. Research[22] by Reed found that adding this to job adverts can increase the number of applicants by 27%.

What is the extent of workplace pension transparency?

As an important part of the remuneration package, it makes sense to highlight a workplace pension when posting a job advert. Our findings suggest that transparency is similar to that of salary ranges, with 62% of employers saying that pensions information is always or sometimes included in job adverts (Figure 20).

By sector, the tendency to highlight the workplace pension in job adverts is strongest in the voluntary sector – with three-quarters of employers always doing so – but weakest in the private sector (only 33% always do).

The reason that private sector employers are most likely not to publish this information (30%) might be because some companies only make the minimum legal contribution, while other firms – that do go beyond the minimum – might assume that job applicants are not interested in workplace pensions.

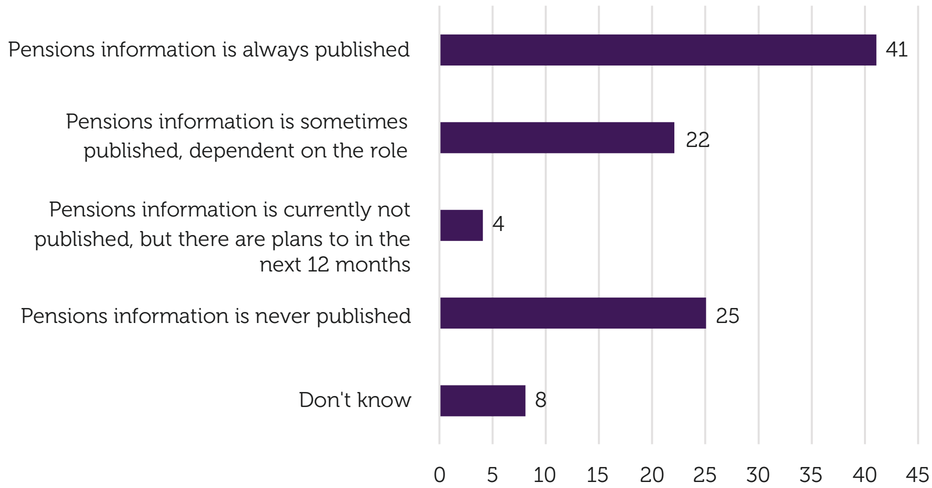
Surprisingly, only 59% of public sector organisations always include pension information in job adverts. Given that pension provision tends to be good in this sector – with defined benefit (mainly career average now, rather than final salary) schemes predominant – it seems slightly unusual to find that the public sector trails the voluntary sector in this respect.

Smaller firms are also less likely to publish pensions information than large companies (40% never do, compared with 19% in large companies). This could be linked to smaller employers contributing less to the workplace pension than larger ones.

Pension transparency is important, not only in terms of the employer potentially being able to attract a wider pool of applicants, but also in raising the profile of pensions in the labour market so that employees can make better decisions and improve their likelihood of enjoying a reasonable retirement. Such information can also help reduce the size of the gender or ethnicity pensions gap.

Figure 20: Most employers include pension information in external job adverts

Extent to which organisations include workplace pension information externally (% of respondents)



Base: All (n=832).
Question: Does your organisation publish information about its workplace pension in its external job adverts?

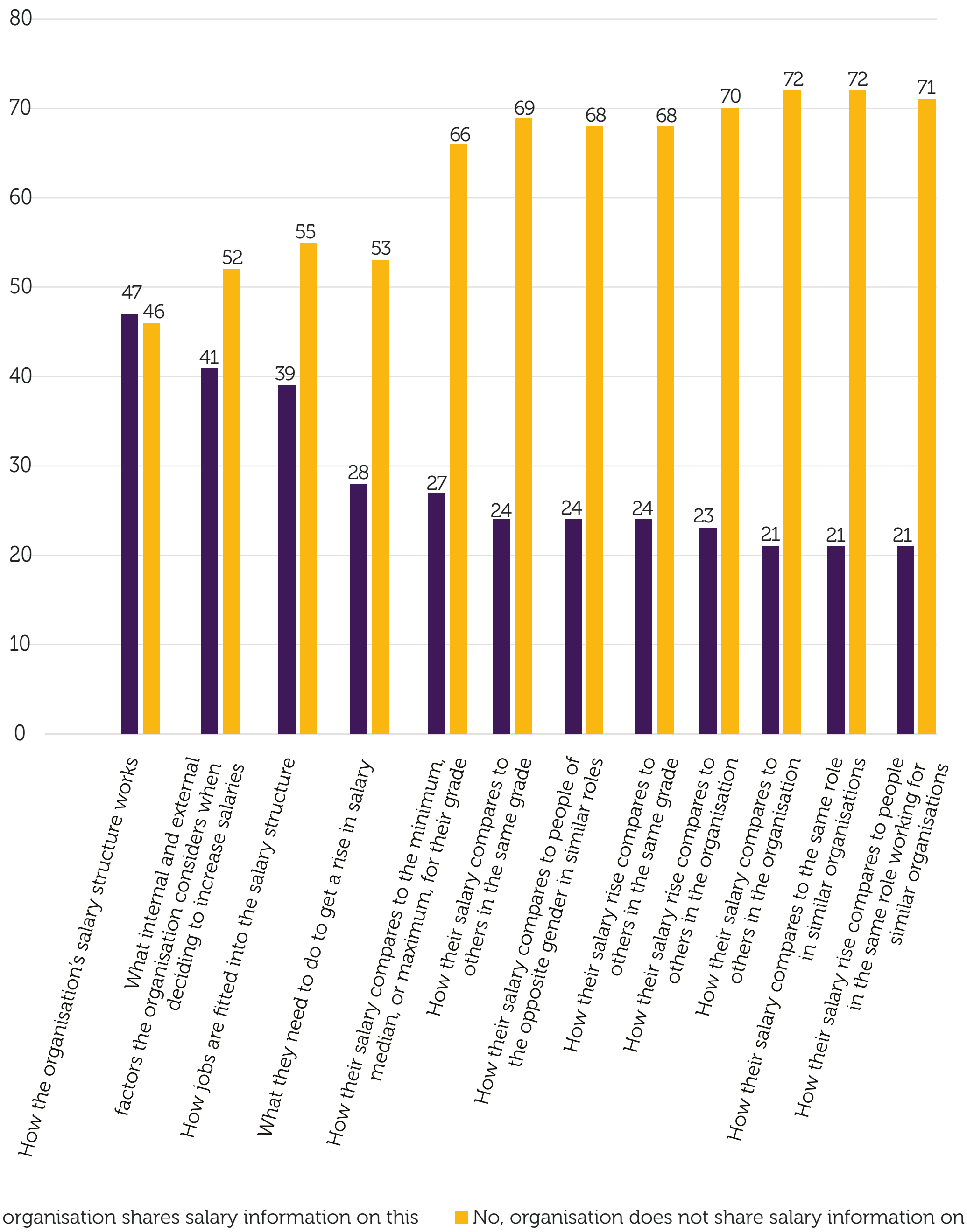
To what extent do organisations provide pay comparison information internally?

We asked organisations about the extent to which they share pay information with employees. This could be in a variety of respects, centred on how individuals' pay compares with that of others according to a variety of metrics, such as how their salary compares with the minimum, maximum or median for their grade, or with the typical salary for others in the same grade, but also looks at such topics as the operation of salary structures or how jobs are slotted into these structures.

Figure 21 shows the limits to transparency since, in almost every case, only a minority of organisations appear to lean towards genuine openness about pay. While almost half (47%) inform staff about the ways in which their organisations' pay structures operate, nearly the same proportion (46%) said they were not open about this with staff. And a much smaller number were prepared to provide information to employees that would allow them to assess how their pay compares with that of others, for example, compared with the median for the whole organisation.

Figure 21: Most employers are not transparent about pay with their staff

Extent to which organisations provide pay comparison information internally (% of respondents)



Base: All (n=832).
Question: Does your organisation currently share salary/wage information with employees in the following areas?

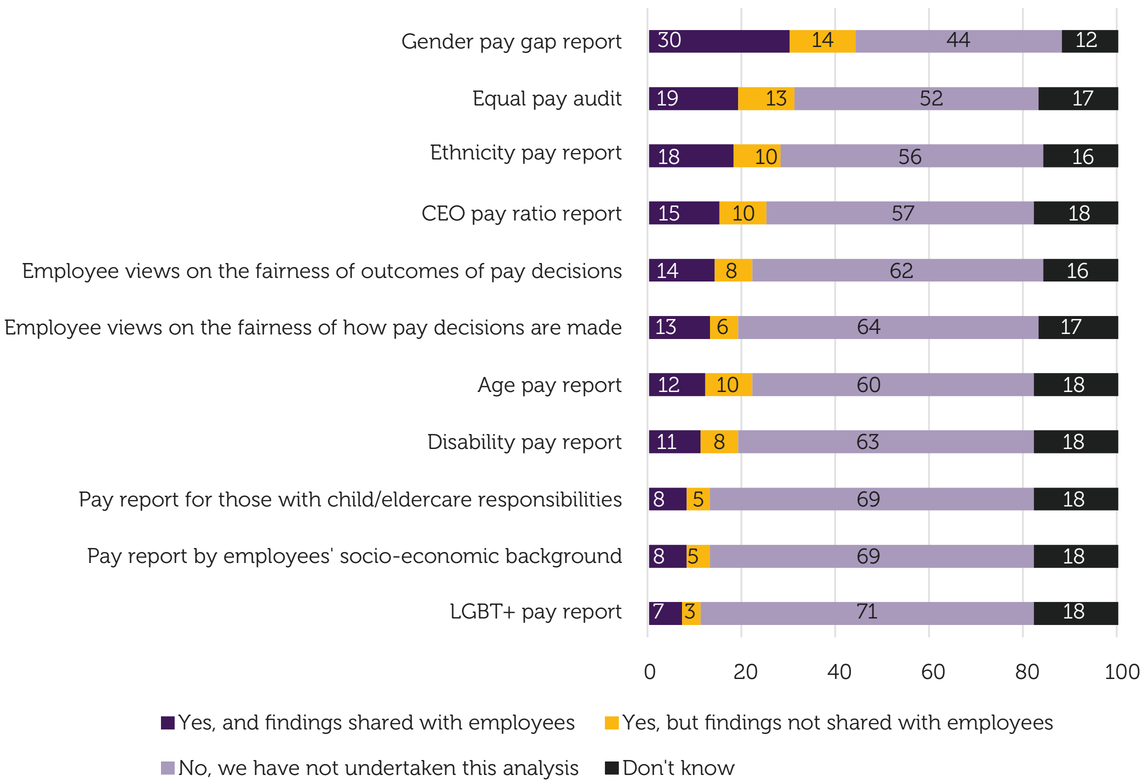
When analysing the habits of those organisations that were more transparent about pay in their internal job adverts, we found that, while 66% of these shared information about the operation of pay structures, and 59% did so about how jobs are slotted into these, only 39% shared information with individual employees about how their salary compares with the minimum, maximum or median for their grade or how their salary compares with the typical rate for colleagues in the same grade. It's therefore fairly rare for staff to know more precisely how their pay compares with anyone else's or, indeed, what other staff are paid.

Are organisations addressing internal pay equalities?

As shown in Figure 22, the only analysis undertaken by a significant proportion of organisations in the 12 months to October 2023 relates to gender pay gaps (44%), which, of course, large employers are required to do by law.

Figure 22: Most organisations have not undertaken pay gap analysis (other than gender pay gaps) or shared findings with employees

Extent of pay gap analysis undertaken and sharing of findings with employees (% of respondents)



Base: All (n=832).
Question: In the past 12 months, has your organisation undertaken any of the following analysis and has it shared the findings with employees?

Gender pay gap reporting

While large organisations (with over 250 employees) are obliged to report annually on their gender pay gap, worryingly, some 17% of respondents in this category said that they had not undertaken this in the year ending October 2023, and a further 18% didn't know. The organisations most likely to admit to not carrying out gender pay reporting in the 12 months to October 2023 are those employing between 250 and 499 people (29%). By contrast, among small employers (with fewer than 250 people), 79% had not carried out such an analysis last year.

Among all respondents, gender pay gap analysis was most likely to be carried out in the public sector (52%), which probably reflects the fact that there are more large employers in this sector than SMEs.

Equal pay audits
Overall, equal pay audits are the second most common analysis undertaken (32%). While 19% shared their results with employees, a further 13% did not. Not sharing the results is most likely due to legal concerns, since if audits uncover actual issues, admitting these to staff raises the risk of legal challenges. The incidences here are associated with those for gender pay gaps, since carrying out an equal pay audit is one way of finding out whether gender pay gaps are in fact caused by how the organisation rewards its staff.

Public sector organisations are more likely than employers in other sectors to have carried out an equal pay audit in the 12 months to October 2023 (35%). This is due in part to generally greater pay transparency and greater trade union activity, both making for an increased likelihood of equal pay challenges.

Larger organisations are much more likely than smaller ones to have conducted equal pay audits (44% versus 14%). Larger employers have a wider range of jobs and so are potentially more likely to need an equal pay audit to help defend themselves from the risk of an equal pay claim.

Ethnicity pay gap reporting
Despite there being no legal requirement in this area currently, ethnicity pay gaps are the next most common analysis undertaken. Twenty-eight per cent of respondents carried out such an analysis last year, with 18% of employers going on to share the findings with employees.

Again, public sector organisations are most likely to have analysed ethnicity-related pay gaps in the 12 months to October 2023 (34%), ahead of the voluntary sector (28%) and the private sector (27%).

By size, 40% of large organisations had carried out ethnicity pay gap analysis, while 35% had not and a quarter didn't know. Only 13% of small companies had done so.

Where employers conduct ethnicity pay gap analysis but do not share the findings with employees, the most common reasons are as follows:

1 There is no external pressure to do so (28% agree). In the current absence of legal requirements on the issue, this is unsurprising.

2 There are concerns around privacy and data confidentiality (26%).

3 There is a perceived 'lack of benchmarks for comparison purposes' (25%), such as national, regional or industry data. While such data can help put ethnicity pay findings into some sort of context, the lack of such data should not be a major obstacle in stopping employers from giving an honest assessment of their own position.

4 There is 'fear of negative reactions' (presumably from staff, but perhaps

also from external stakeholders, such as investors) (21%). What might help organisations here is training around communicating intent to carry out such an exercise, particularly where organisations have significant numbers of ethnic minority staff, for example 5% or more of their workforce.

The most common reason for not carrying out ethnicity pay gap analysis was company size (70% of small companies cited this). Respondents also said that they do not employ sufficient people of different ethnicities to carry out the analysis (25%). Again, this is more of an issue among SMEs than large employers.

Other common explanations include:

- having no outside pressure encouraging them to do this, such as from their customers or investors (22%) – this is more of an issue for large employers than SMEs
- staff not being interested in this issue (21%), which is more common for SMEs than for large employers
- not having HR/payroll systems that allow them to conduct an analysis easily (16%) – an issue for both SMEs and large employers
- data confidentiality and privacy concerns (15%), which is more of an issue for larger employers than smaller ones.

In terms of disability pay reporting, over a quarter (27%) of large employers had conducted this, while 46% had not and 28% didn't know. Only 9% of small companies had done so.

How do organisations check their employees' understanding of pay issues?

It is good practice for organisations to check that their employees understand:

- why their salary is worth that amount (such as market rates, job evaluation and business climate, for example)
- what needs to happen for their salary to rise (such as performance, behaviour or state of the economy, for example)
- their payslip (such as tax codes, deductions and amounts).

Employee queries about their payslips might be dealt with by HR, either centrally or through local HR business partners in large organisations. Questions about salary levels and pay rises are best dealt with by employees' immediate line managers, though the managers in question might also rely on HR for support and advice in such situations. In any case, it's important that managers are trained in dealing with such queries since they go to the heart of how an organisation operates and how it rewards staff for helping the organisation meet its goals. This is especially the case for queries about how employees' pay changes. When it comes to setting pay rates, managers might not be involved, and here they will need to have greater recourse to HR support.

Overall, 54% of respondents said that their organisation checks that their employees understand pay issues in some way.

Figure 23 shows the proportion of respondents that check their employees' understanding of pay in terms of:

- why their salary is worth that amount of money
- what needs to happen for them to be given a rise in salary
- whether they understand their payslips.

Figure 23: Less than half of organisations check employees' pay understanding

The extent of how employers check employee understanding of their pay (% of respondents)

Base: All (n=832).
Question: In terms of how your organisation manages salaries, does someone in the organisation use staff surveys, employee salary queries, or exit interviews etc to see whether employees understand pay?

Of those that *do* check employees' understanding of salary information, this was mainly done through:

- answering employee queries about their salaries (51%)
- employee surveys (50%)
- employee queries about their payslips (47%)
- exit interviews (42%).

Larger employers are more likely than SMEs to use a variety of methods to check understanding (through employee surveys, exit interviews, employee focus groups, and staff comments made on social media). By contrast, SMEs are more likely to focus on answering staff queries about their salaries or payslips.

So, what understanding do employees have of their pay? Among those that check this, 89% believe that staff have either 'full' or 'moderate' understanding. This is mostly positive, and indicates that it's worthwhile for employers to do so.

In the year to October 2023, some respondents reported having more requests from managers about pay information than previously. Such requests concern:

- how pay compares with that for others in similar positions (12%)
- how bonuses compare with those for others in similar positions (9%)
- how salary bands are graded (14%)
- why colleagues in similar roles are paid more or less (14%).

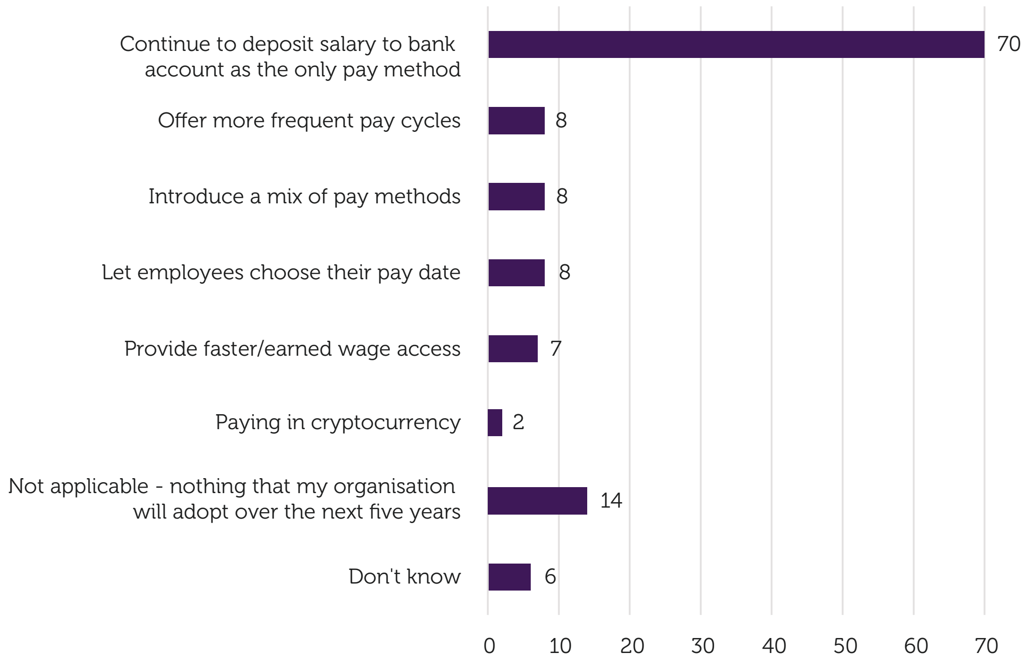
This is likely reflective of the wider economic backdrop of high inflation and the increased cost of living. Additionally, people may be more aware of pay disparities, and want to check that they are not being discriminated against. Labour shortages have perhaps also made employees feel that they can make these requests from a more favourable position than previously.

In terms of payment methods and frequencies and how these may change over the next five years, the overwhelming consensus was to continue with direct deposits to employees' bank accounts as their sole way of paying employees (70% agree).

While the cost-of-living crisis has brought more prominence to discussion about increased frequencies of payment and flexible or early access to wages – especially for lower-paid employees – less than 10% of respondents thought that this would be adopted in the next five years (see Figure 24).

Company size is a factor here though, with larger firms being more likely to consider offering flexible options, such as letting employees choose their pay date (15%), providing faster/earned wage access (14%), or paying in cryptocurrency (4%).

Figure 24: Most organisations will not be implementing new ways to pay salaries
Alternative payment methods or frequencies that organisations may offer in the next five years (% of respondents)



Base: All (n=832).
Question: With pay and access to pay being crucial and fundamental to financial wellness for workers, what payment methods and frequencies, if any, do you believe your organisation will be adopting over the next five years?

Total reward statements

Total reward statements (TRSs) are a way of showing employees the value of other elements of their reward package, such as pensions, private medical insurance, annual leave and company shares, alongside pay. The theory is that, by making employees more aware of their total reward, employee work commitment and job satisfaction rises and there is lower employee turnover. However, there are cost and resource implications in creating and distributing a TRS, as well as explaining it to employees. TRS use also depends on how many benefits you offer: the fewer the benefits, the less the need to use one.

We found that only 34% of employers provide such statements to staff, and this is more common in the private sector (37%) than the public (26%) or voluntary (17%) sectors. Private sector firms often provide a greater range of financial benefits (such as bonuses, private medical insurance, company cars and share plans) than the other sectors (see the CIPD's 2022 Reward management survey).[23]

Also, firms with more than 1,000 staff (65%) and those either based in the UK with overseas operations (52%) or based overseas but with UK operations (53%) are more likely to provide a TRS, partly in order to provide more cohesion for an organisation spread across a variety of locations or functions.

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Recommendations

Things to consider if you want to increase your pay transparency:

- **Publish pay information in job adverts:** This can help widen your pool of candidates[24] and help reduce pay gaps. If you use pay scales, give an indication of where you would expect the successful candidate to start on this pay scale and where you would expect them to be after a few years.
- **Talk about pensions:** While pay is important, it might not be the only thing that potential employees are interested in. Pensions are a key benefit, so it makes sense to give some detail of how much the employer will contribute to the workplace scheme.
- **Be more transparent about pay internally:** Given legislative trends in the US and the EU, we expect a similar direction of travel in the UK. Share more information with existing employees, such as where they sit on the pay scale and how pay varies by protected characteristics, such as ethnicity. Our guidance on gender pay gap reporting and ethnicity pay reporting will help organisations understand what it is, if they need to report it, and why.
- **Explore whether giving employees total reward statements would be a benefit:** There are pros and cons to this, so before rolling one out to the whole workforce, you could pilot it in a specific department or location first.
- **Consider ways of paying people that are more flexible to their needs:** In this era of flexible working and flexible reward, is directly depositing employee salaries into their bank accounts every month still relevant?

7 Conclusion

Our findings show that when price inflation is high, this becomes the most important influence on pay rise decisions, followed by what the going rate for pay rises is. In the year to October 2023 a significant number of organisations paid cost-of-living bonuses in addition to basic pay rises. This can provide additional help to staff when inflation reduces the purchasing power of their wages, but without adding to future costs in the way that higher basic awards might.

While the rate of increase in the cost of living is falling, many feel that inflation will continue to be the main influence on pay decisions throughout 2024. To help promote the financial wellbeing of employees, we recommend that organisations:

- focus on paying a fair and liveable wage
- offer financial wellbeing benefits
- provide opportunities for in-work progression.

Merit-related rises to basic pay are comparatively rare for non-managerial, professional and technical (non-MPT) employees – just 29% of all respondents use these, mainly due to either insufficient budgets, or perceived division and controversy associated with them. Slightly more non-MPT employees receive bonuses. Managers are much more likely to receive bonuses (and merit pay). This indicates that single-status pay terms are still only an aspiration in many organisations.

If employers are considering merit-based pay, they should ensure that it reflects the reality of individual and team responsibilities, that rewards are consistently linked to performance, and that they are fair. It's important that attention is also given to the appraisal, management and development of staff performance, and not just its reward.

Pay transparency is limited. The only analysis of inequalities carried out by a significant number of respondents is that relating to gender pay gaps. Job adverts may include salary ranges, but only rarely is there detail on specific salaries. Organisations are even less transparent when it comes to sharing information on pay comparisons with staff. At the same time, employee requests for information on pay have risen in frequency, perhaps due to the cost-of-living crisis or a greater awareness of pay inequalities. This is a contradiction that employers have yet to resolve.

We recommend that employers share more pay information, both internally and externally, even if this is just on salary ranges rather than specific salaries. Talking about pensions and other remuneration benefits will also help, in terms of both attracting and retaining talent.

8 Methodology

This report is based on the findings of a survey of HR professionals and senior decision-makers in private, public and voluntary sector organisations across the UK.

Respondents answered a set of questions on the factors driving wage growth, the impact of the cost-of-living crisis, how their organisation links pay to performance, and about the level of pay transparency within their organisation.

The online survey took place between 3 and 24 October 2023 and received responses from 832 decision-makers from the private (75%), public (18%) and voluntary (7%) sectors. Within the private sector sample, 22% of respondents were manufacturing and production firms and 68% were from private services.

By organisation size, 43% of respondents were small and medium-sized (SME) organisations (employing fewer than 250 people) and 57% were large employers (250+ employees). Among private sector respondents, 47% were SMEs and 53% were larger organisations.

All figures, unless otherwise stated, are from YouGov Plc. The figures have been weighted.

Reported percentage figures are rounded up and therefore the total may be above 100%.

9 Endnotes

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