LINKING PAY WITH PERFORMANCE TOOLKIT
In March 2013, amendments to Agenda for Change were introduced that included an explicit requirement that progression through all pay points is conditional on meeting the required local level of performance.

This toolkit aims to help you make decisions on how to link pay progression and performance in a way that is appropriate to your individual organisations, guiding you through the relevant processes and offering examples of where it is already being implemented effectively.
Pay for performance, or performance-related pay (PRP), is an approach to differentiate individual pay increases based on the performance of an individual, a team or the wider business.

In March 2013, amendments to Agenda for Change were introduced that offered an opportunity to review the way performance and pay progression are linked. The changes introduced a set of new, national key principles and criteria that underpin pay progression within locally determined performance systems. The changes also included an explicit requirement that progression through all pay points is conditional on meeting the locally set level of performance.

Changes also included:
- removal of the ‘foundation’ and ‘secondary’ pay gateways
- pay progression through the top two pay points in bands 8C, 8D and 9 to be annually earned
- in band 5, the removal of accelerated pay progression linked to preceptorship
- alternative local pay arrangements available for those on 8c and above.

Since March 2013, many trusts have begun to introduce local policies that link incremental pay progression to performance. Some trusts have plans to further develop these in the future, while feedback from other trusts suggest that they have found difficulty in effectively applying the new flexibilities.

For those trusts already linking pay progression and performance, this toolkit acts as a benchmarking or review opportunity. For those organisations who are yet to implement the flexibilities, this toolkit aims to help you make decisions on how to link pay progression and performance in a way that is appropriate to your individual organisations, guiding you through the relevant processes as well as offering good practice examples of where it is already being used effectively.

[Agenda for Change amendments 2013]
More information on the Agenda for Change amendments.
WHY LINK PAY PROGRESSION WITH PERFORMANCE?

There are many benefits to linking pay progression with performance. Trusts who have already taken steps to do this have reported several improvements, including:

- alignment of employee objectives with business objectives
- increased staff motivation as employees are recognised for achieving/exceeding objectives
- improved retention as performance is recognised
- cost savings from avoiding overpayment of underperforming employees
- improved performance management processes
- fewer staff on formal disciplinary measures
- increase in staff engagement scores

Current thinking and practice on linking pay with performance is outlined in our literature review on the subject, written for NHS Employers by PwC (PriceWaterhouse Coopers LLP).

Pay and total reward

When considering the link between pay progression and performance, it is important to be aware of other factors that will help drive employee engagement and performance. Market research has found that what attracts an individual to an organisation is based on both financial and non-financial benefits.

NHS organisations provide some of the most comprehensive and attractive employment packages available in the UK. Basic pay is supported by a range of enhanced conditions of service, pension benefits, nationally agreed benefits and locally developed rewards and benefits.

In addition to tangible rewards, employees also benefit from other positive factors such as a proven commitment to diversity and the intrinsic social value of the work – a factor which encourages many people to work for the NHS in the first place.

By adopting a clearly defined total reward approach, organisations can distinguish themselves in a competitive employment market. Linking pay progression to performance can be a key element of an organisation’s reward strategy. NHS Employers’ comprehensive total reward toolkit helps employers develop, implement and communicate a locally focused and effective total reward approach.

Access the total reward strategy toolkit

Nottingham University Hospitals NHS Trust has seen a boost in staff morale through a transparent approach to reward decisions and an understanding that their performance is valued.

NUH case study
1. Identify your drivers and reasons for change

Before the practicalities of implementing a link between pay progression and performance, there are a number of things to consider.

**Drivers for change**

Why is your organisation considering the changes? Identifying what the reasons are for the change will help to keep focus on the rationale during implementation. Clearly articulated business drivers will help you design the future shape of the reward strategy and understand its benefits.

- **Driven by national changes** – the trust wants to modernise its approach to pay and use it as an opportunity to revise performance management systems, processes and policies.

- **Driven from the top down** – the board would like to introduce a way for performance and pay to be linked and have heard about the benefits of other trusts implementing the Agenda for Change pay flexibilities.

- **Driven by staff feedback** – staff want a fair and equitable way for performance to be assessed and for it to be aligned with pay.

**The business case for change**

Once the drivers for the change are identified, a strong business case will help keep focus and support decision making.

Key factors to consider when building the business case:

- **Robust and transparent performance management system** – a key to the success of performance related pay (PRP) is to ensure that the system is seen as open and unbiased. The appraisal system should be perceived as fair and relevant, with agreed criteria.

- **Meaningful differentiation** – a performance pay system is unlikely to benefit an organisation unless what is assessed as high performance is significantly better that average performance, or if more than 15–20 per cent of staff will be considered high performers. Differentiation has to be meaningful both in terms of performance and reward.

- **Effective training** – for line managers to ensure that performance appraisals are fair and unbiased.

- **Define where PRP will apply** – will this be base pay, annual incentives or recognition schemes? Individual bonuses are more suitable for managerial staff, where bonus comprises a greater proportion of reward and is more valued. PRP works best when there is a narrow range of tasks, and those performing different jobs are divided into different pools. This avoids difficulties in identifying and rewarding relevant behaviours.

- **Eligibility** – PRP increases more commonly cover managerial staff, with less coverage among manual and lower-grade employees. PRP works better with some demographics over others depending on the perceived value of the reward on offer. Motivations and values differ and as such it should be considered whether or not this works for the whole workforce, for certain sets of employees or not at all.
How to link pay progression with performance

- **Impact on budget** – it is important to be aware of the impact on the overall costs an organisation incurs. The costs associated with pay do not have to go up when introducing PRP – the pay bill can be redistributed to meet the financial requirements of a PRP scheme.

- **Partnership working** – using and building on existing knowledge and experience through trusts working together to share knowledge and ideas. This could involve working collaboratively with other trusts in the region to evaluate existing pay, terms and conditions and determine potential efficiency savings.

**Business benefits of introducing PRP**

**Objective alignment**

PRP is a key mechanism to align employees’ objectives with business objectives because it links pay to the behaviours that are most critical to the organisation’s success. Employees can become more engaged and motivated by understanding how their daily activities help drive overall organisational performance.

Communicating and tracking each employee’s progress against organisational objectives delivers a host of positive results:

- employees are more productive and focused on achieving key organisational objectives
- a shared responsibility between employees emerges by cascading the organisation’s objectives with all employees
- managers can stay in touch with employees’ progress throughout the year and offer immediate reinforcement or coaching to keep performance on track.

**Increased motivation**

Another overarching benefit to PRP is developing a culture in which employees are motivated to perform at maximum levels. By combining clear objectives and quality feedback along with tangible pay progression and rewards, employees receive recognition – a key component to job satisfaction and employee dedication. This builds a more satisfying relationship where employees are inspired by management who truly value their efforts.
How to link pay progression with performance

Hints and tips
- Be clear on your goals and the outcomes that you are trying to achieve and be ambitious with your objectives as these will shape your decisions.
- Be clear on the steps to get you there.
- Obtain clarity around rationale and boundaries.
- Think about how the changes impact your organisation as a whole.
- Keep it simple.
- Align the changes to the bigger people issues, for example, the wider talent management work.
- Make sure that it is clear that the changes are part of the overall workforce strategy and not implemented in isolation.
- Be resilient, strong and prepared to defend the case for change.
- It is important to be tenacious to achieve your goals – it is a long-term initiative.

Improved retention
It is no secret that the key to retaining talent is recognising and compensating top performers.

In a well-planned PRP system, managers have easy access to all the information they need to reward individuals for actual performance. This allows them to track an employee’s progress against objectives and reward efforts according to defined expectations.

Employees are, in essence, empowered to be in control of their financial situation, which many HR experts say is key to retaining top performers.

Cost savings
Finally, a PRP system can help organisations save money in a way they may not have thought of; avoiding overpaying for underperformance.

Organisations can waste thousands of pounds a year by rewarding individuals whose performance does not contribute to the achievement of key business objectives. The ongoing accountability developed in a PRP system helps to avoid this problem.

Deciding which approach to take
There are a number of different approaches to implementing a PRP system, each of which come with a number of benefits and drawbacks. Some organisations choose to use a combination of approaches – for example, when one approach is more appropriate for certain bands, such as the amendments to Agenda for Change introduced specifically for staff in band 8c and above.

Summary of approaches
Once a decision has been made to implement PRP, organisational policies will need to be updated to reflect any changes.

Our template policy document will help you to create a pay progression policy that it tailored to your organisation.

Template policy document
Alternative local pay arrangements for bands 8C and above

One of the extended flexibilities included in the amendments to Agenda for Change in March 2013 was the ability to have alternative pay arrangements for those on bands 8C and above.

When considering how to implement this locally there are a number of things to consider:

• What is the organisation’s strategic approach towards this? NHS Employers’ reward strategy toolkit offers further guidance on planning your approach to local reward

![Reward strategy toolkit](#)

• What are the different options to consider? The Summary of approaches and Literature review in the Resources pages may be helpful here

GO TO Resources

Key points to consider when designing a local pay system linked to performance for bands 8C and above are:

• How are you going to reward contribution (inputs and outputs) fairly?

• How will this drive the organisation’s performance and promote appropriate values and behaviours?

NHS Employers’ values-mapping tool

• Would the current pay arrangements for senior managers on local terms and conditions be appropriate for these bands?

• Are spot salaries preferable to a local pay progression structure and would market rates for the job determine the pay levels for given roles?

• Are bonus/merit awards going to be part of the solution?

• Is the local solution simple, easy to understand and seen as fair?

• Does job evaluation underpin the new local system and, where market rates are being used, has the reasoning for this been assessed and documented?
How to link pay progression with performance

2. Align your objectives

There is no one-size-fits-all approach to developing a PRP system. Organisations have to customise their approach and measurement systems to their unique business requirements and existing HR processes.

However, when linking performance and pay it is important that your organisation’s values, as well as the core NHS values, are incorporated. Introducing PRP could present a good opportunity to refresh your organisation’s values and behaviours and performance management systems.

Many trusts say that linking their values and behaviours has been crucial to the new system working effectively.

Role of appraisal systems

When considering how to reward performance, it’s important to consider the performance management framework used to support this. This is generally embodied in an appraisal system. Although there is ongoing debate about the use of appraisals as a form of performance management, there is evidence that if this process is implemented correctly it benefits both the employee and employer.

The pros and cons of using an appraisal system are briefly summarised in our table.

Cambridge University case study

Cambridge University Hospitals NHS Foundation Trust integrated the Knowledge and Skills Framework (KSF) and the trust’s own values and behaviours, into one performance evaluation tool, which sets performance standards for each pay band.

Useful links

KSF core dimensions

Values mapping tool

The NHS Constitution

Linking pay with performance toolkit
How to link pay progression with performance

3. Identify and involve key stakeholders

Organisations can face very real obstacles in moving to a PRP system, including resistance from trade unions or uncertainty from employees. Buy-in from your key stakeholders is essential to successful implementation. Research suggests that this should include the board, staff and trade unions, so starting conversations and communication as early as possible with these groups to ensure they are on board, is critical to success.

Here are some useful ideas:

- **Board presentation** – our template presentation may help you present the business case to your board.

- **Managing the change** – communicating with senior managers, line managers and trade unions, from NHS Employers’ Total Reward toolkit.

- **Staff engagement toolkit** provides useful information on engaging with staff

- **Guidance for developing a communication plan** to keep all your stakeholders up to date, from NHS Employers’ Total Reward toolkit.

**Wrightington, Wigan and Leigh NHS case study**

Wrightington, Wigan and Leigh NHS Foundation Trust recognised the benefits of stakeholder engagement when linking pay progression with performance within the trust.

**Hints and tips:**

**engagement and communication**

- Broader staff engagement is critical to inform the approach you take and it must be made clear to staff why these changes are being made.
- Engage early and work in partnership with trade union colleagues.
- Reassure staff that the changes are about pushing forward effective performance management and accountability within the organisation and not about saving money.
- Obtain buy-in from the executive board.
- Obtain buy-in from staff and unions as soon as you can.
- Consider language and its impact on staff. For instance, be careful with the articulation between ‘good’ and ‘bad’ performance.
- Listen to staff, seek their feedback and input, keep the channels of communications open and act on that feedback. If people feel like they are part of the process, it will help ensure a successful change.
- Communicate clearly, simply and openly at every step. Encourage questions and comments.
How to link pay progression with performance

4. Planning the time

When it comes to implementing a significant change, a plan is essential. Ways to measure the success and impact of the changes are also vital. It is recommended that there is a benchmark that can be used so that success can be objectively assessed and measured; this can either be a comparison to trusts where the changes to the approach to reward have been implemented or an internally agreed benchmarking standard.

5. Measuring success

There are a number of different methods that can be used to measure progress and success. Research of what has proven to be effective in NHS organisations has indicated the following approaches:

- **Quality of appraisals audit** – UCLH used this type of audit successfully.

  University College London Hospitals (UCLH) worked with staff and patients to define and embed their core values, ensuring that performance is delivered in line with those values.

  **UCLH case study**

  - **NHS Staff Survey results** – how staff have perceived their appraisals.
  - **Pulse survey** – this is a short, online tool indicating staff engagement.

Examples from non-NHS organisations

Salisbury NHS Foundation Trust took inspiration for a new performance appraisal system from a non-NHS public sector organisation that undertook a similar exercise.

**Salisbury case study**

There are many other examples of implementing performance-related pay in non-NHS organisations. NHS Employers’ resources pages include anonymised case studies from:

- An oil and gas company
- An airline company
- A telecommunications organisation
- A mining organisation
- A large local authority

GO TO

Our draft timeline can help you plan how you implement the changes in your organisation.

Developing a communication strategy

NHS Employers’ Total Reward toolkit provides a useful template communication plan for communicating change to staff and stakeholders.

GO TO

Measuring success

Linking pay with performance toolkit
Contents

SUMMARY OF APPROACHES 13
LITERATURE REVIEW 14
THE PROS AND CONS OF USING AN APPRAISAL SYSTEM 23
IMPLEMENTATION TIMELINE 15
MEASURING THE IMPACT 16
## Resources
### Summary of approaches

<table>
<thead>
<tr>
<th>Method</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service-related increments</td>
<td>• straightforward method of pay progression</td>
<td>• based on length of service rather than merit</td>
</tr>
<tr>
<td></td>
<td>• reward as an employee builds up their skills pertaining to their job</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• encourages retention</td>
<td></td>
</tr>
<tr>
<td>Individual PRP</td>
<td>• can encourage employees to work hard to achieve their objectives and hence improve organisational performance</td>
<td>• based on line manager’s opinion so objectivity difficult to guarantee</td>
</tr>
<tr>
<td></td>
<td>• can encourage employees to work hard to achieve their objectives and hence improve organisational performance</td>
<td>• can be detrimental to team working</td>
</tr>
<tr>
<td>Team performance pay</td>
<td>• encourages collaborative working</td>
<td>• can be perceived as unfair</td>
</tr>
<tr>
<td></td>
<td>• can be perceived as unfair</td>
<td>• will not work as a motivator for everyone</td>
</tr>
<tr>
<td>Organisation performance</td>
<td>• encourages employees to work towards organisation’s objectives</td>
<td>• lack of recognition of employee’s contribution, objectives and development</td>
</tr>
<tr>
<td></td>
<td>• can benefit employee and employer</td>
<td></td>
</tr>
<tr>
<td>Competency pay</td>
<td>• focuses on an employee’s input into a job</td>
<td>• does not consider the resulting outcome</td>
</tr>
<tr>
<td>Skill-based pay</td>
<td>• encourages employees to undertake further training and qualifications, therefore resulting in highly skilled workforce</td>
<td>• relies on an employee having time to complete qualification</td>
</tr>
<tr>
<td></td>
<td>• can be perceived as unfair</td>
<td>• not all employees will be motivated by further study</td>
</tr>
<tr>
<td>Market rates</td>
<td>• pay increases set to match external market</td>
<td>• assumption that monetary compensation is only motivator</td>
</tr>
</tbody>
</table>

*Source: CIPD, 2014, Pay Progression Factsheet*
This literature review has been prepared by PwC to provide information on the link between pay progression and performance, based on current thinking and available literature.

This review:
• compares the different approaches around linking pay progression with performance and highlights the key features of current thinking
• considers the role of appraisal systems in relation to determining pay progression
• summarises the key benefits and potential difficulties of the relationship between pay and performance.

What is ‘pay for performance’?
Pay for performance is an approach to differentiate individual pay increases based on the performance of an individual, a team or the wider business. Whilst this approach can be applied to a number of elements of the reward package, this literature review focuses on how base pay increases and annual bonus can be linked to performance.

There is no single best practice approach to developing a pay for performance system. Organisations have to customise their approach and measurement systems to their unique business requirements and existing HR processes.

Current thinking and approaches
The way in which pay and performance are linked is a topic that has been widely debated and a number of prominent views have emerged.1 It is important that organisations consider linking pay progression with performance, because if the correct balance can be struck, an organisation can benefit from increased employee motivation, which has been proven to reflect an organisation’s success.2

Performance related pay (PRP) has grown in prominence since the 1980s. Employers have increasingly looked for effective ways to drive high performance by linking employee pay increases to the achievement of individual objectives, which are themselves driven by business objectives. However, this has proved in some circumstances a rather crude instrument and the 1990s saw a number of challenges to the theory. As some of the earlier PRP schemes failed to deliver the promised results, some employers revised schemes, moved to new approaches altogether (for example, skills-based pay) or developed hybrid schemes.

In recent years, the notion of linking pay to a wider definition of an employee’s ‘contribution’ rather than simple ‘performance’ has become more popular. This emphasises performance in the sense of the output (the end result that is achieved) as well as the input (what the employee has contributed in a more holistic sense).2
When considering the link between pay progression and performance, it is important to be aware of other factors which will help drive employee engagement and performance. Market research has found that what attracts an individual to an organisation is based on both financial and non-financial benefits, which will vary considerably due to a person’s circumstances. In a recent global survey of CEOs, PwC found that 65 per cent of business leaders were looking at non-financial rewards to improve employee engagement and retention.

Building a high performance culture may seem like an abstract vision but it’s considered a top tool by senior executives for achieving better organisational performance. A high performance culture exists when customers are the focus and staff take ownership of the success of the organisation, work as a team and are not adverse to change. A high performance culture has the ability to unlock employee potential, engage and retain top talent, and ultimately drive business profitability.

A PwC study of UK employees born between 1980 and 2000, found that they want regular feedback from managers on their performance at work. More than half the respondents said feedback should be given very frequently or continually on the job, with only a few in comparison preferring feedback at a set formal period. This indicates that individual development and career progression is a very important consideration of this age group. Pay increases or bonuses linked directly to performance management outcomes are unlikely to be as motivational as other aspects for this group. For example, fairness ranks higher than differentiated pay and 35 per cent would look for an employer with excellent training and development programmes. In fact, when asked which benefits they would most value, 22 per cent chose training and development as their first choice, ahead of cash bonuses at 14 per cent.

Performance-related pay: Good practice and benefits

PRP is not a one-way street where management set up a system and employees simply follow. There are key psychological and emotional realities that have to be in place to make PRP a success, for example a level of mutual respect and trust between management and staff. Assessing this alongside the current people management processes is an important step if PRP is to be a success.

In fact, it is common for organisations to ask the right questions and build the right performance management system without thinking about the people involved in PRP. For a successful performance-driven culture to be adopted employees have to:

- desire higher pay
- have the right skills, behaviours and capabilities to improve performance
- trust the organisation to administer the plan fairly, and pay if performance improves.
Resources

Literature review

The following questions provide valuable insight into shaping a meaningful PRP system:

- Are the tasks that people are working on contributing to business objectives and how can this be known?
- Are managers engaging with employees throughout the year to make sure they are on track to achieve their objectives?
- Are individuals achieving what is expected? Who is and who isn’t meeting their objectives?
- Is there objectivity in ensuring bonuses, pay raises, and promotions are given to those high performing individuals the organisation can’t afford to lose? 

There are a number of ways to gauge whether PRP has been implemented successfully including:

- Staff engagement score – many companies undertake an annual employee survey which includes engagement measures. Engagement can also be monitored through regular internal surveys.
- Enhanced customer care and quality of service – rewarding good performers will motivate and reinforce behaviours associated with delivering enhanced customer care and a high quality of service.

Good practice

PRP is regarded by many as an ‘art’ which requires discipline and integration of three key areas of HR:

- pay planning
- role clarity and objective alignment
- performance management.

A successful PRP system involves integration of these areas:

1. Pay planning

Most successful organisations have based their PRP plan on a ‘structured incentive scenario’ that allows employees to understand the precise relationship between performance and the incentive reward. A survey of organisations across a number of industries reveals two common approaches to structured incentive scenarios:

2. Objective-driven incentive plans — these fall outside the annual review process and are tied to achievement of specific time-based objectives.

2. Role clarity and objective alignment

Determining the pay strategy is dependent on the organisation having clear business objectives and understanding the requirements of the business units. Also, many organisations suffer from not having any method of communicating organisational objectives to individuals.

In order to align organisational and individual objectives to help drive employee performance, the managers need to explain the connection between an employees’ job and the organisation’s goal, helping translate organisational objectives into day-to-day activities.
When managers and employees understand how individual objectives fit with the organisation’s objectives, then a high performance culture begins to thrive, directly contributing to business profitability. For the ‘high performing / high-potential employees’ in the organisation, this means making sure objectives are aligned with activity within their control – not on functions and/or business areas they cannot directly influence.

3. Performance management
The final step in developing a PRP system is dependent on the ability to continuously measure and manage employee performance in a quantifiable way. By failing to take this last step, an organisation will end up with an arbitrary or subjective review process.

Periodic performance reviews are therefore critical to support and drive employee performance, which supports a high performance culture. However, performance reviews have to be regarded as more than just an annual event. This can be achieved by formalising a process of performance reviews on a monthly, quarterly, or project-by-project basis. By helping to create an environment that encourages periodic dialogues between employees and managers on the employee’s objectives, it provides an opportunity to realign/change them based on changing business needs and/or to establish the required support to help the employee achieve them.

Too often, performance reviews are seen as a tedious requirement by both the employees and the management, but ironically they are the primary basis for pay and overall career building. By evaluating individual objectives tied to higher level organisational objectives, performance reviews become a pillar of performance management. Indeed, these need to be aligned to the NHS values and behaviours, which form the pillar of the healthcare system. It is particularly important as a way of clarifying ‘what patients, the public and staff can expect from the NHS.’

Consideration
When implementing a link between pay progression and performance consider the business benefits of the proposed change and how this aligns with or impacts the overall reward strategy.

A useful resource on the NHS Employers website: [Pay and performance the reward strategy](#)

Consideration
To help with embedding the link between pay progression and performance, the appraisal process should encourage desired behaviours and actions, clearly linking business objectives to employee’s day-to-day work. This helps clarify ‘what patients, the public and staff can expect from the NHS.’

A useful resource: [KSF core dimensions](#)
**Resources**

**Literature review**

**Benefits**

Some of the key business benefits of an effective PRP system include:

1. **Objective alignment**

PRP is a key mechanism to align employee’s objectives with business objectives because it links pay to the performance and behaviours that are most critical to the organisation’s success. Most employees become more engaged and motivated by understanding how their daily activities help drive overall organisational performance.

Communicating and tracking each employee’s progress against organisational objectives is imperative and delivers a host of positive results:

- employees are more productive and focused on achieving key organisational objectives
- a shared responsibility between employees emerges by cascading organisations objectives with all employees, and
- managers can stay in touch with employees’ progress throughout the year and offer immediate reinforcement or coaching to keep performance on track.

2. **Increased motivation**

Another overarching benefit to PRP is developing a culture in which employees are energised to perform at maximum levels. Jack Welch, former CEO of GE and a leading expert on driving performance, contends that ‘the ultimate objective of managing is not to get an employee to perform as expected, but to have them willingly go beyond the call of duty because they want to’.13

A PRP system is a key element in getting employees to excel. By combining clear objectives and quality feedback along with tangible pay progression and rewards, employees receive recognition – a key component to job satisfaction and employee dedication. This builds a more satisfying relationship where employees are inspired by knowing management truly value their efforts.

3. **Improved retention**

It is no secret that the key to retaining talent is recognising and compensating top performers.17 Employees are, in essence, empowered to be in control of their financial situation, which many HR experts say is a key to retaining top performers.

4. **Cost savings**

Finally, a PRP system can help organisations save money in a way they may not have thought of: avoiding overpaying for underperformance. Organisations can waste thousands of pounds a year by rewarding individuals whose performance does not contribute to the achievement of key business objectives. The ongoing accountability developed in a PRP system helps avoid this problem.

**Different approaches to linking pay progression to performance: Pros and cons**

The pay review process allows for either of the following approaches:

- pay progression entirely on the basis of individual performance appraisal ratings (known as all-merit awards) or
- a general pay rise for employees in addition to an element linked to individual performance (basic plus-merit awards).
PRP is commonly measured using the pay review budget allocated for the merit element of awards. However, as indicated by findings from independent pay analysts, the scope for any merit element of pay tends to be reduced during times of low pay award levels, with some employers preferring to simply award a modest ‘across-the-board’ increase rather than attempting distribution based on merit.

Pay progression methods
A number of methods for determining pay progression can be used and are summarised in the resources section of NHS Employers’ toolkit Linking pay with performance.

CIPD’s reward management survey report (2013) identified that most organisations use a combination of approaches. Previously, age-related increments have been used, but these have been outlawed.

The approach towards incremental pay progression and the way in which it is implemented has been formally redefined in the Agenda for Change amendments introduced in March 2013. Research has suggested that there are a number of methods that can be implemented to allow pay progression to be controlled. These include:

1. ‘Target points’ – which uses an approach where if an individual’s performance is deemed to be satisfactory, they will achieve a target point on the salary scale that they are on. Interestingly, this target point tends to be higher on the scale for public sector employees in comparison to those who work for the private sector.

2. ‘Zones’ within pay bands – which can be useful when pay bands are wide ranging as this allows for a band to be divided into zones and a staff member can only move into the next one due to exceptional performance.

3. ‘Cash bonuses’ – this can be implemented in different ways, however one method could be to set a point within a pay band and if surpassed, bonuses are paid.

Spot salaries, on the other hand, are one of the simplest pay structures, providing employers with considerable flexibility in paying staff. Spot salaries allow organisations to pay the market rate for the job.

Pay increases are typically at the discretion of management, often as a result of changes in market rates for the job. This can be more or less structured – a formal, annual process or as needed in the eyes of the line manager.

In its purest form, there is no pay structure at all, with each job assigned a rate of pay at the decision of the manager, based on a perception of the external market. Where a structure does emerge, pay grades that are roughly set, rather than determined through a job evaluation exercise, are often the outcome.

This creates an overly complex system of different pay rates, supplements and discretionary bonuses. Such systems typically lack transparency and any objective criteria for setting pay levels, so no-one is clear how pay levels are determined, which can trigger discontent amongst other employees. It could also lead to an upward pay drift, as other employees demand comparable pay. It is important to maintain internal equity when recruiting for roles that already exist within an organisation, to mitigate the risk of equal pay claims and this also applies to men and women already in employment. ACAS advises that: “Employers must give men and women equal treatment in the terms and conditions of their employment contract,” on the basis that they are required to perform the same role.
Resources

Literature review

Role of appraisal systems: Pros and cons

When considering how to reward performance, an organisation also needs to consider the performance management methodology used to support this. This is frequently embodied in an appraisal system. Although there is ongoing debate about the use of appraisals as a form of performance management, there is evidence that if this process is implemented correctly, it benefits both the employee and employer.\(^\text{20}\)

Performance management should be an ongoing process, forming part of an organisation’s strategy\(^\text{21}\) and those companies who adopt this approach perform well financially.\(^\text{22}\) There are a number of pros and cons with regards to the use of appraisal systems. These are summarised in the resources section of NHS Employers’ toolkit Linking pay with performance.

Considerations for moving to pay for performance

Many organisations face very real obstacles in moving to a pay for performance system, especially the resistance of the trade unions towards differentiated pay. We outline below some of the key considerations when undertaking a shift towards pay for performance. These are also included in the NHS Employers toolkit.

**Desire for change** – before undertaking any change, organisations need to have clearly articulated business drivers for undertaking the change. This will help them design the future shape of the reward strategy and to understand its benefits.

**Robust performance management system** – a key to the success of PRP, is to ensure that the system is seen as open and unbiased. The appraisal system should be perceived as fair and relevant with agreed criteria.

**Meaningful differentiation** – a performance pay system is unlikely to benefit an organisation unless what is assessed as high performance is significantly better than average performance, or if more than 15-20 per cent of staff will be considered high performers. Therefore differentiation has to be meaningful both in terms of performance and reward.

**Effective training** – for line managers to ensure that performance appraisals are fair and unbiased.

**Define where PRP will apply** – will this be base pay, annual incentives or recognition schemes? Individual bonuses are more suitable for managerial staff, where bonus comprises a greater proportion of reward and is more valued. PRP works best when there is a narrow range of tasks, and those performing different jobs are divided into different pools. This avoids difficulties in identifying and rewarding relevant behaviours.

**Eligibility** – performance-related pay increases more commonly cover managerial staff, with less coverage amongst manual and lower-grade workers. PRP works better with some demographics over others depending on the perceived value of the reward on offer. Motivations and values differ and as such it should be considered whether or not this works for the whole workforce, certain sets of employees or not at all.
Resources

Literature review

Impact on budget – it is important to be aware of the impact on the overall costs an organisation incurs. Indeed, the costs associated with pay do not have to go up when introducing PRP - the pay bill can be redistributed to fulfil the monetary requirements of a PRP scheme.

Partnership working – using and building on existing knowledge and experience through trusts working together to share knowledge and ideas. This could involve working collaboratively with other trusts in the region to evaluate existing pay terms and conditions and determine potential efficiency savings.
Resources

Introduction resources

How to link pay progression with performance

Why link pay progression with performance?

Background

Literature review

1. CIPD (2014), Pay Progression Factsheet
4. Blanchat (2006), Leading at a Higher Level: Blanchard on How to be a High Performing Leader (Financial Times Series)
5. SuccessFactors (2008), The missing link: Driving business results through pay-for-performance
6. SuccessFactors (2008), The missing link: Driving business results through pay-for-performance
7. PwC (2011), Managing tomorrow’s people: Millennials at Work
8. SuccessFactors (2008), The missing link: Driving business results through pay-for-performance
9. ibid.
10. ibid.
11. ibid.
13. SuccessFactors (2008), The missing link: Driving business results through pay-for-performance
15. CIPD (2014) Pay progression factsheet
17. Watson S (nd), ‘Spot salaries: a technical perspective’, Link Reward Consultants
22. ibid

References
Resources
The pros and cons of using an appraisal system

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>A method to align employee’s objectives with those of the organisation</td>
<td>Various mistakes can be made by the appraiser which can impact the outcome of an appraisal</td>
</tr>
<tr>
<td>The halo effect – where an appraiser rates the performance of an individual based on one positive attribute</td>
<td></td>
</tr>
<tr>
<td>The horns effect – the appraiser allows their judgement to be clouded by one negative attribute held by the individual</td>
<td></td>
</tr>
<tr>
<td>The sunflower effect – appraisers give all their team members good scores as they do not want a negative outcome to reflect badly on them</td>
<td></td>
</tr>
</tbody>
</table>

An employee’s performance is linked with that of an organisation. Appraisal systems enable performance to be managed and therefore can be a tool to improve organisational performance

Some employees see appraisals as being meaningless and therefore do not invest the required time into the system, whether they are the appraiser or not

It is an opportunity to support the progress of high performers and to improve poorer performers

Some appraisal systems are time-consuming and require a lot of vital preparation work

An effective appraisal system will foster trust between an employer and employee

It cannot take into account different motivations. This is because what an individual values can be based on their personal circumstances. This is supported by Maslow’s Hierarchy of Needs, which suggests, intrinsic motivation is caused by ‘personal fulfilment, job satisfaction, and self-actualisation’.

---

3 ibid.
5 ibid.
7 Ibid.
8 Poston, B. (2009), An Exercise in Personal Exploration: Maslow’s Hierarchy of Needs, Association of Surgical Technologists, pp. 346–355
## Resources

### Implementation timeline

**Timeline: Implementation of Agenda for Change pay flexibilities**

<table>
<thead>
<tr>
<th>Month</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Dates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Monthly staff side meetings</td>
<td>Monthly board meetings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>General Project Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Alternate weekly working group meetings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Communications &amp; Engagement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Brief managers to cascade right messages</td>
<td>Update &amp; progress emails sent to staff bi-monthly from leadership</td>
<td>Staff engagement sessions and workshops</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Development of Policies/Systems/Processes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>New performance management system tested</td>
<td>Revised performance review process to be presented to the board</td>
<td></td>
<td></td>
<td>Pilot outcomes</td>
<td></td>
</tr>
<tr>
<td><strong>Quality Gates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Board meeting to agree to implementing change</td>
<td>Process for turning off pay awards agreed</td>
<td>Pilot outcomes</td>
<td></td>
<td></td>
<td>Pay awards successfully turned off for all bands included in phased approach</td>
</tr>
</tbody>
</table>

- **Change Impact Assessment**
- **Set up mechanism for staff questions**
- **FAQ docs available**
- **Production of communications plan & key messages**

**Resources**

**Linking pay with performance toolkit**
It is important to be able to measure the impact of any new initiatives. Using the Agenda for Change pay flexibilities to implement performance-related pay can lead to a number of measurable benefits.

**Improved staff engagement**
An integral part of PRP is ensuring a high level of engagement. A key indicator of successful implementation of PRP is demonstrating an increased staff engagement score. Trusts measure staff engagement annually in the NHS Staff Survey and the score is made up of:

- job satisfaction
- motivation
- levels of involvement
- willingness to act as an advocate for the organisation by recommending it.

However, measurement should take place on a regular and frequent basis. Some trusts have used a ‘pulse’ survey, which measures staff engagement through a quick online ‘mini poll’ and produces the results instantly.

The process of PRP will have a positive effect on the organisation if employees perceive the appraisal conversation and rating system as being fair, transparent and directly linked to performance objectives. Employees will feel valued when they receive recognition for their contribution and are aware that colleagues who are underperforming are being managed appropriately in line with the performance management process. This positive engagement and job satisfaction would be reflected in staff survey and pulse survey results.

**Enhanced customer care and quality of service**
Rewarding good performers will motivate and reinforce behaviours associated with delivering enhanced customer care and a high quality of service.

Setting meaningful performance objectives based on clinical or role-specific targets will result in employees understanding their activity and its links to the wider patient experience. Appraisal conversations provide protected time to discuss how work is being done and encourage staff to share and develop service improvement ideas and be more innovative in their approach to work. Improved individual performance will result in better use of resources and improved quality of patient care.
Resources
Measuring the impact

**Improved recruitment, retention and career progression**

Attracting and retaining competent staff is key to a productive and effective workforce. PRP provides a mechanism to align employee objectives with role expectations and trust objectives. In doing so, the employee can keep track of how they are progressing against their performance targets and assess what they need to do to progress to the next career stage. This empowers employees to suggest and agree meaningful objectives with their manager and in turn create tangible benefits in their service in terms of innovation and improved effectiveness.

Arguably, talent management goes hand-in-hand with ensuring that improved recruitment, retention and career progression can be facilitated. The successful creation and implementation of a talent management strategy would mean that the capability an organisation possesses would be effectively managed. The outcomes of this would be evidenced through increased staff satisfaction and engagement. It would also be reflected in the overall success of the organisation with the staff undertaking the roles best suited to their skill set, benefiting both the organisation and themselves.

**Fewer staff being managed on formal disciplinary processes/measures**

If performance management, to include PRP, is to be effective, managers must ensure that employees understand how their objectives translate into day-to-day activities. If this alignment is clear it will lead to a high-performing culture with employees demonstrating increased effort and productivity. Managers may experience an initial increase in performance management activities and formal disciplinaries. However, a natural progression would be for formal disciplinary processes to decrease as staff expectations are embedded across the organisation. Consequently, this will result in cost savings as there will be a reduction in the management and HR resources spent on formal processes.

**Cost savings and optimal use of the pay budget**

Ultimately, an effective PRP system will help organisations with their overall cost savings by concentrating on effective performers only and avoiding the cost of overpaying underperformers. It allows organisations to make managers accountable for their staff and the pay budget associated with this. Savings realised can then be used in other areas of the service or towards overall efficiency targets and demonstrate KPIs.
The NHS Employers organisation is the voice of employers in the NHS, supporting them to put patients first. Our vision is to be the authoritative voice of workforce leaders, experts in HR, negotiating fairly to get the best deal for patients.

We help employers make sense of current and emerging healthcare issues to ensure that their voice is front and centre of health policy and practice. We keep them up to date with the latest workforce thinking and expert opinion, providing practical advice and information, and generating opportunities to network and share knowledge and best practice.

We work with employers in the NHS to reflect their views and act on their behalf in four priority areas:

- pay and negotiations
- recruitment and planning the workforce
- healthy and productive workplaces
- employment policy and practice.

The NHS Employers organisation is part of the NHS Confederation.