

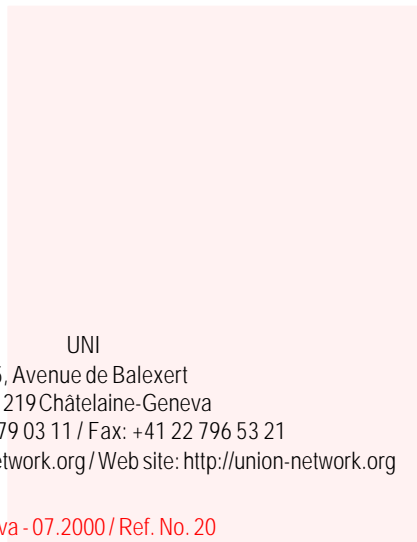
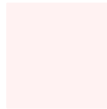
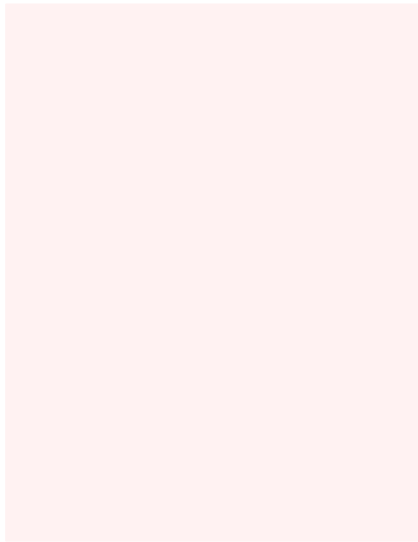
**VARIABLE
PAY FOR
P&MS**



**REPORT ON THE WORKING
GROUP ON PROFESSIONAL
AND MANAGERIAL STAFF**

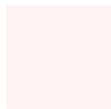
2

Variable Pay for P&MS



UNI
15, Avenue de Balexert
CH-1219 Châtelaine-Geneva
Tel: +41 22 979 03 11 / Fax: +41 22 796 53 21
E-mail: contact@union-network.org / Web site: <http://union-network.org>

Geneva - 07.2000 / Ref. No. 20



Contents

INTRODUCTION	5
SECTION 2. CASE STUDIES	6
A) IBM	6
B) BT, the UK Experience	10
C) Cap Gemini – the French Experience	13
D) The Swedish Experience.....	14
E)	16
SECTION 3.	16
3.1 Credibility.....	17
3.2 Transparency	18
3.3 Equal Opportunities	18
3.5 Career Paths	20
3.6 Appraisal	20
3.7 Personal Objectives	21

3.8 Training and Development	22
3.9 Working Hours	22
SECTION 4. CONCLUSIONS	23

REPORT ON THE WORKING GROUP ON MANAGERIAL AND PROFESSIONAL STAFF

INTRODUCTION

The 1998 CI Managerial and Professional Working Group held in Luxembourg in November, was the first occasion of a Joint Managerial and Professional meeting with FIET as well as CI representatives. More than 25 delegates from a dozen different countries met to consider the problems set for unions by individual performance related pay. Before proceeding to a general discussion, the meeting considered case studies from both the Telecoms and IT sector. Following the general discussion the meeting concentrated on the particular areas where they thought there might be lessons for the trade union movement. This report is therefore designed to bring out both what was said in the case studies and the lessons which participants drew from performance pay both from these case studies and from their own experience and which they believed might have a potential wider relevance for Managerial and Professional unions elsewhere.

In some countries when performance related pay was first introduced, unions spent some time analysing its theoretical shortcomings and seeking to dissuade employers from its use. This seminar took it as given that both employers and many trade union members believed that individual

pay should be linked in some way to performance. Therefore any advice would be more useful to all concerned, if it dealt with the criteria that any performance pay scheme must meet, and the stumbling blocks that it would have to avoid, in order to be fit for purpose. Thus the advice in Section 3 is written in these terms.

It was because so many lessons emerged from the experience of participants that it was thought sensible to produce a report in this form which might be of use to others.

SECTION 2. CASE STUDIES

A) IBM

In Austria pay for IBM workers fell into 3 components. The first was the collectively agreed pay element under the Trade Agreement, which applied nationally to all covered by that agreement. The second was the basic IBM pay which had, before the introduction of variable pay, made up the total IBM pay package. The third was the element of variable pay which was tied to performance. This system fitted the IBM model which applied world-wide and which, in Europe, was co-ordinated by the IBM Paris office. On the IBM central model the intention was the top 10% of the existing pay should become at risk pay, with an additional 10% being available on top of this (ie a 90 to 110 spread). In Austria the union (GPA) had succeeded in preventing any pay being taken away and variable pay had started with 3% (which would increase to 10%) on top of the previous structure.

The extent to which variable pay was available at all depended on IBM performance, with 60% being determined by the company's performance world-wide and 40% by the business unit. The distribution to individuals depended on their own rating. IBM used a four category rating system:

- extraordinary
- achieved all objectives
- achieved some objectives
- unsatisfactory

Individual's objectives were cascaded down the system, ie a manager had a series of objectives which the manager broke up for those managed, who in turn broke those up for those they managed. The extent to which these personal objectives were reached should be the basis of the rating. Nonetheless, as there was no objective definition of performance, there was a tendency to argue for a pre-selected distribution of ratings within the performance range.

In the Austrian experience there had been no case of anyone being rated unsatisfactory and in practice 18% had achieved extraordinary while only 5% achieved some objectives. Within the system those who had obtained an extraordinary rating had a 1.5 factor applied to the potential variable pay. Those who had obtained all their objectives a 1 factor and those who had obtained some of the objectives a .5 factor. The Works Council had agreed this system on the basis of a three year agreement, in order to obtain the extra pay for IBM Austria staff, since otherwise

the whole package might have been withheld. The variable element was paid annually.

The disadvantages of the system were:

- i) the introduction of variable pay meant no increase in basic;
- ii) there was no worker influence on the process;
- iii) there was no ability to see why different results occurred (no transparency);
- iv) the system was very performance based.

The advantages of the system were:

- a) it provided a salary increase for all when IBM was successful (previously it was possible for older workers not to receive increases equal to the cost of living);
- b) variable pay was on top of basic pay and made no impact on basic pay (though the extent to which variable pay increases might be reflected in basic pay changes the following year was not yet clear);
- c) where workers wanted pay based on their performance then this was represented as doing that and therefore meeting an aspiration;
- d) to work effectively, variable pay would have to bring

with its improvements and changes to the human resource system.

The other IBM example before the meeting came from Norway where the system was the same IBM system as reported in Austria. In Norway there was a central trade union agreement with IBM which set the base national IBM rate, and variable pay was a further 6.5% available on top of this at the end of the year. The availability of the 6.5% depended, as was generally the case in IBM, on a combination of world-wide and European performance a 60 : 40 split, the individuals' returns based on their performance category were the same ratios 1.5, 1.0, 0.5, 0 as in the example given by Austria. In other words the pay setting was supposed to meet the IBM model and be set centrally within IBM. Those who failed to make all their objectives were likely to be offered the voluntary severance package and therefore to exit the company. (A recent example was given of an active member of the Labour Party who had left with a compensation package equivalent to 17 months basic pay). In terms of possible pressures on IBM in this system, if they failed to reach an agreement with all the Norwegian trade unions then there would be a possibility of strike action as in the case of any other breakdown in national negotiations under Norwegian law. In terms of the question of how unions actually impacted on the IBM decision makers at European level, this clearly highlighted the importance of setting up a European Works Council for IBM where the unions would be able to address this point with IBM European management.

B) BT, the UK Experience

BT had moved to its current system of performance pay by a series of moves since 1986. Prior to that time BT had standard incremental pay scales up which people progressed (subject to satisfactory performance). Scales usually comprised some 7 incremental steps:

e.g. M&P Band C 1984	Min	11,020
	Max	14,499

In 1987 this system of progression was changed to one based on performance related increments, which could be smaller for those whose performance was not fully satisfactory, and greater for those who were good performers.

In 1988 a high performance range was introduced by adding to each of the incremental scales, a further 8%, available at the company's discretion, for consistent top performers.

In 1993 the union agreed with the company to move to one pay change a year incorporating both the previous annual round and performance pay. Pay was therefore distributed on a matrix based on individual's performance (rank 1 to 100) and their position in the pay range. The highest increases (top left hand corner) went to the best performers, who were lowest in the salary range.

Position in Salary Range

Appraisal mark	Performance	min	0				Former SP (62.5)	70	100 Max
			20	30	40	50			
1	100	10.7	9.5	9	8.5	8.2	4.6	4.4	3.8
	90	10	8.8	8.3	7.8	7.4	3.9	3.7	3.1
	80	9.3	8	7.5	7	6.7	3.2	3	2.4
2	70	8.5	7.2	6.7	6.3	5.9	2.5	2.3	1.7
	60	7.7	6.5	6	5.5	5.2	1.8	1.6	1
	50	7	5.8	5.2	4.8	4.4	1.1	0.9	0.3
3	40	3.3	2.1	1.6	1.2	0.8	0.4	0.2	
	30	2.6	1.4	0.9	0.5	0.1			
4	20	1.9	0.7	0.2					
	0-19	1.2							

In 1994 BT imposed a salary freeze for the vast majority of M&P staff.

In 1995 the company moved to a 24 box matrix, based on 6 appraisal categories and the four quarters of the pay range, which provided for much more company discretion on individual pay increases.

The current system had now moved to one where the union negotiated the total pay bill increase with BT and sought to discuss with them how the money might be distributed in general terms. There was also a considerable attempt by the company to justify this discretion by the need to take much greater account of market rates for different job functions. A consequence of this was that some increases were less than inflation for satisfactory performers. During the past few years the company had also introduced bonus payments, one-off unconsolidated unpensionable pay-

ments, which had risen in size and were now of some significance to those who received them.

The issues for the STE under the system were:

1. How performance was measured, the way in which it was the view of those concerned that there was no clear link between their performance and their pay.
2. Pay Progression, the way in which professionals were able to move through pay ranges or pay scales on a reasonably understood basis. This could be via career paths, or it could be an extension of the current fixed arrangements for graduates. It was unsatisfactory when those who entered pay ranges comparatively lowly, remained permanently lower in range than those who had entered at a higher level.
3. Equal Opportunities, particularly the problem of women who received on average only 95% of the pay of men. Although pay increases for women were at least equal to those given to men, their salaries reflected the lower position of women in the pay range at the beginning, and the extent to which this inequality was maintained.
4. The absence of any transparency in the pay system. The company by keeping the pay system secret, was able to disguise the extent to which in practice it discriminated against both women and ethnic minorities.

The STE had agreed this system of performance pay for the largest group of its members in BT in order to protect

them from the individual contracts, which would have been BT's alternative, and which currently applied to nearly a third of BT's managers and professionals.

C) Cap Gemini – the French Experience

Variable pay applied to Cap Gemini employees in France, and these were some 6,500 of the 35,000 Cap Gemini employees world-wide (mostly in Europe). Although involved in many activities the two main areas of work for Cap Gemini were systems integration and systems software development. Previously performance linked variable pay had been confined to the sales staff and to the top 50 to 150 executives in the company.

Now the concept of at risk pay applied to some 20% of total staff when they moved from a maximum of 100 to a variable maximum of between 84 and 116 (in extreme cases 80 – 120). In order to continue to receive a 100, individuals needed to perform at a level of 100 which was reached by taking their personal performance and adjusting it by divisional performance over budget. Employees points were allocated on the following basis

- 30% the gross operating profit of the unit (collective determination);
- 20% keeping to budgets and deadlines;
- 20% for individual professionalism;

- 20% for customer satisfaction; (theoretically measured by systematic checks but also heavily influenced by how promptly customers paid their bills);
- 10% for coaching newcomers.

The objectives were set out at the beginning of the year in a Pay Letter. Over the past 10 years there have been no uniform overall collective increase, instead what had been agreed was an average percentage increase which would be distributed differently to individuals.

In the specific case of Cap Gemini Telecom, a company employing some 400 people, there had been an attempt to apply a system of variable pay throughout. In this instance, instead of being either side of 100 the system had been 92.5% to 115%. Indeed as a consequence of pressure not to see pay cuts there was a buy in guarantee of 100% fall back. However in spite of the work they had done in this area the company had not sought to extend the Cap Gemini Telecom experience elsewhere in the company to-date.

D) The Swedish Experience

In Sweden SIF had been involved in a considerable number of performance related pay developments and indeed had engaged in joint research on bonus systems and profit sharing with the employers organisation SAF. Their findings were an interesting way of setting the scene in these discussions. They were:

- Increased productivity at group level for blue collar workers
- Not congruent with company policies and other management practices
- Substitute for a qualified basic pay structure
- Lack in communication over the outcome
- Demands for increasing bonus
- More money for us without any extra efforts

The lesson that had very much been taken from this was the importance of not regarding pay in any form as a management tool in isolation, it had to be seen as part of the whole human relations tool kit. In this context EDS had been taken as the case study model as they had an approach which to some extent reflected this. They worked on the basis of a development plan for staff concerned and the grading and pay system was designed to reinforce that potential progression. Again it was a four level performance appraisal system going from not satisfactory, through satisfactory, then decent, to outstanding, with these being used first of all to determine moves in the company, with those reaching level 3 being found new challenges and those reaching level 4 being promoted. Thus as people moved higher in the payment pattern for their particular job grade they should be looking to move to the next job grade in a more qualified position. The pay structure itself was

fixed in the light of external pay comparison statistics. Both EDS and SIF collected these.

E)

Following these four national studies the general debate amongst participants covered the variety of national experience and the differing approaches people had taken, or believed ought to be taken, to some of the issues involved in performance pay. In order to focus this discussion to provide information in a form which could be helpful to members of Communications International and FIET when faced with performance pay initiatives, it was agreed that an attempt should be made to bring the conclusions together in the form of a series of guidelines on particular issues for trade unions associated with performance pay. These follow in Section 3.

SECTION 3.

The following Section looks at the 9 main points which were identified as the areas where participants thought that unions would wish to consider particular points in any approach made on performance pay by an employer. Although this was a Managerial and Professional Working Group and although performance pay is primarily a managerial and professional issue at present, it may be the case that some of these lessons and some of these approaches will have a wider relevance for the work force.

3.1 Credibility

There is no point in unions embracing the concept of individualised performance pay unless this is a credible response and the scheme itself seems credible to union members. For the employer union involvement involves buy in to the scheme, a greater measure of acceptability and a greater measure of understanding if it is a new development. Given the importance industry currently attaches to customer service and the need for this to be reflected in any performance scheme, then union members who are much closer to customers, are in a better situation to play a proactive role in dealing with these issues in the negotiations to set up such a scheme.

It is important that neither the union nor the employer overestimates what a pay scheme can achieve on its own. No pay scheme can be a panacea, and although an individualised pay scheme may meet current aspirations (both amongst employers and amongst employees) the scheme has to be supported by human relationship developments designed to ensure that the values the scheme seeks to support within the company are ones that the rest of the system works towards. For instance, where there is a major element of team work within the approach to delivering company objectives, it is important that the individualised pay scheme elements do not cut across any team basis, but seek to complement it.

Within any individualised performance pay scheme the role of the union as the guardian of fairness to union members

as employees in the application of the scheme is a key role which needs to be understood both by union members and by the employer.

3.2 Transparency

For a performance pay scheme to be implemented fairly, it must be "transparent". That is to say it must be both understandable and understood throughout the organisation; at the company level, the level of the business unit, and at the level of the employees directly concerned and rewarded under it. **It is therefore important that everyone understands the nature of the relationship between performance and reward and how changes in individual performance will affect the individual reward that person receives.** Without such transparency the danger of resentment being caused by the unclear operation of what may seem to be a secret pay scheme is particularly damaging. Many of the areas where there is a need to guard against this are dealt with in the following sections.

3.3 Equal Opportunities

As a consequence of the European Court Judgement in the Danfoss case, the requirement for transparency in pay systems is absolute if the employer is to have a defence should women be being paid less than men where any such scheme operates. Thus the allocation of people to different grades, their starting point in any such grade and the speed at which they progress are all issues where the system should provide to all employees an equal opportunity to progress without discrimination through pay scales.

This legal constraint caused by equal opportunities is a major reinforcer of the need for transparency. Though Danfoss dealt with sex discrimination, similar principles should apply in the case of discrimination on grounds of race or disability.

Equally, we must look at the specific way in which flexibility may affect different groups of people differently and the potential for making life easier or more difficult given the way in which it is applied. It is important that in looking at the role of women at work, they are not just regarded as part of a possibly discriminated against minority. Given the increasing emphasis on the need to balance work and home life it is important under this heading to ensure that the right to leisure is not something which is forgotten in any system.

3.4 Progression

In a transparent pay system it is important that whatever pay scales, pay ranges, or pay bands are used, an individual knows what measure of performance is required to have the opportunity of reaching particular points within it. Progression is the system which ensures that for particular levels of performance individuals reach these points. It needs to be complementary to the system of promotion from one pay band to another in order to avoid the situation where those (frequently women) promoted from a lower band to a higher band can, because they tend to start at a lower point, remain at a lower point throughout their careers. Where progression within a scale is based on acquiring particular competencies then these must be clearly set out.

3.5 Career Paths

Where a professional is expected to develop during their working life, achieving particular professional milestones, whether within a large broad banded pattern or by moving from grade to grade within a more confined pattern, then there is considerable advantage in agreeing a "career path", which provides for performance and achievement of certain milestones to be rewarded by moving to given points within the system. It is an effective way of demonstrating to the new recruit a career that can be available on an understood basis, within a system of individual performance related pay.

3.6 Appraisal

Appraisal is one of the most common ways of linking the individual's performance to performance related pay. Sometimes this leads to the appraisal process being carried out more thoroughly and conscientiously than where appraisal has no pay implications. However, if the pay system has strong external constraints then these can feed back in and undermine the integrity of the appraisal system. Since the appraisal system is supposed to be part of the whole human relations approach of the employer dealing with the training needs and development of the employee, then this too can be affected if the link of appraisal to pay is not well thought out, clearly visible and carried out with integrity. The major threat to an appraisal system is when an artificial pre-fixing of appraisal categories is determined before the appraisal takes place and what occurs is

allocation of people into predetermined slots rather than an honest appraisal of their contribution during the past year.

One of the features observed in some performance pay systems is the extent to which older workers, more senior in the grade, with satisfactory appraisals frequently get increases lower than the cost of living. Under these circumstances there is sometimes a temptation for them to be offered early retirement terms thus taking them out of the workforce. In the wider HR context it is important to make the point that there should be no linkage of this kind. Where appraisal is part of the performance related pay scheme many unions offer advice to their members on approaches to take to the appraisal process. The International is trying to collect examples of such advice so it will be in a situation to forward them to unions who wish to see how this has been done elsewhere.

3.7 Personal Objectives

Both as part of a system of individual performance pay, and also sometimes as part of bonus systems, the setting of personal objectives for individual employees is now common place. A key problem is the extent to which the objectives that have been set are within the control of the person who is being asked to meet them, and the whole issue of whether they are realisable. This is another area where unions issue advice and again where those faced with this might wish to do so. Such advice should particularly cover specific aspects of how possible objectives should be questioned as to the extent to which the indi-

vidual will be able to deliver them within their own authority and capability at work.

3.8 Training and Development

Contributions to training and development can feature within personal objective setting. (See for instance the Cap Gemini scheme). However more common are pressures on line managers to ensure that their people deliver on their objectives and therefore pressures not to provide the amount of time off required for training and development so that individuals may be able to move on from that job to a more demanding job in future. Unions should therefore take care that any existing agreement on training and personal development of staff is not left unprotected from the possible impact of the pressures of a performance related system.

3.9 Working Hours

One potential problem of a performance related pay scheme is pressure on the individual to meet targets or to deliver performance by working longer hours. (Working harder : not smarter). This has a detrimental effect in various ways. It cuts wholly across commitments to equal opportunities in terms of the work of carers of both sexes and clearly undermines the right to leisure. It can be a major source of stress and the associated health problems at work. One union, the STE, has a Time and Hours campaign, details of which are with the International, designed to alert people to some of the problems associated with the working of excess hours. Finally, and most cynically of all, if objectives

have been set in a way which is too demanding then it does not really matter what the normal working hours are, the individual may be expected to work whatever hours are required to meet the objectives. Overdemanding objectives in an individualised pay system can by themselves undermine either legal or social constraints on excess hours working.

SECTION 4. CONCLUSIONS

A one day seminar cannot conceivably be the last word on any subject. This seminar for instance only took examples from five of the participating countries and did not examine in detail the issue of how bonuses fit in with individualised pay schemes, though the presentation from SIF referred to EDS practice in this area, nor indeed did it examine the extreme example of individualised pay schemes, so called "personal contracts". There is still much work to be done in this whole area and much more detailed advice which may be developed for trade unionists. The main conclusion of the meeting is that performance related pay is here and will not just go away because unions may dislike it. Therefore, if unions are to protect their members, they must engage with employers and seek to get an agreed basis for performance related pay including proper safeguards against some of the abuses identified in Section 3. It is because of the importance that the participants in the seminar attached to this that they have asked the CI and FIET to see if this report and conclusions can be circulated widely.