



Opportunities and Obstacles in Individualized Pay-setting From a Manager Perspective¹

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ABSTRACT

This study explored pay-setting managers' experiences regarding the individualized pay-setting process. Seven semi-structured group-interviews with pay-setting managers (N = 28) from four private companies in Sweden were conducted. A thematic analysis identified three main themes: 1) Prerequisites for pay-setting, which included conditions for pay-setting work and experiences of these conditions; 2) Assessment and feedback, which included experiences of employee performance assessment and feedback provision; 3) Rewards, which covered experiences of different pay incentives and the relationship between performance and pay. The pay-setting process was considered to include many obstacles as well as a few opportunities. Without proper pre-requisites to assess employee performance, the possibilities to adequately reward performance were experienced as limited, which, in turn, hampered possibilities to justify both the assessment and pay raise. Taken together, this study underscores the conflict between intentions relating to how to carry out a pay-setting process and managers' difficulties to actually accomplish this.

KEYWORDS

individualized pay / interviews / manager / pay-for-performance / pay-setting / pay-setting manager / Sweden / thematic analysis

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Introduction

Today, most sectors of the Swedish labor market have pay agreements which involve individualized pay-setting to some degree (Bender & Elliot 2018; Medlingsinstitutet 2023). For managers, however, the transition to more individualized pay-setting involves increased responsibilities in relation to pay-setting (Granqvist & Regnér 2008). Specifically, managers are considered enactors of the pay-setting process (Schleicher et al. 2019), as the ways managers handle the process often form the basis for employee perceptions of the pay-setting as well as the overall pay process (den Hartog et al. 2004; Purcell & Hutchinson 2007), which, in turn, may influence pay-setting outcomes (Malmrud et al. 2020). Still, most research investigating experiences of pay-setting has come to focus on employees, while fewer studies have focused on managers (den Hartog et al. 2004; Eib et al. 2019; Schleicher et al. 2019). Considering that the majority of employees in Sweden have their pay set in an individualized pay-setting process (Medlingsinstitutet 2023), this is a topic that concerns not only employees but also managers who play a central role in the pay-setting. Thus, to fully understand individualized pay setting and its implications, it is important to investigate manager perspectives on the topic. Considering this, the present exploratory study focuses on pay-setting managers.

Literature review

Individualized pay-setting

Compensation systems of organizations are considered to have a significant impact on the success of their operations (Gerhart 2000). Thus, compensation systems are no longer regarded merely as administrative elements but are now used for strategic control (Beaten 2007). Different terms are used to denote the fact that employees are paid based on their individual performance, including for instance pay-for-performance, performance-based pay, individualized pay, and merit pay. Merit pay, a common type of individualized pay setting in the Nordic countries and in other Western countries, is often defined as an increase of the monthly pay based on performance assessments that are typically carried out by employees' immediate managers (cf. Maaniemi 2013). This study uses the term individualized pay to denote this.

Individualized pay-setting is characterized by employee pay raises being based on work performance (Stråberg 2010). Specifically, individualized pay-setting refers to the processes where employees' monthly pay is determined and often raised annually, to some extent, by their performance. In developing and designing individualized pay-setting processes, the definition and measurement of performance is key (Gerhart et al. 2009; Heneman & Werner 2005). Employee performance is usually assessed both in terms of *what* employees have performed and *how* employees have performed. Here, the *what* is more objective and result-oriented, including for instance the number of items produced, while the *how* is more subjective and behavior-oriented, including for instance collaborative and social skills (Gerhart et al. 2009). The basis for individualized pay-setting is that employees will be motivated to perform better when their performance is clearly linked to their pay (Gerhart et al. 2009; Lawler 2000). This is referred

to as *line-of-sight* (Lawler 1990, 2000). Also, individualized pay is said to produce outstanding results when it works but may yield poor effects when it fails (Gerhart et al. 2009). However, the potential effects of individualized pay-setting are still debated (e.g., Gerhart & Fang 2014; Gerhart et al. 2009).

Individualized pay-setting in Sweden

The present study is set within the Swedish pay-setting context. Sweden, and other Nordic countries, can be distinguished from other countries by the percentage of employees being trade union members. In 2020, the union density rate was 69% in Sweden, compared to 24% in the United Kingdom and 11% in the United States (Medlingsinstitutet 2023). Still, most research on individualized pay-setting comes from outside the Nordic countries. Also, overall pay setting procedures are different in Sweden. In Sweden, the annual pay raises are regulated by collective pay agreements settled through negotiations between employer and employee organizations. These pay agreements often specify the size of the pay settlement and the criteria for its distribution. Specifically, there are seven main categories of pay agreements (Medlingsinstitutet 2023). These differ in the degree of decentralization and local pay formation. The highest degree of decentralization involves a numberless agreement; this means that no pay settlement is specified, and there are no details on how to distribute the pay raise among employees. With such an agreement, the pay settlement is decided locally. Often, this means that managers have the full mandate to distribute the pay raise among the employees as they see fit (Stern 2020). Conversely, the most centralized pay agreement includes guaranteed pay raises at the individual level; the agreement regulates the size of the annual pay raise for all employees and leaves no room for individualized pay-setting. In-between these types, there is variation in pay-setting latitude, with agreements regulating, for instance, the portion of the pay settlement that includes an individually guaranteed pay raise or the total pay settlement to be distributed (Medlingsinstitutet 2023). As for Sweden in 2021, 62.3% of the employees had some kind of individualized pay-setting (Medlingsinstitutet 2023). Thus, many managers have to handle an individualized pay-setting process.

The pay-setting manager

Individualized pay-setting requires the assessment of employee performance in order to reward employees who perform well. This requires someone who can handle the assessment and reward performance, that is, the pay-setting manager. Managers have the responsibility to handle the various components of individualized pay-setting, such as making clear the basis of the performance assessment, formulating goals, providing feedback on work performance, carrying out the performance assessments, deciding on the distribution of potential pay raises following local organizational criteria, and communicating decisions regarding the pay-setting in individual pay-setting meetings with employees (den Hartog et al. 2004; Neu Morén 2013; Schleicher et al. 2018). This means that the pay-setting managers have the main responsibility for implementing,

handling, and maintaining the individual pay-setting process used in an organization. With pay-setting managers having these duties relating to pay-setting in the daily operations within an organization, they also have the responsibility for maintaining the legitimacy of the pay-setting process. Even though evaluating and assessing employee work performance form part of what managers do, individualized pay-setting requires managers to take their assessments a step further and translate these into a basis for pay raises. The implication is that this task gives managers greater responsibility and more influence over pay-related issues (Lapidus 2014; Maaniemi 2013). Thus, managers' actions are key to the legitimacy and success of the pay-setting process (Purcell & Hutchinson 2007).

Over the past decades, managers' experiences have come to the fore in the practice of pay-setting in private and public organizations. Yet, there is still a research gap suggesting that little is known about manager experiences of the pay-setting process (Beer & Cannon 2004; den Hartog et al. 2004; Larsson et al. 2021; Lin & Kellough 2019; Maaniemi 2013; Schleicher et al. 2019). For instance, manager perspectives on how to reward performance are seldom considered when designing pay processes (Harris 2001). Still, existing studies focusing on managers typically show that they experience a number of challenges, including challenges relating to the assessment of performance (Maaniemi 2013), complex and time-consuming performance appraisals (Neu Morén 2013), and insufficient support (Lin & Kellough 2019). While it is clear that pay-setting managers face several challenges, most studies of pay-setting managers have focused on specific parts of the pay-setting, including performance assessment (e.g., Lin & Kellough 2019). Thus, less is known about the overall manager experiences of pay-setting.

Study aim

The present exploratory study aimed to investigate overall the experiences of pay-setting managers working in the private sector in Sweden. Specifically, the aim was to identify opportunities and obstacles experienced by pay-setting managers in their work with individualized pay setting.

Methods

Study participants

This study includes seven group interviews with managers from four private sector companies in Sweden: two companies within the manufacturing industry, one within IT, and one within the service industry. Based on a strategic selection, these four companies had, over the preceding years, set out to develop and improve their individualized pay-setting processes. All companies had, to some degree, an individualized pay-setting process, with managers having central roles. Specifically, the managers were responsible for formulating goals, assessing employee performance, providing feedback, and holding annual individual pay-setting meetings. Although all four companies used individualized

pay-setting, they had different types of collective agreements. Thus, the managers had different mandates as to how much of the local pay settlement they themselves were authorized to distribute. Moreover, the access to other types of rewards, including bonuses or direct rewards, varied. Still, the managers had to adhere to the process within their company.

In all, 28 managers (eight women) participated. Each manager had a maximum of 34 employees (mean: 13 employees, median: 10 employees), with the majority overseeing white-collar workers. To protect the integrity of the managers, no background details were collected.

Procedure

Before the interviews, all interviewees received information about the study. This included information about the study aim, the audio recording of interviews, and clarifying ethics procedures, and stating clearly the interviewees' rights to abstain from responding to questions and to discontinue their participation at any time without further explanation. All interviewees provided informed consent. This study was part of a larger project and was approved by the Regional Ethics Committee in Stockholm (Ref. No. 2015/1733-31/5).

All seven group interviews were carried out during working hours, in secluded rooms, with different numbers of managers in the groups (mean: 4.14 managers; median: 5 managers). Each group interview was carried out by two researchers, in different pairs, with a total of four researchers conducting all interviews. All group interviews followed a semi-structured interview guide covering different areas (e.g., employee performance, performance assessment, support/training, and legitimacy) and follow-up prompts, to ascertain that all topics were discussed in all interviews. The interviews lasted between 55 and 80 minutes. All audio recordings were transcribed verbatim by the first author. Then, the accuracy of the transcriptions was checked.

Analysis

The transcriptions were analyzed using thematic analysis taking an inductive approach (Braun & Clarke 2013; Braun et al. 2019), including the following six phases: 1) familiarizing with data, 2) generating initial codes, 3) searching for themes, 4) reviewing themes, 5) defining and labelling themes, and 6) writing up the report. The first phases of the analysis were mainly conducted by the first two authors, with all authors being involved in phases four to six.

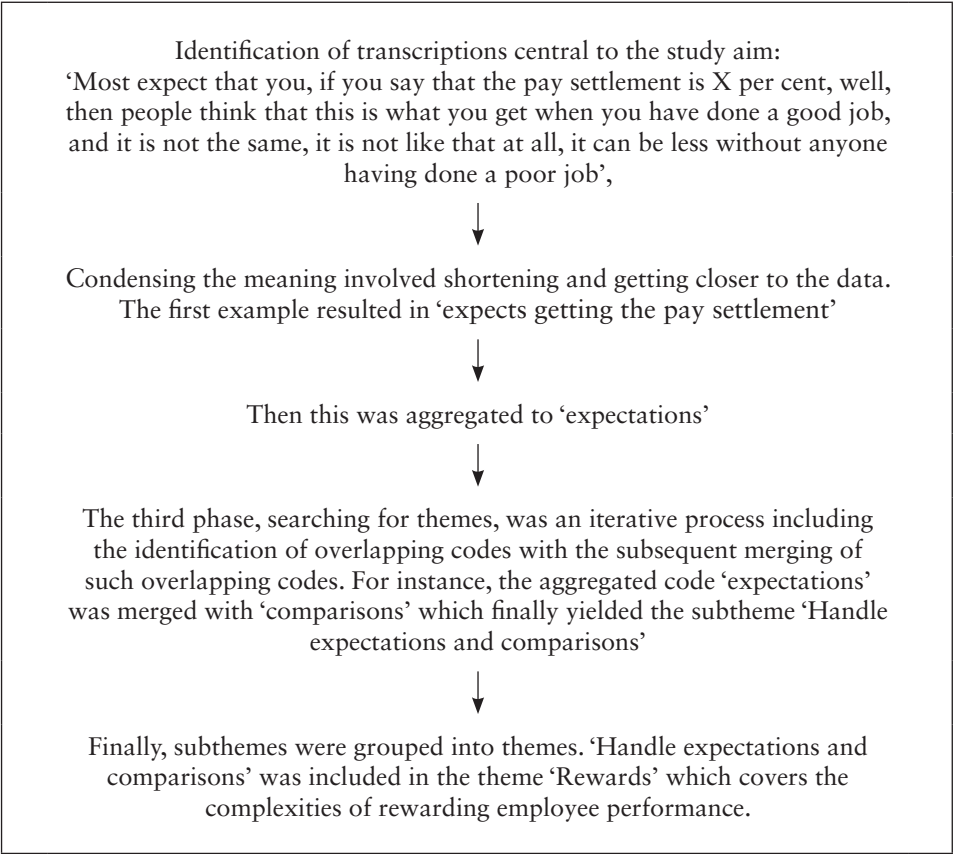
After having transcribed and quality checked the transcriptions, the coding started. Figure 1 presents the coding process. Randomization was used to decide which transcription to code first. This first transcription was coded in full separately by the first two authors. Initially, codes close to the data were identified. Then, aggregated codes were assigned. Differences in coding between authors were discussed to decide where a code fitted best in order to end up with one code including data reflecting the same meaning. It should be noted that in cases where the coding of the two authors



differed, they had almost exclusively categorized the same data in the same code, but used different terminology to denote their codes. This initiated a discussion around what terms to use.

The initial codes were added to a codebook including the codes and sample quotes for clarification, along with a descriptive contextualization of each code. The parallel coding process was repeated for a second randomized transcription. The remaining five transcripts were divided between the first two authors and coded by one author only. To the extent possible, an author refrained from coding an interview that they conducted themselves. The codebook was used to document all codes, to obtain a structure and allow the tracing of codes for further analysis.

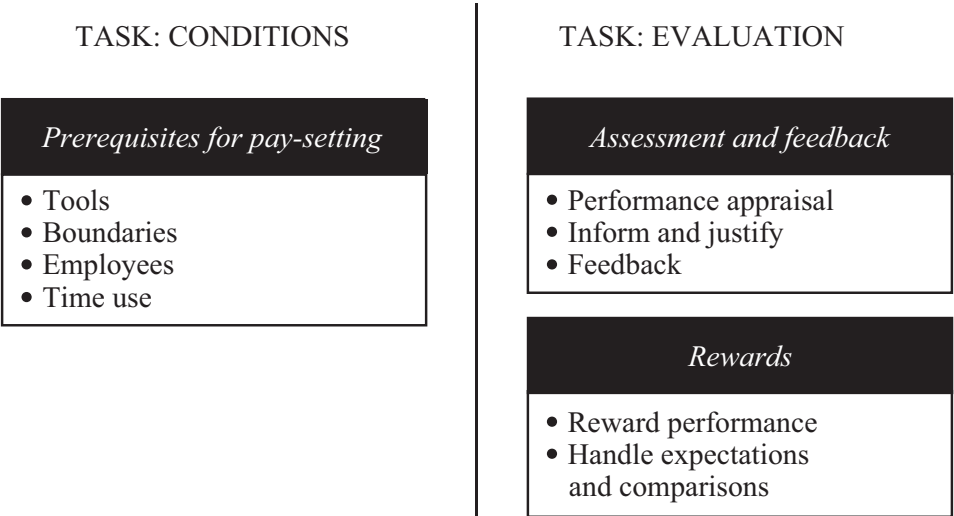
Figure 1 Describing the inductive analysis: an example.



When all transcripts had been coded with an initial code, the condensed sentences for each initial code were read to ascertain that the data within the same code reflected the same topic and to identify overlapping codes. In cases with one or more overlapping

codes, these were combined into a single code. The coding was iterative. The producing of a thematic map illustrated clearly which codes belonged together. Finally, the codes were grouped into three overall themes, with each having a number of sub-themes. Each theme was to describe all the codes within it. Figure 2 describes the final themes, with sub-themes.

Figure 2 Final themes and sub-themes identified via the managers' accounts of their experiences of the pay-setting.



Results

Figure 2 presents the three overall themes identified through the thematic analysis: 1) Prerequisites for pay-setting; 2) Assessment and feedback, and 3) Rewards. The first theme, *Prerequisites for pay-setting*, covered managers' experiences of the conditions of pay-setting, including the resources they had or missed in carrying out the work task. The two other themes, *Assessment and feedback* and *Rewards*, covered manager experiences of the specifics of evaluating and remunerating processes associated with pay-setting.

Prerequisites for pay-setting

The theme *Prerequisites for pay-setting* included manager experiences of the conditions associated with carrying out the pay-setting tasks. This theme can be considered to describe the managers' work situation in relation to pay-setting and included the following four sub-themes: a) Tools; b) Boundaries; c) Employees, and d) Time use. Table 1 provides a description with example quotes for each sub-theme.



Table 1 Details of the theme Prerequisites for pay-setting.

Sub-theme	Description	Example quote
Tools	The tools, for instance including pay criteria, pay statistics, and assessment criteria, that the managers mentioned having access to, and how this was related to their pay-setting work.	'The pay criteria make it so much easier; when you talk about this you can say that these are the four criteria and then you can talk about them and explain the assessment' (A2m1)
		'You have no idea what's behind [the pay statistics], I don't know anyway. [...] it's like someone has torn off a piece of the map and I can't navigate' (A2m5)
Boundaries	How different factors, both within the company and in the surrounding world, limit managers in their work with the pay-setting.	'If you have an [pay] agreement that says you'll get X or Y per cent [...], then you can scream loudly, but there is still nothing we can do about it' (D2m1)
		'I'd say that the limits should be communicated. But they don't do that' (A1m1)
Employees	How the managers experience being near to employees and the number of employees per manager; affect the pay-setting work.	'They rotate in three shifts so [...] one out of three weeks I don't get to meet them at all. So, sure, when you have all these categories and have to make an assessment, then it is not always clear. So, if someone doesn't stand out that much, you might miss things' (B1m5)
		'To me, having more than 17 [employees] makes it difficult to have time for development talks, follow-ups and so on in a reasonable way' (D1m2)
Time use	Manager experiences of the pay-setting work taking time and how this time expenditure influences them.	'Yes, it takes time, it takes a lot of time, absolutely. I think it's time-consuming' (A1m1)
		'I think it is important to allow time for it. So that you end up understanding' (C1m4)

Note: The codes in parentheses represent organization (A–D), the number of the group interview within an organization (1–2), and the code for each participating manager (m1–m5).

Tools

The managers at the different companies mentioned having access to different tools to perform the pay-setting. Tools refer to the various schemes or templates that the different companies had developed to facilitate the pay-setting. Mostly, the managers mentioned tools such as pay criteria with clear assessment templates and company specific pay statistics. The managers said that the pay criteria clarified the basis for making the assessments, thus facilitating the assessment of the employees. Also, the criteria were considered to facilitate the justification of the assessments but also to clarify the requirements for an employee to get at better assessment, and a certain pay raise.

With clear pay criteria, all managers in a department or company were said to make their assessments according to the same template, which was considered a good thing. Also, the managers mentioned that the employees appreciated their assessments to a larger extent when the managers referred to a pay criterion, as compared to the

past when they had been referring to their own opinions. The companies had varying degrees of overall and role-specific pay criteria. The overall criteria were considered to emphasize the fact that each employee was important. Still, the managers emphasized the importance of having different requirements for different departments and units. This related to the overall criteria being too vague with respect to key aspects of employees holding different roles and working in different departments; thus, the overall criteria may miss essential aspects of a specific job. While the pay criteria provided managers with an opportunity to assess employee performance, too many criteria were considered to restrict the managers' opportunities to adjust the pay raise according to performance assessments. Importantly, managers made clear that this engulfing of specific and potentially important criteria constrained their final assessments.

As for tools such as company-specific pay statistics, the managers clarified that these may differ from union statistics and diverge with respect to the average pay or pay range. The managers explained that employees often checked some pay statistics, which may be of value for the employees. However, the managers had no information on how such company-specific statistics were produced. This hampered the efficient use of such statistics when talking to employees to explain the pay-setting. This was obvious in situations where employees stated that their salary was too low. Thus, the tool was generally experienced as accessible but of no help in the pay-setting.

Boundaries

The managers experienced having different boundaries to handle, shaped by both the company and the world outside which, in turn, influenced their pay-setting in different ways. Managers explained that while they had a clear budget to follow, employees at times failed to understand that there were restrictions regarding the pay raise. But the managers also reported having difficulties in communicating the limits to employees, especially when being instructed to withhold information about the actual monetary increase, which in turn, clouded the arguments and explanations of their assessments for employees.

Importantly, the size of the pay settlement seemed central as it set boundaries for how much money the managers were to distribute when revising the pay. Notably, the amount of money that the managers were to distribute was considered insufficient to allow rewarding a good performance. The limited pay settlement was referred to as 'much ado about nothing' with managers talking of the fact that there was no more than a 5–10 Euro difference (per month) between two employees although their performance differed considerably. Yet, a larger pay settlement, allowing to distribute 100 Euros, was not necessarily considered to facilitate or improve the process.

Already existing pay levels constituted another boundary restricting the managers. For instance, to recruit and attract employees with specific competencies, managers needed to pay them well, meaning that these employees ended up with an initially higher income level as compared to others. Having employees with such initially high levels of pay was considered an obstacle since managers had difficulties to continue rewarding them adequately. Although the initially well-paid employees had performed very well, they may still end up receiving less of a raise than others who performed equally well but had an initially lower pay. This was particularly challenging when employees were aware of the values of their competencies and prepared to change jobs to get a better pay.



Employees

Managers reported that they had office hours while employees sometimes worked shifts or in different geographic locations. Here, managers working near employees explained being in a good position to assess and provide examples of employee performance just because they met employees on a daily basis which helped getting information on employee performance. This was said to be more difficult when not meeting the employees on a regular basis. Here, managers mentioned that they might risk missing out on aspects of employee performance. Thus, having possibilities to monitor employee performance on a regular basis was considered important. The number of employees per manager was emphasized as important for pay-setting. Managers having more employees described having difficulties in being involved, to set aside time to follow all employees, and to provide feedback.

Time use

Managers mentioned spending plenty of time on the pay-setting. Whether this was considered to be ‘worth the time’ varied. While managers explained that they appreciated the conversations in the pay-setting meetings, they still emphasized that much effort was put into something that mostly concerned a small amount of money. Repeatedly, managers underscored the importance of the different tasks of the pay-setting process and that all had to be done properly to achieve an adequate and fair process, and explained that having time was a key prerequisite. The time managers needed was said to be largely influenced by the number of employees per manager, the number of pay-setting meetings with each employee, and the time needed for such meetings, but also by their own commitment.

Assessment and feedback

The theme *Assessment and feedback* covered manager experiences of assessing employee performance and informing the employee of their assessments. This involved informing the employees of how well they performed as well as explaining the basis for the assessment to them. The theme included the following three sub-themes: a) Performance appraisal; b) Information and justification, and c) Feedback. Table 2 provides a description with example quotes for each sub-theme.

Performance appraisal

Managers experienced having a good grasp of how the employees performed. Still, the assessment involved various obstacles. For instance, the assessment was considered difficult regardless of the tools available. Still, following templates was mentioned to facilitate assessments. However, distinguishing between different grades, for instance, to grade a performance as good or very good, was considered difficult. Mostly, this seemed to be related to having to explain the assessment procedure to employees. All managers mentioned having pay criteria focusing on both the *what* and the *how* of employee performance, that is, what employees did and how they collaborated with and treated

colleagues. At the same time, managers expressed that they wanted additional measurable criteria, since several focused on the *how* (i.e., behaviors) while fewer targeted the *what* (i.e., what was produced). However, having criteria focusing on both the *what* and the *how* aspects of the performance helped clarifying that both were important and at focus. Managers explained that this was important given that employees sometimes had high scores on the *what* but not on the *how*. Here, managers experienced that the criteria helped addressing this in conversations with employees. Despite this, managers still found the assessment of the *how* more difficult.

Table 2 Details of the theme Assessment and feedback.

Sub-theme	Description	Example quote
Performance appraisal	Manager experiences of the assessment and how they make performance assessments together with other managers, with this providing support and being a way of securing quality.	<p>'With this grade, you show that it's really important to be nice and good to people within the organization, in the same way as it's important to have a high competence' (D2m1)</p> <p>'I think of us sitting at the calibration meetings where we strive to make assessments in the same way, but I'm not totally convinced that what is important in my unit, or what I think is important in my unit, corresponds to what NN thinks is important in their unit' (B1m5)</p>
Inform and justify	Manager experiences of the conversation with the employee where they announce and justify their assessment.	<p>'It's kind of easier if employees have very low grades, then you usually have a reason for it and then there are very good arguments for low grades. It's far worse when [...] you're dealing with the best or second best grade [...], they wonder why they only got the second best' (D2m1)</p> <p>'But a negative [note, atmosphere at a pay-setting meeting] it lingers [...] it can almost last for a year until the next one' (D1m2)</p>
Feedback	Manager experiences of how they worked with feedback and how this related to their pay-setting work.	<p>'You have to keep it alive to make it a process throughout the year and not something you just do once a year' (D2m3)</p> <p>'If you have to do with an underperformer, then you set an action plan and talk once a week. But this should really be done with everyone' (C2m1)</p>

Note: The codes in parentheses represent organization (A–D), the number of the group interview within an organization (1–2), and the code for each participating manager (m1–m5).

Managers described having more or less organized calibration meetings including managers only. These meetings involved managers talking about a few employees, either focusing on the high performers and those performing less well, or all employees, occasionally meeting several times until managers agreed on all the assessments. Managers mentioned being well-informed of how employees of other managers performed. Moreover, this allowed them to discuss their assessments and evaluations with each other and to adjust their own assessments which was considered to improve the process.

However, depending on the set-up of the meetings, this may be time-consuming and managers also emphasized the fact that the importance of different criteria can differ between different jobs and units within a company. Thus, managers' focusing too much on similarities of the criteria may dilute and restrict their individual assessments.

Inform and justify

Managers explained having difficulties in clarifying their assessment in order to justify these to employees. Importantly, managers said that they had to be well-prepared before meeting the employees to justify adequately their assessments. Specifically, this was considered more important when having to hold back the pay raise for an employee. Then they knew there would be questions asked. Also, managers explained that some employees always questioned the evaluations which required them to prepare very well.

According to the managers, the most difficult task involved meeting employees who got the second-best rating or employees who performed well in terms of the *what*, but not with respect to the *how*. These difficulties were related to the unclear criteria specifying the *how*. In comparison, managers considered meetings with employees getting low assessments and low pay raises far easier. Managers explained that this related to them then having good and clear reasons. Also, managers emphasized the importance of justifying clearly their assessments for the employees to really understand the end result as any unclarities may have negative implications and linger on.

Overall, the pay-setting meetings, in which the managers informed employees of their assessment, were experienced as challenging. This was related to difficulties of justifying the assessment as well as to challenges associated with agreeing and reaching a mutual understanding of the end result. The idea was to structure the meetings with employees in such a way that it would be possible to agree, although reaching such agreement was not always possible. To build a mutual understanding, managers explained that they presented their arguments and then the employees did the same. This was considered important for employees, to allow them to reflect on their own performance. However, as compared to managers' assessments, employees were often said to rate their own performance as better. In particular, informing someone of their performance being poorer than they themselves thought was experienced as challenging.

Feedback

Making the pay-setting process an ongoing process and avoid having it as a specific event once a year was mentioned as important to allow continuity and continuous feedback. In particular, managers emphasized the value of feedback being part of the ordinary work. Specifically, providing feedback as soon as possible after an event and to include constructive feedback, thus making it possible for employees to change, was seen as valuable. However, managers criticized themselves for seldom providing feedback. Also, they said that the employees being most in need of additional support, or perhaps not reaching the goals, were the ones who received more feedback. Still, managers found it equally important to provide feedback to employees performing well although they acknowledged that it seemed more important for those performing less well. Moreover,

the managers clarified that they were aware of the relationship between what they do and employee performance and mentioned that coaching, supporting, and providing continuous feedback were important for the employees to perform well.

Furthermore, continuous feedback and regular meetings with employees was mentioned as a way for managers to handle the pay-setting meetings with employees. Typically, such regularity facilitated the meetings. Often, managers held one pay-setting meeting with every employee but had the opportunity to organize more meetings. More meetings and immediate feedback were mentioned to facilitate the pay-setting tasks. Informing employees well in advance, instead of waiting several months, that their current performance would not lead to a pay raise was seen as valuable. Thus, immediate and continuous feedback were considered as a way to keep up the pay-setting process and work with employee expectations.

Rewards

The theme *Rewards* covered manager experiences of rewarding employee performance, through various types of monetary means, as well as through verbal appreciation. Moreover, the theme included the relationships between assessments and rewards. The theme included two sub-themes: a) Reward performance, and b) Handle expectations and comparisons. Table 3 provides a description with example quotes for each sub-theme.

Table 3 Details of the theme Rewards.

Sub-theme	Description	Example quote
Reward performance	What the managers did to reward performance and the challenges associated with this.	<p>'You rarely bring a positive surprise. This is a problem too, that something that is supposed to drive future performance and so on is still received as something negative' (A2m3)</p> <p>'In reality, there is rather little room for a pay-setting manager to signal this [reward for performance]. So, you have to be very sensitive to these signals to understand that a manager wants to reward you with 5 Euros' (A2m1)</p>
Handle expectations and comparisons	Manager experiences of employees comparing their pay as well as their expectations of the pay raise increase, and how this influenced managers in their work.	<p>'Most expect that, if you say that there is X percent to distribute, then they assume that this is what you get because then you have done a good job. But this is not the case. It doesn't have to be like that. It [note, pay raise] can be less without anyone having done a bad job' (D2m1)</p> <p>'Many times [employees], who are really happy when they leave a pay-setting meeting, can return fifty minutes later, half an hour later and say that "they got more than I did"' (B1m3)</p>

Note: The codes in parentheses represent organization (A–D), the number of the group interview within an organization (1–2), and the code for each participating manager m1–m5).

Reward performance

Managers mentioned both wanting and trying to reward employees performing well with pay raises given constraints within the pay settlement. At times, managers had opportunities to distribute gift vouchers, direct monetary rewards or similar to reward performance. Such rewards may be given to individual employees or to all in a team. However, managers thought they could become better at using the alternative rewards, and expressed a need for being better at celebrating everyday achievements, including both minor and major events. Yet, managers recognized a need for a larger toolbox including a variety of rewards in order to allow the rewarding of behaviors that reflected a good performance. Still, the managers tried to show their appreciation by using whatever rewards they had access to but had the feeling that this was far from enough.

The managers were clear about not giving pay raises to employees in order just to be nice. This would not qualify as an argument to other managers or to other employees. Neither did managers give the highest raise to – and thus reward – employees who had prepared their pay-setting meetings the most, nor to employees who argued most for getting a pay raise. If all employees had performed equally well, then managers said that all should get the same pay raise. However, with employees differing in their performance, those performing better should be rewarded with a higher raise. Moreover, the managers said that they tried to reward employees who did well every day as they wanted these employees to stay on and avoid losing their skills and competencies. Managers strived to pay these employees so well that they could not afford to change jobs. Overall, managers emphasized that the limited pay settlement blocked them from rewarding employees according to their performance.

As for the relationship between employee performance and rewards, managers mentioned that there was not necessarily any obvious link between employee performance and the subsequent pay raise. This related to other factors, such as the initial pay and the performance of other team members. Often, with larger groups of employees, varying in their performance, there seemed to be more opportunities to balance and distribute the pay raises, while this was more difficult in cases where all employees performed equally well. Managers discussed the pay raise as a signal to employees about their performance. Thus, it would be odd to give the same pay raise to all employees, unless they performed equally well. Consequently, they emphasized that insufficient performance should involve a minor or no pay raise. Managers mentioned that it had become easier to make such decisions around the distribution of pay, at least when they had opportunities to make such decisions themselves. Often, however, the pay settlement allowed few opportunities to use the pay raise as a signal to employees. As a workaround, managers sometimes used the pay-setting meetings to find out if any high-performers expected a larger pay raise as a way of identifying whom to reward. Another strategy involved suggesting a lower pay raise at first and then increasing this so that employees would think that they had been successful in their negotiation.

Handle expectations and comparisons

According to managers, employees may expect a high pay raise. Managers said that this was one reason for avoiding to discuss actual numbers in the pay-setting meetings.

Also, they mentioned that employees did not always understand the local pay-setting process, which means that if managers said that the pay settlement was X per cent, then employees may believe that everyone would get at least X percent if they behaved and performed well. But getting less than X per cent may still indicate a good performance which, according to managers, seemed difficult for employees to understand. Another reason for avoiding actual numbers was related to experiences of this making the conversation more confrontative as compared to conversations focusing on employee performance. However, managers expressed that the pay-setting process was made to sound better than it actually was, and said to include negotiations, but when employees came to the meeting, the pay raise had already been set. This was said to disappoint employees who then considered the pay-setting meeting as an event where they received information regarding their pay rather than anything else. In these cases, employees were seldom pleasantly surprised, which the managers recognized as a problem.

Employees often compared their pay, their assessments and so on with that of colleagues working within the same company but also with others outside the company. Managers said that all employees had to decide for themselves whether they would disclose their pay to others or not. However, when employees made comparisons, the managers were aware of them having to adapt to this and made sure to justify adequately their assessments and decisions regarding pay. Yet, managers thought that employees making comparisons only made things harder for themselves. This was considered due to there being good reasons for existing differences, relating for instance to the initial pay, but also to the fact that some might be demotivated by knowing that they had received less than others without having access to all the detailed information of the manager. Moreover, managers mentioned that employees would make comparisons to confirm that they performed better than others but also to get an idea of how their performance and pay were related to that of others.

Discussion

This study aimed to explore manager experiences of individualized pay-setting in private sector companies in Sweden in order to add to the understanding of how managers experience the pay-setting tasks and to identify potential opportunities and obstacles in this work. An inductive thematic analysis of group interviews with pay-setting managers from four private-sector organizations in Sweden resulted in three different themes, namely, 1) Prerequisites for pay-setting, 2) Assessment and feedback, and 3) Rewards. Specifically, prerequisites for pay-setting included the overall conditions of the pay-setting task and was identified to influence the other parts of the pay-setting process. This means that the prerequisites play a key role for assessment and feedback, and rewards respectively. In exploring opportunities and obstacles relating to the pay-setting process, the present findings underscore that this process involves different but mutually interdependent parts. Thus, the three themes can be compared to cogs in a wheel, where each cog is needed for the others to work. For instance, having limited prerequisites with little opportunity for evaluation tasks such as assessment and feedback would make it difficult to assess properly employee performance. This may, in turn, become an obstacle for rewarding any performance. Thus, one failing cog would cause failure. Also, the present findings make clear that

managers experienced pay-setting as challenging and time-consuming, involving different dilemmas.

Prerequisites for pay-setting

Typical prerequisites included managers having access to different tools, including pay criteria, as well as having to consider different boundaries both within and outside the company. Also, the possibility to observe every employee and having enough time were identified as important prerequisites. The importance of prerequisites for pay-setting aligns with previous research (Eib et al. 2020; Lin & Kellough 2019). These prerequisites most likely influence the manager views regarding the pay-setting and their opportunities to get involved in the pay-setting process. Given that manager beliefs, attitudes, and behaviors have been identified as important for the pay-setting process (e.g., Schleicher et al. 2019), adequate prerequisites are likely to influence managers' possibilities to handle the pay-setting process (e.g., Neu Morén 2013). One way for organizations to improve their processes would involve engaging pay-setting managers in deciding on the prerequisites and in the development of the pay criteria (cf. Harris 2001). Considering that pay-setting managers are the ones who will do the job, it might be helpful to involve them when developing the different parts of the process, as this would improve their understanding of the process and facilitate the development of different aspects of this process.

Assessment and feedback

The present findings made it clear that to achieve proper assessments that align with local pay criteria, managers need to be informed about employee performance on a regular basis. However, as the present findings show, not all managers work close to their employees. This means that these managers may lack sufficient information for the proper assessment of employee performance (Lin & Kellough 2019), and particularly so for criteria relating to *how* employees have performed. Another aspect regarding the *how* relates to it constituting an opportunity to emphasize the importance of how employees behave and interact when they work. This, in turn, can help managers to foster a positive and productive social climate.

The conversations with employees during the pay-setting meetings have been described as one of the more demanding tasks that managers are to face (Spence & Keeping 2011). Following this, our findings revealed that informing and justifying the assessment and pay to the employee was considered challenging, and particularly so if prerequisites were lacking. In line with previous research (e.g., Maaniemi 2013), the present findings emphasize the importance of continuous feedback and communication to facilitate pay-setting, but also shows that managers were aware of not providing enough feedback in everyday work situations. This is related to the overall prerequisites and specifically to having too little time for the pay-setting work.

Part of the process relating to the assessment and feedback of individualized pay-setting in the companies included calibration of manager assessments. This calibration can be compared to a quality assurance of the manager assessments, which previous research has found important (Neu Morén 2013). In the present study, the calibration was found to involve important support for managers in providing them with

opportunities to ascertain that they all followed a similar ‘standard’ and had similar conceptualizations of the characteristics of ‘good performance’. Interestingly, none of the managers participating in the group-interviews mentioned any training in pay-setting, despite some had received such training and that training has been considered an important resource in supporting individual managers in their pay-setting work (cf. Schleicher et al. 2019; Lin & Kellough 2019; Van Waeyenberg & Decramer 2018). In the present study, the calibration with other managers can perhaps be considered as some sort of training, where managers discussed the pay-setting and learned from each other. Despite training not being mentioned, it is important to raise questions relating to training and start by asking what kind of training managers need.

Rewards

With individualized pay-setting, there is not more money to distribute between employees compared to more centralized pay-setting. Instead, the pay increases are distributed differently, based on employee performance. Following existing findings (e.g., Harris 2001; Neu Morén 2013; Spence & Keeping 2011), the present study shows the difficulties in rewarding employee performance by increasing their monthly pay, as the monthly increase usually is modest. Also, other rewards seem to be lacking for managers to have opportunities to adequately reward a good performance. Restricted access to rewards was generally identified by managers as an obvious obstacle. Another obstacle relates to the negative employee experiences of the monetary reward being too small and the lingering effects of disappointed employees (cf. Gagné et al. 2023). A potential implication involves risking to lose employees and their competencies due to them resigning and moving on to other better-paid jobs. Still, the pay raise was considered a signal and a way to communicate a relationship, albeit perhaps weak, between performance and pay (cf. Ulfssdotter Eriksson et al. 2020).

The fact that individuals often compare themselves to others (e.g., Adams 1965; Williams et al. 2006) constituted an obstacle for managers in handling expectations. Specifically, the manager experiences align with previous findings suggesting that managers find that employees who compare their pay and pay raise to that of a more well-paid colleague decrease their pay satisfaction and motivation (Bygren 2004; Larsson et al. 2021). In contrast, satisfaction seems to increase among employees having more knowledge about the pay-setting process (Salimäki et al. 2009). In our study, we have no insight into employee satisfaction with the pay-setting process (or pay level). Still, it is worth noting that managers considered employees to have a limited understanding of the process, which when coupled with high expectations for pay raise, often resulted in disappointment. This then underscores the need to provide employees with clear and consistent details around the pay-setting process (cf. Salimäki, 2009).

Integrating themes – identifying dilemmas

Integrating the identified overall themes, that is, 1) prerequisites for pay-setting, 2) assessment and feedback, and 3) rewards, suggests that the findings align with previous research, and have practical implications for organizations and pay-setting managers. Importantly, however, our findings point up new perspectives on the role of pay-setting

managers in suggesting that their work involves dilemmas. The core concept of individualized pay-setting is to reward employees based on their performance. The responsibility for clarifying this relationship lies with the pay-setting managers. Managers acknowledged the variation in employee performance (cf. Neu Morén 2013), a prerequisite for differentiated pay raises. Nevertheless, the differentials in pay were generally modest. According to the managers, this was attributed to limited pay settlements, while other factors like equitable performance and existing pay levels also played a role.

Having limited monetary resources for pay-raises and with a new pay announced only once a year, managers are faced with the dilemma of showing clearly how employee performance relates to pay (raise), something that is needed to establish a ‘line-of-sight’ (Lawler 2000). Also, as ‘line of sight’ has been suggested as a key factor for achieving the preferred outcomes relating to motivation and performance through individual pay-setting (Lawler 2000), this dilemma can be seen as a conflict between theory and practice. Specifically, individualized pay-setting draws on the notion that when employees can distinguish a clear relationship between pay and their performance, they will be more motivated to perform well (cf. Gerhart et al. 2009; Lawler 2000). However, if managers have difficulties finding a relationship between employee pay and their performance, it is reasonable to assume that the employees themselves also have difficulties seeing such an association. This may relate to managers typically having to handle situations that allow only minor increases in pay which still are to signal the value of employee performance during the previous year. A consequence of this may be that employees consider their performance being unappreciated, which in turn may reduce employee motivation (cf. Ulfssdotter Eriksson et al. 2020; Neu Moren 2013). Thus, it is challenging for the pay-setting manager to explain to employees that they perform well but that there are restraints to the pay revision and that other employees may perform better. Moreover, even though the increase may be small, the monthly pay may still correspond to a reasonable amount of money. Compared to verbal encouragements and feedback, the outcome of pay criteria in terms of a pay raise are hard facts and informs employees how they perform in comparison to others: ‘you are this good’. This means that the managers face a dilemma in clarifying that their assessments of employee performance may not always correspond to those of employees themselves while still striving to motivate employees to keep up the good performance and to maintain good relationships with employees.

Methodological considerations

A limitation, but also a prerequisite of this study, relates to the managers coming from companies that have worked actively to develop and improve their pay-setting process. This means that the inclusion of companies and managers was strategic. Moreover, the study only included private companies. However, these companies represented different industries, differed with respect to the number of employees, and were located in different parts of Sweden. Specifically, the seven group interviews with pay-setting managers included four different companies with two interviews at three companies and one at a smaller company. Yet, all had some type of individualized pay-setting process. Thus, the managers may have had different reference points relating to various aspects of the pay-setting process. Yet, such variation is reasonable when not striving to compare different processes but instead focusing on manager experiences of their role in the overall

pay-setting process. Also, the variation between these companies is smaller as compared to companies not having this type of pay-setting process. Moreover, some managers worked in smaller companies, where all pay-setting managers participated in the interview. This may bring about social desirability. However, this risk is considered low since the managers criticized both themselves and the pay-setting process, and the interviews took the form of a conversation allowing all to share their experiences.

Group interviews were chosen instead of individual interviews. Although the group format requires careful monitoring to ascertain that all individuals are given the opportunity to convey their perspectives, the group format allows individuals to remind each other of organizational procedures. Besides pushing the discussion forward, this format clearly contextualizes a study within its organizational setting. Although different pairs of researchers performed the interviews, all made use of the same interview guide making sure that all topics were addressed. Also, the core part of the thematic analysis (Braun & Clarke 2013; Braun et al. 2019) was performed by a pair of the authors and involved developing a codebook. This codebook was not prescriptive but instead served to provide an overview of the codes and to facilitate traceability of codes during the iterative and inductive coding. Moreover, the coding and the analysis were discussed with all coauthors, who provided input on the preliminary and final results, thus adding credibility and reproducibility.

Given the strategic study sample, future research may include managers from companies not working actively to develop and improve their pay-setting process in order to pinpoint managers' experiences from such settings. Moreover, with the present study focusing on individualized pay-setting in the private sector, future studies should look into public organizations. Finally, the interviews were conducted before the COVID-19 pandemic, but there is no reason to believe that circumstances have changed.

Conclusion

This exploratory study aimed to identify opportunities and obstacles that pay-setting managers experience in individualized pay-setting. In the individualized pay-setting process, the main task of managers is to distribute pay raises based on assessments of employee performance. In its simplest form, this involves communicating to employees that they are 'this good' and deserve 'this much'. This comes across as a challenging task, and underscores that managers need certain prerequisites to fulfil their pay-setting work. The prerequisites influence all parts of the pay-setting process including the opportunities and obstacles managers experience when assessing employee performance and rewarding employee performance. Thus, the present study emphasizes the conflict between intentions relating to how the pay-setting process should be performed and difficulties acting along these intentions. In particular, the present findings provide a fine-grained understanding of managers' overall pay-setting work with respect to its obstacles and opportunities.

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