



# Getting salary reviews right in the age of inflation

**A practical checklist for CHROs**

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## Introduction and contents

The rate of inflation increased rapidly in 2021 and is expected to reach around 8% this Spring. Back in early 2021, many commentators predicted that inflation might be making a comeback, but few were prepared for the sharp increases we have seen, which have been further exacerbated by the ongoing war in Ukraine.

This report offers tips for CHROs about how to approach pay reviews in this challenging environment. It also provides a practical checklist to ensure pay review processes are fit for purpose at a time when salary negotiations could potentially be more complex and contentious than they have been for many years.

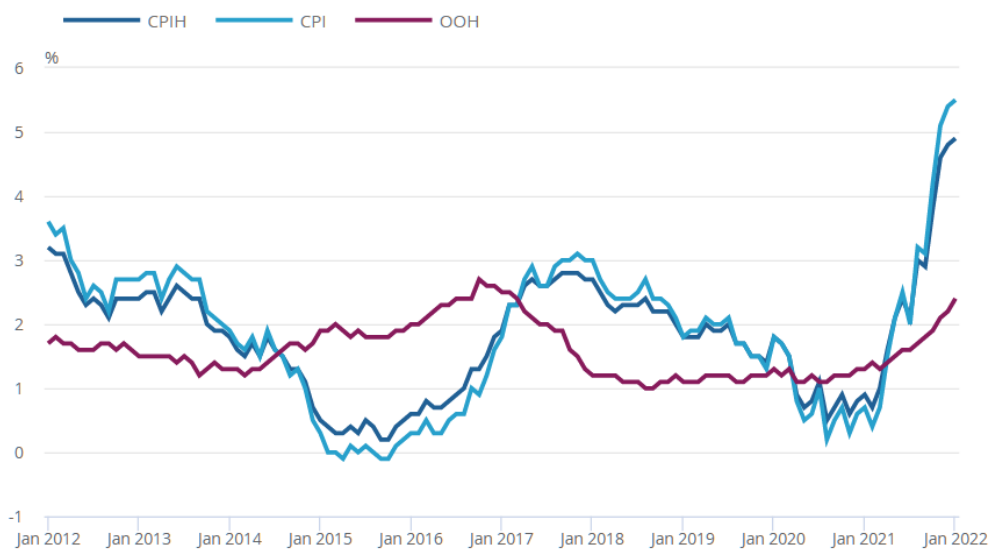
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## 1 Context: inflationary pressure and the ‘great resignation’.

According to recent research<sup>1</sup>, salaries for professional positions are predicted to increase by well above the rate of inflation in the first quarter of this year, with professional services firms planning to increase salary budgets by 10% to 15%. This is the biggest increase since 2008 and almost three times the rate of inflation. The survey findings are supported by announcements from companies such as Black Rock, which is planning to increase the salaries of all employees by 8%. Other well-known brands including Costco, McDonald’s, Under Armour and Wayfair have also pledged to make significant increases.

These numbers may not be entirely surprising given that the Consumer Prices Index (CPI) currently stands at 5.5%; and owner occupiers’ housing costs (CPIH) are at their highest level since 1992 (see chart below).



Past 10 years: Consumer Prices Index (CPI), owner occupiers’ housing costs (CPIH) and owner occupiers’ housing costs (OOH)<sup>2</sup>

Inflationary pressure on starting salaries has also been exacerbated by the impact of the ‘great resignation.’ There has been a 30% increase in the number of vacancies from pre-pandemic levels<sup>3</sup>, with resignations highest among mid-career employees aged 30-45, and in the healthcare and tech sectors.

<sup>1</sup> Robert Walters 2022 Salary Guide

<sup>2</sup> ONS

<sup>3</sup> Pay Review Predictions for 2022: Key Trends & Figures

## 2 Tips for how to approach pay reviews

### Make sure you budget for equal pay risks: starter packages are driving up salaries across the board

The research indicates that around a third of payroll budgets will be reserved for existing employees<sup>4</sup>, with the biggest pay rises reserved for new starters across all seniority levels. Organisations need to be fully prepared for the potential cascade effect of new starter pay awards across the entire workforce.

Almost half of companies (43%) said they are planning salary increases for existing employees to keep pace with higher pay awarded to new hires. This correlates with more than half (54%) of employees saying they expect a pay rise this year after a two-year salary freeze in most organisations.

It is important for CHROs to be aware that employees feel confident about their bargaining positions, with two thirds saying that they will leave their job if they are not rewarded fairly, and 75% feeling 'very confident' about alternative job opportunities in their sector.

One strategy to address these perceptions is to proactively address concerns head-on, in particular where misconceptions exist about disparities. Conducting a market review to demonstrate how employees' pay compares with those at other organisations can help nullify incorrect assumptions propagated by external sources.

### Don't rely on flexibility or remote working as a bargaining chip – these are becoming a 'given'

The research identifies the following hierarchy of values for a post-pandemic professional – with flexi-hours and remote working ranking relatively low.

- Excellent compensation & benefits (65%)
- A desirable bonus scheme (53%)
- Job security (40%)
- Inspiring colleagues and company culture (37%)
- Flexi-hours (29%)
- Remote working (22%)
- Holiday entitlement (20%)

This low ranking indicates that flexibility around working hours and locations is becoming less of a differentiator, with the pandemic and hybrid working practices having accelerated the provision of these facilities across many organisations.

### Avoiding the 'wage-price' spiral

Organisations may find themselves in a 'wage-price' spiral– with higher prices and rising pay meaning the impact of pay rises aren't felt in the real world and the cycle continues upwards. Collectively, decisions on how to balance the level of salary increases with the proportion of costs passed on to clients and consumers will have a crucial impact on the economy and the economic context of future appraisals. Although organisations have to act in their own immediate interest, awareness of the macro-economic implications of decisions should be considered, and clear, rational communication of these concerns to employees can potentially form part of the pay review and feedback process (see below).

### Ensure pay review best practice

The key to effective pay reviews is ensuring that the basics of transparency, communication, continuous performance management, clarity and consistency are followed at every stage of the process.

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<sup>4</sup> [Robert Walters 2022 UK Salary Guide](#)



### 3 Winmark CHRO network perspective

All CHROs are feeling the pressure of controlling costs and avoiding a wage-price spiral in an environment where employees, often understandably, are expecting significant increases. Advice from our members includes the following suggestions:

- An already unpredictable inflationary environment has been exacerbated by the Ukraine conflict. CHROs should avoid making early decisions and incorporate as much time and flexibility into the review process as possible.
- This flexibility may include considering interim or bi-annual pay reviews, particularly if price inflation becomes very high.
- Carefully communicate the commercial context and history of decisions – for example if pay increases are below the rate of inflation this year be sure to highlight where the opposite has been true in recent years.
- It is useful to have a clear employee rating system to help evaluate employee performance against defined objectives. A member in the automotive sector gave the following example:

*This year, all employees have been set three objectives – two business relation and one personal development objective. These will be reviewed mid-year as part of the half year performance review, then a final review will be completed by the end of October (our year end is November). All pay and bonus payments will be based on three key factors:*

- *Business performance* 50%
- *Role specific objectives* 25%
- *Personal objective* 25%

## 4 CHRO best practice pay review checklist

Factorial HR<sup>5</sup> provide a useful checklist to ensure your procedures are following best practice guidance. The main elements of the checklist are summarised below:

### Planning

#### 1. Understanding your objectives.

- What do you want to achieve from your pay review cycle?
- What expectations do you have?
- What expectations do your employees have?
- Which tools will you use to evaluate performance and results?
- Do you have a fixed budget?

#### 2. Define your goals and expectations.

- What is the main goal?
  - To offer salary increases in line with inflation rates and the cost of living?
  - To reward overachieving employees and incentivise underachievers?
  - To stand out from competitors as an attractive employer?
- What budget do you need to reach your objectives?
- Can you achieve your objectives with the budget you have?
- Are steps in your pay review process clear?
- Do you have a defined policy for all employees on annual salary review?

#### 3. Communicate the purpose and criteria behind your pay reviews.

### Process

#### 1. Evaluate your existing pay review process:

- Are there any gaps or areas for improvement in your current process?
- Have managers received the right training to conduct effective reviews?
- Which tools and platforms do you use to manage your pay reviews?
- Will pay increases be across the board or depend on performance?

#### 2. Check contract terms:

- Are there any restrictions or obligations you should be aware of before calculating the salary review budget?
- Do any contracts have fixed reviews and/or salary increases?
- Are there any other clauses which could potentially have an impact on the pay review process?

#### 3. Review Job Descriptions:

- Do job descriptions match the level of responsibility of each position?
- Do they reflect their level of anticipated performance?
- Are employees clear on their roles and responsibilities?

<sup>5</sup> [How to Conduct a Pay Review](#)

**4. Have you done research on:**

- Market pay data: Useful impartial sources for this data include Glassdoor and government wage calculators.
- Internal pay data: conduct an internal audit to help identify any potential wage disparities within your company which may potentially result in conflict or resentment.

**5. Do you have clear budgets and deadlines, reflecting your financial projections and any potential impact on benefits?****The Review****1. Understand performance:**

- Are employees performing and are their outputs in line with expectations and objectives? Consider an effective continuous performance management (CPM) system to manage this process.

**2. Employees' Feedback and Self-Evaluation:**

- Why are employees performing at the level they are, and there any changes you could make to improve overall productivity?
- Are employees clear on any goals and expectations relating to upcoming reviews?
- What are their salary expectations?
- Are they happy with what they are earning?
- Is anything preventing them from performing to the best of their ability?
- Are there any notable achievements that they want to bring to your attention before their next pay review?

**3. Transparency and fairness:**

- Did you keep a record of all meetings, communications, all audits, and market research?
- Are there any issues that might make an employee feel like they have been discriminated against? (For example, performance issues relating to ongoing health matters).
- Are expectations clear, and are open lines of communication available at all times? Establish benchmarks so that employees feel they are being treated fairly.

**4. Establish an Employee Rating System:**

- Set up an employee rating system: this will help you evaluate an employee's performance against a list of defined objectives, such as customer service levels, responsiveness, and sales results.

**5. Final Pay Review Checklist:**

- Have you taken all the above factors into consideration?
- Were review meetings conducted in a fair and non-discriminatory manner?
- Does your pay review scale align with market rates and expectations?
- Have you documented each step of the process?

## Feedback

Before communicating salary changes and notifying payroll of changes, make sure you brief all managers so that they can also explain the reasons behind any salary changes. This will help maintain objectivity and transparency throughout the process. Once you have informed and prepared your managers, contact your employees. The best way to notify your employees of the outcome of a pay review is with a salary review letter. Design a salary review letter template which includes:

- When the pay review was held and the main purpose behind it
- Confirmation of new salary amount, where applicable
- When you will make salary adjustments (e.g. next payroll run)
- Why you are offering a salary increase (as a result of performance, inflation, etc.)
- If you are not offering a pay increase to an employee, what they need to work on in order to improve.

## Evaluation

**Conduct a full review of the process before the next cycle:**

- How could you improve the process?
- Was your system for collecting feedback effective?
- Were objectives clear and understood by all employees?
- Did they feel the salary review process was fair, objective and unbiased?
- Did you stick to your budget?
- Were employees happy and productive?