Annual survey report 2007

REWARD MANAGEMENT

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Summary of key findings

The sixth annual survey of UK reward management is based on responses received from 466 organisations, across all industrial sectors, employing around 1 million employees. The main aims of the research are to provide readers with invaluable information and a benchmarking resource in respect of current and emerging practice in UK reward management.

Strategic reward

- Thirty-five per cent of respondents report having a reward strategy. Another 40% plan to create one in 2007.
- The main priorities of their reward strategy are to support business goals, reward high performers and recruit and retain high performers.
- Fifty-five per cent of employers claim to measure the effectiveness of their reward strategies.
- A total rewards approach has been adopted by 41% of the sample, with a further 32% planning to take up this approach in 2007.

Base pay

- Overall, the most common approaches to managing base pay are to use individual pay rates/ranges/spot rates and broadbands; for setting salary levels, the most important methods are to use market rates and a job evaluation pay database; for managing pay progression, the most common approach is to use individual performance (either solely or, more usually, in combination with other factors).
- Just over half of employers (54%) still make a traditional general annual pay rise or cost-of-living uplift, though this approach is less prevalent in the private sector. The key factors influencing the size of the increase are inflation and organisational performance.
- Just over half of our sample use job evaluation to determine the relative worth of a job. In 2007, 15% of employers plan to introduce a scheme for the first time, while 11% plan to amend an existing scheme.
- Public and voluntary sector reward specialists will be busy in 2007 amending the way that their organisations structure pay, attach salaries to these structures and manage pay progression.

Bonuses and incentives

- Short-term, cash-based bonus and incentive schemes are widespread in the private sector.
- The most common type is an individual-based scheme, followed by one driven by business results.
- Just under two-fifths of organisations with bonus or incentive arrangements will be changing them this year, while 23% plan to introduce another scheme to sit alongside existing arrangements. Of those employers without existing bonus and incentive arrangements, 16% will be introducing one for the first time. The most common reason for introducing a new bonus scheme is to link pay with performance.
- Thirty-six per cent of all respondents use recognition/non-cash incentive schemes. They are more common among private sector employers.

Pensions and other benefits

- Ninety-six per cent of respondents have a pension plan for their employees.
- The most common types of arrangement are final salary schemes, group personal pensions and stakeholder plans with an employer contribution. However, outside the public and voluntary sectors, most of the final salary pension schemes are now closed to new entrants, while a significant proportion are closed to future accrual as well.

- Twenty-nine per cent of employers now use salary-sacrifice arrangements for their occupational pensions. Twenty-nine per cent of employers automatically enrol employees into their pension scheme. Among those that have a waiting period for their main pension (40%), the typical period is three to six months.
- Twenty per cent of employers are planning changes to their pension arrangements in 2007, with the most popular options being to increase employee contributions, introduce salary-sacrifice arrangements and increase employer contributions.
- Eight per cent of respondents plan to make the annual pay rise non-pensionable, while 6% intend to differentiate pay rises for staff in defined-benefit and defined-contribution arrangements.
- Reward professionals will be active in 2007 amending their organisations' existing benefit arrangements. More employers are introducing new benefits or enhancing their existing benefit provision than are reducing them. The benefits most likely to be introduced are childcare vouchers, bicycle loans and dental insurance.
- As a percentage of the pay bill, the median cost of providing pensions and other benefits is 15%, with the inter-quartile range between 10% and 25%. Forty-two per cent of respondents expect their benefit spend to stay the same, while 40% predict it to rise.

Table 1: Summary of key findings

	Reward approaches	Percentage of respondents using
	Written reward strategy	35
	Adopted a total reward approach	41
Reward strategy goals	Support business goals	79
	Reward high performers	67
	Recruit and retain high performers	62
	Achieve/maintain market competitiveness	58
	Link pay to the market	54
	Using job evaluation scheme	55
Pay structures	Individual pay rates/ranges/spot salaries	44
	Broadbands	40
	Job families/career grades	31
	Narrow-graded pay structures	22
	Pay spines	16
Factors used to determine salary levels	Linked to market rates	51
	Job evaluation pay database	24
	Ability to pay	21
	Collective agreement	4
Factors used to manage pay progression	Combination/hybrid approach	79
	Individual performance only	11
	Market rates only	4
	Length of service only	3
	Organisational performance only	1
	Other	2

Table 1 (continued)

	Reward approaches	Percentage of respondents using
	Annual general pay rise	54
Key factors used to determine annual general or cost-of-living pay rise	Inflation	64
	Organisational performance	58
	Movement in market rates	30
	The going rate of pay awards elsewhere	29
	Recruitment and retention issues	21
	Level of government funding/pay guidelines	21
	Employers with cash-bonus or incentive plans	70
Types of bonus and incentive plans	Individual-based	64
	Scheme driven by business results	53
	Combination	47
	Team-based	27
	Ad hoc/project-based	21
	Gainsharing	2
	Employers with recognition or non-cash incentive schemes	36
Top employee benefits	Pension plan	96
	25 days' or more paid leave	81
	Occupational sick pay	80
	Training and development	80
	On-site car parking	73
	Tea/coffee/cold drinks	72
	Christmas party/lunch	64
	Life assurance	63
	Private healthcare	58
	Car allowance	55
Reward management changes in 2007	Adopting a reward strategy	40
	Benefits	37
	Adopting a total reward approach	32
	Pay structure	29
	Amending existing bonus/incentive scheme	29
	Pay progression	27
	Way pay levels determined	24
	Factors determining the annual pay rise	20
	Pensions	20
	Introducing another bonus scheme	16
	Introducing a job evaluation scheme	15
	Changing an existing job evaluation scheme	11
	Introducing a bonus scheme for the first time	5

Reward strategies

Our survey reveals that more employers claim to have adopted a total reward approach than possess a written reward strategy, though Table 2 shows that there are variations according to an organisation's sector and size.

It appears from our findings that employers have focused on achieving horizontal alignment between their financial and non-financial offering. However, this year there seems to be a shift in emphasis as more employers concentrate on achieving vertical alignment between their business and reward strategies. This shift is probably due to some employers formalising their existing reward strategy for the first time while others plan to create one.

It's interesting that employers within our sample (apart from the small proportion employing 1,000 or more staff) have focused on horizontal alignment first, when in the 1990s the emphasis in the new pay texts would have been on vertical alignment. The reason why total reward has not been taken up by more larger employers could be a refection of our sample. Many of these organisations are public-sector-based, where a total reward approach is relatively new. Previous CIPD research shows this sector reporting difficulties in integrating the various forms of financial and non-financial rewards.

Aims of reward strategies

Table 3 lists the goals for those organisations with a reward strategy. The top three are all business-focused. There are variations by sector. For instance, the public sector employers are more concerned with ensuring internal equity due to equal pay issues and managing pay costs due to tighter government funding.

Table 2: Prevalence of reward strategies and total reward approaches, 2007

	Percentage			
	With a reward strategy	Adopting a reward strategy	With a total reward approach	Adopting a total reward approach
All	35	40	41	32
By sector				
Manufacturing and production	39	19	42	29
Private sector services	35	42	45	36
Voluntary sector	34	67	40	39
Public services	32	41	34	27
By size				
0–49	27	33	53	19
50–249	32	36	39	30
250–999	28	39	42	36
1,000–4,999	49	44	40	28
5,000+	57	53	40	48

Table 3: Important reward strategy goals

	Percentage of respondents by sector				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Support business goals	79	75	84	87	67
Reward high performers	67	61	77	47	56
Recruit and retain high performers	62	58	68	60	48
Achieve/maintain market competitiveness	58	67	67	47	26
Link pay to the market	54	47	65	60	26
Support career development and career progression	52	53	53	60	41
Manage pay costs	48	42	49	47	52
Ensure internal equity	48	50	43	47	59

Overall, the only significant changes since we asked these questions in 2005 are that more employers are supporting career development and career progression (up from 39%), ensuring internal equity (up from 41%), and looking to achieve/maintain market competitiveness (up from 51%) as an important goal for their strategy. The biggest change is supporting career development and progression, primarily in the private sector. The increase could be due to market pressures and employees wanting to have a structure to their job roles, as well as more integrated talent management approaches.

Table 4 lists the top three reward strategy priorities between 2002 and 2007. It shows that managing pay costs has become a higher priority.

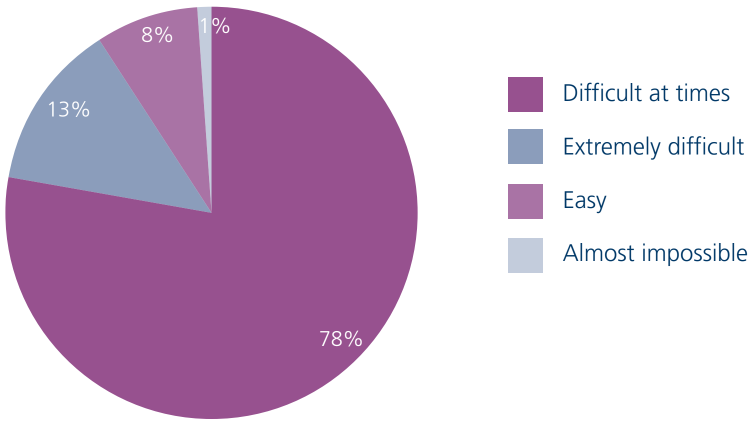
Figure 1 overleaf indicates the difficulties that most employers have experienced in implementing their reward strategy. By sector, private sector employers are more likely to have found implementation easier. By contrast, manufacturing and production and the public sectors are far more likely to have found it extremely difficult to implement their strategy.

Last year's survey asked respondents what the main inhibitors to a successful reward strategy are. It revealed the biggest problem was with front-line managers, their skills, abilities and attitudes. Yet as our research on the role of front-line managers in making reward decisions shows, this is mainly because the development of the reward strategy tends to be undertaken by HR in isolation from the people who will be responsible for translating it into practice.

Table 4: Top three reward strategy priorities, 2002–2007

2002	2003	2004	2005	2006	2007
Support business goals	Support business goals	Support business goals	Support business goals	Support business goals	Support business goals
Recruit and retain high performers	Recruit and retain high performers	Manage pay costs	Recruit and retain high performers	Manage pay costs	Manage pay costs
Reward high performers	Manage pay costs	Reward high performers	Reward high performers	Recruit and retain high performers	Reward high performers

Figure 1: The ease of implementing a reward strategy



The other factors that can make implementing a strategy difficult are changes in the external environment, new laws and regulations made in response to such concerns as climate change, terror, pandemics and pensions.

Effectiveness

Just over half of respondents with a reward strategy (55%) assess its effectiveness. Private sector employers are more likely to do so (68%), while manufacturing and production firms (42%) and public sector employers (41%) are least likely to. Despite supporting business goals being the key priority for most reward strategies, few employers actually use business measures (such as profit or customer satisfaction) to see that it does (see Table 5).

Table 5: Popular measures used to assess reward strategy effectiveness

	Percentage using
Surveying staff views	76
Exit interviews	73
HR benchmarking data	71
Trade union/staff association	33
Surveying line managers' views	23
Business benchmarking data	23
Special review groups	21

Please see our factsheet on total reward (www.cipd.co.uk/factsheet), our online tool on reward strategy (www.cipd.co.uk/tools) and our Change Agenda on front-line managers and reward (www.cipd.co.uk/changeagendas) for more information.

Base pay

The findings reveal a convergence in base-pay management around linking salary increases to various dimensions of performance. While this is especially true in the private sector, a high proportion of public sector employers also claim to take performance into account when increasing pay levels.

Job evaluation

This year we survey the use of job evaluation. Job evaluation is a method of determining the relative worth of a job to an employer. It's based on the principle that the content of the job, not the job-holder's personal worth to the organisation, should drive the way that pay rates and relativities are managed. While the external market is an important determinant of pay awards and levels, job evaluation is also an increasingly important method for managing pay relativities. By sector, concern over equal pay is maintaining its popularity in the public sector (see Table 6). By size, large private sector employers, who wish to ensure consistency and clarity across departments and sites, are more likely to use it than smaller firms.

Table 6: Employers using job evaluation, by sector, 2007

	Percentage
All	55
By sector	
Manufacturing and production	47
Private sector services	46
Voluntary sector	61
Public services	86
By size	
0–49	38
50–249	41
250–999	60
1,000–4,999	74
5,000+	77

Pay structures and levels

Table 7 shows that the most popular approaches to managing pay structures are: individual pay rates; ranges or 'spot' salaries; broadbands; and job families/career grades. By occupation, many employers have individual pay, ranges or 'spot' salaries for senior managers, while clerical and manual grades are more likely to be covered by narrow-graded pay structures.

By sector, pay spines, which can provide for a greater degree of control and certainty, are common at all levels in the public sector, while individual pay rates, ranges or 'spot' salaries, which allow for greater flexibility, are

Table 7: Pay structure management, by occupational group, 2007

Type of pay structure	Senior management	Middle/ first-line management	Technical/ professional	Clerical/ manual
Individual pay rates/ranges/spot salaries	44	26	25	23
Broadbands	34	40	40	35
Narrow-graded pay structures	12	14	14	22
Pay spines	10	14	15	16
Job families/career grades	22	30	31	26

more common in the private sector. Hybrid approaches, such as combining broadbands with job families, account for around one in five structures surveyed.

The most significant change since 2006 is that more employers are using job families/career grades for their senior, middle and first-line managers and their technical/professional employees. For instance, last year 24% of respondents used job families/career grades for their middle/first-line staff; this year it is 30%.

When examining how salary levels, ranges or mid-points are determined we find that the key influences are market rates, a job evaluation pay database (such as Hay or Croner Reward) and ability to pay (see Table 8). Again there are variations by sector; a job evaluation data base is more commonly used in the public sector, while market rates drive salary levels for private sector employers. By occupation, senior managers are more likely to have their salary level influenced by market rates and shareholder views, while clerical and manual staff are more likely to have their pay level influenced by a job evaluation database (see Table 9).

Pay awards and progression

The traditional annual pay award or cost-of-living adjustment is increasingly a thing of the past within the private sector (see Table 10). Instead, companies are more likely to allocate a pay pot to the department head to allocate to staff according to their performance and taking into account other factors such as market rates and the cost of living. It's only in the voluntary and public sectors that employers still usually make an award that is not contingent on contribution. By occupation, senior staff are less likely to receive an annual pay rise from their employer.

Table 8: Most important factor used to determine salary rates/ranges/mid-points, by sector, 2007

	Percentage of respondents			
Factors used	Manufacturing and production	Private sector services	Voluntary sector	Public services
Linked to market rates	63	63	33	14
Job evaluation pay database	16	15	33	51
Ability to pay	20	21	30	19
Collective agreement	–	1	4	16
Shareholder views	2	3	–	–

Table 9: Most important factor used to determine salary rates/ranges/mid-points, by occupational group, 2007

	Percentage of respondents			
	Senior management	Middle/ first-line management	Technical/ professional	Clerical/ manual
Linked to market rates	51	47	48	45
Job evaluation pay database	20	28	27	26
Ability to pay	21	21	21	21
Collective agreement	4	4	6	9
Shareholder views	7	3	1	1

Table 10: Organisations that award an annual general or cost-of-living pay rise, by sector, 2007

	Percentage of respondents			
	Senior management	Middle/ first-line management	Technical/ professional	Clerical/ manual
All	52	55	55	56
By sector				
Manufacturing and production	48	47	47	52
Private sector services	39	40	39	40
Voluntary sector	71	78	77	80
Public services	80	89	90	88

We asked those employers that make an annual pay award (54%) to indicate three key factors that determine the size of the increase. Table 11 shows that the key benchmarks in the private sector are inflation and organisational performance. In the public sector it is the level of government funding, or pay guidelines, and union pressure. Inability to increase prices is an issue for some charities (16%), while pension costs are a factor for some manufacturing and production employers (11%).

When it comes to progressing people through their salary bands or ranges, most employers in our sample (79%) take into account a number of factors, what we term a combination (or hybrid) approach. There are variations by sector and grade. For instance, by occupation, senior managers and above are more likely to be assessed solely on their performance than other employee types. By sector, the public sector (15%) and, to a lesser extent, the voluntary sector, are still more likely to base progression solely on an employee's length of service (6%), a reward practice that has become extinct in the private sector.

The new age discrimination legislation which came into force in October 2006 allows service-related pay progression where the length of service taken into account is no more than five years. Where the length of service is more than that, an employer has to demonstrate that it reasonably appears to them that applying the criterion of length of service fulfils a business need of the undertaking, for example by encouraging the loyalty or motivation, or rewarding the experience, of some or all of its workers.

Table 11: The most important factors for employers when determining their pay award, by sector, 2007*

Manufacturing and production	Private sector services	Voluntary sector	Public services
Inflation (72%)	Inflation (74%)	Inflation (63%)	Level of government funding/pay guidelines (67%)
Organisational performance (70%)	Organisational performance (73%)	The 'going rate' of pay awards elsewhere (41%)	Inflation (47%)
Movement in market rates (26%)	Movement in market rates (37%)	Organisational performance (41%)	Union pressures (34%)
The 'going rate' of pay awards elsewhere (23%)	The 'going rate' of pay awards elsewhere (25%)	Movement in market rates (25%)	The 'going rate' of pay awards elsewhere (19%)
Recruitment and retention issues (13%)	Recruitment and retention issues (17%)	Level of government funding/pay guidelines (19%)	Movement in market rates (17%)

* *Percentage of respondents in brackets*

Of those employers that use a combination approach, the most common progression criteria is individual performance, followed by market rates and individual competence. Table 12 shows the variations by sector, with individual performance, for instance, more of a factor in both of the private sectors, while skills is more common in the voluntary sector and length of service is more widespread in the public sector. By occupation (see Table 13), clerical and manual staff and technical and professional staff are more likely to be judged on their skills. Overall, the more senior an employee, the more factors that are taken into account when linking their pay to progression.

Changes planned for 2007

As ever, public and voluntary sector reward specialists will be busy in 2007 amending their existing reward management arrangements, a reflection of continuing government-inspired public sector pay reform and a general desire in the voluntary sector to reflect market conditions more closely (see Figure 2). Just over a quarter of employers are either introducing a job evaluation scheme for the first time this year or are replacing an existing scheme with a new one.

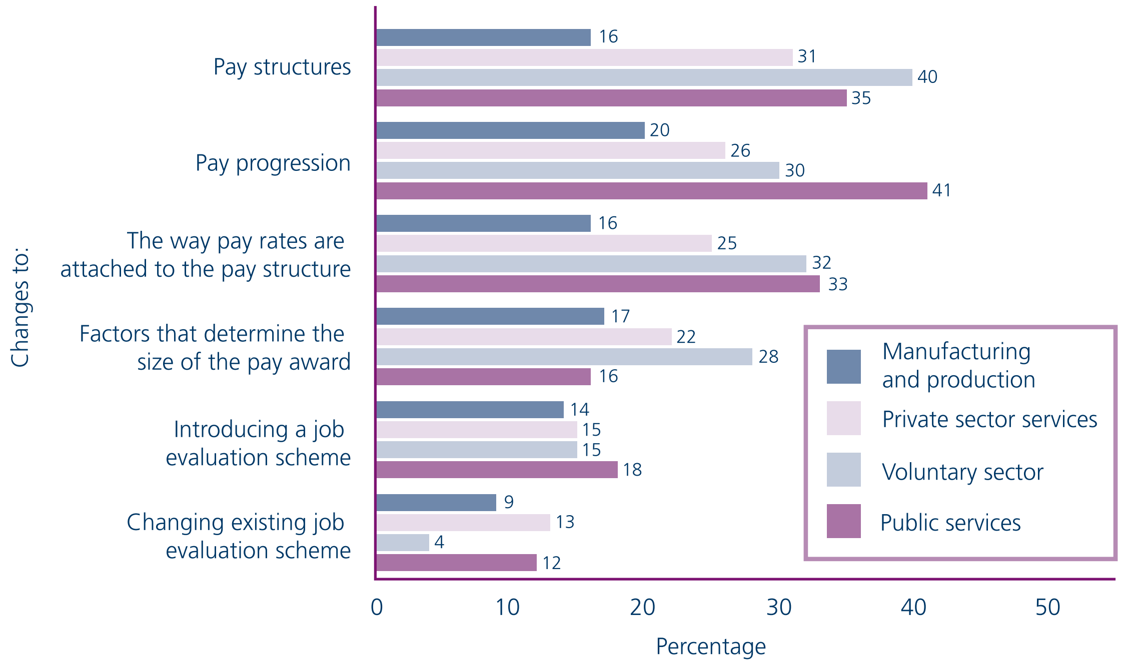
Table 12: Pay progression criteria used within a combination approach, by sector, 2007

	Percentage of respondents by sector				
Progression based on	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Individual performance	80	78	88	63	66
Market rates	65	57	76	79	24
Competency	47	34	52	46	44
Organisational performance	42	48	48	42	15
Skills	33	26	35	42	27
Team performance	16	17	17	17	10
Length of service	14	9	9	17	41

Table 13: Pay progression criteria used within a combination approach, by occupation, 2007

	Percentage of respondents			
Progression based on	Senior management	Middle/ first-line management	Technical/ professional	Clerical/ manual
Individual performance	89	87	85	77
Competency	54	55	58	53
Skills	36	38	43	43
Length of service	17	18	17	19
Market rates	71	71	70	67
Organisational performance	62	50	45	41
Team performance	30	28	22	21

Figure 2: Organisations changing their pay arrangements, by sector, 2007



Bonuses and incentives

While our survey reveals extensive use of short-term bonus and incentive schemes, it shows that recognition schemes are less widely used.

The use of cash-based bonus or incentive plans by employers for some or all of their employees' variable pay is common. However, Table 14 shows that there is variation by sector, size and the age of the workforce. One explanation for why they are more prevalent in organisations with a predominantly younger workforce is that it may be a reflection of our sample, as private sector service employers in our survey typically having a younger average-aged employee.

Most organisations have more than one scheme, with the mean number being two and the median figure being three. A sizeable proportion of private sector service employers and larger organisations operate four or more plans.

Of those with a scheme, the most common type is to link bonus payments to an individual's performance, followed by collective approaches, the most popular being those driven by business results, such as profit or efficiency. Table 15 shows variations by sector, where ad hoc project-based bonus plans are used more in the voluntary sector than in the other sectors. Schemes using a combination of measures are more likely in the private sector.

Table 14: Use of cash-based bonus/incentive plans and recognition schemes, 2007

	Percentage using	
	Cash-based bonus or incentive plan	Recognition scheme
All employers	70	36
By sector		
Manufacturing and production	84	32
Private sector services	88	44
Voluntary sector	20	17
Public services	34	31
By size		
0–49	56	29
50–249	72	28
250–999	67	36
1,000–4,999	73	47
5,000+	77	66
By average age of employee		
18–29	90	60
30–40	74	36
41–51	58	31
52+	50	38

Table 15: Types of cash-based bonus or incentive plans on offer, by sector, 2007

	Percentage of respondents				
Type of plan	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Individual-based	64	51	69	56	69
Scheme driven by business results	53	48	64	11	7
Combination	47	48	51	22	24
Team-based	27	24	30	33	14
Ad hoc/project-based	21	13	26	44	10
Gainsharing	2	5	1	11	–

Table 16: Proportion of the workforce covered by employers offering cash-based bonus and incentive plans, 2007

Occupational group	Proportion of workforce covered (mean) in those organisations with bonus and incentive plans
Senior management	85
Middle/first-line management	75
Technical/professional	70
Clerical/manual	66

Table 16 shows that most staff (as measured by the mean) who work for employers that use bonus or incentive plans are covered by these arrangements, though the average proportion of employees covered rises with seniority.

Changes

Of those with bonus schemes, 40% (or 29% of the whole sample) intend to amend their existing bonus scheme, perhaps by increasing the targets or the maximum award. A further 23% of those with bonus schemes plan to introduce another scheme/s to sit alongside their existing arrangements. Of those employers that don't have a bonus scheme (30%), 16% will be introducing a plan in 2007 (see Table 17 overleaf).

Table 18 overleaf summarises the main reasons given by employers for why they are introducing a bonus or incentive scheme in their organisation, either for the first time or to sit alongside existing ones. The strongest driver in the public, voluntary and private sector services is the desire to link pay to performance. In the manufacturing and production sector, the top driver is to support changing culture/values, also a popular explanation in the public sector.

Table 17: Employers changing their bonus and incentive arrangements in 2007, by sector

Occupational group	Percentage amending their existing arrangements
All employers	40
By sector	
Manufacturing and production	33
Private sector services	43
Voluntary sector	56
Public services	45
	Percentage intending to introduce new plans
All employers	23
By sector	
Manufacturing and production	14
Private sector services	26
Voluntary sector	100
Public services	31
	Percentage introducing bonus plans for the first time
All employers without a scheme	30
By sector	
Manufacturing and production	33
Private sector services	22
Voluntary sector	14
Public services	9

Table 18: Why respondents are introducing new cash-based bonus or incentive arrangements, by sector, 2007*

Manufacturing and production	Private sector services	Voluntary sector	Public services
Support changing culture/values (69%)	Link pay with performance (77%)	Link pay with performance (75%)	Link pay with performance (77%)
Link pay with performance (63%)	Improve financial results (55%)	Increase productivity (63%)	Support changing culture/values (69%)
Improve financial results (63%)	Communicate business goals (50%)	Improve financial results (50%)	Encourage employee involvement (54%)
Increase productivity (56%)	Support changing culture/values (48%)	Improve quality/ customer service (50%)	Encourage teamworking; Increase productivity (50%)

** Percentage of respondents in brackets*

Recognition schemes

This year we surveyed the extent of recognition and non-cash incentive schemes. Table 14 shows that by sector, private service firms are more likely to have such schemes, while voluntary sector employers are less likely. Size also has an impact, with larger employers either being more willing and/or able to use such a form of reward. The average number of schemes (mean) per employer is three, while the median figure is two.

Of those public sector employers with a recognition scheme, the most popular form of recognition is non-cash (see Table 19). This may be a reflection of organisational cultural values and limited budgets to fund such awards. A form of recognition that has cash value, such as retail vouchers, a good or a service, is more likely to be used in the private sectors. It's also common among the small proportion of voluntary sector employers using such schemes.

Table 19: Forms of recognition used by those with plans, by sector, 2007

Type of plan	Manufac-turing and production	Private sector services	Voluntary sector	Public services
Cash value	59	61	57	38
Non-cash	38	37	57	62
Mixture of cash value/non-cash	41	19	14	12

If you would like more information about bonus schemes, please see the CIPD's practical tool on bonuses at www.cipd.co.uk/tools

Commerzbank: using bonus schemes as a motivator

Commerzbank is an international German bank providing retail and corporate banking worldwide. Its UK operation focuses on investment and corporate banking. It employs around 700 staff in London, roughly split half and half between traders and middle- and back-office support.

The average age for middle- and back-office staff is 37, and the average length of service is six years. For traders, the average age is around 34, and the average length of service is three to four years.

Commerzbank competes for front-office staff such as sales and traders against larger investment banks by offering individuals the chance to specialise in niche products, such as exotic derivatives or providing services to the German middle market. However, while lucrative, the lifecycle of investment products can be very short, with maturity three or four years away. Staff, including traders, then have to acquire a new expertise, or stay with it but accept that their earnings potential is unlikely to increase. Commerzbank also attracts traders by offering to be a stepping stone to the larger investment banks, or by developing a career within the bank.

While the rewards for traders can be high, so too are the expectations. To get a job as a trader, the bank is generally looking for two numeric degrees, and ideally an MBA. A second language is also normally required. Traders also have to study and pass quickly the regulator's (Financial Services Authority (FSA)) qualifications in their own time. They typically work 60-hour weeks in a pressured and competitive environment. Every conversation they have on the trading floor is taped and CCTV constantly monitors them as part of the FSA regulatory requirements.

The bank typically offers traders a £100,000 base annual salary, and a discretionary bonus with a linked share plan. The annual base salary, which it pitched using McLagan's salary data, is not seen as the major part of the package.

If their performance merits it, all staff are eligible for the firm's discretionary bonus plan awarded each year and paid in March. Important factors in deciding the bonus level include the performance of the business area in which the employee is working, the performance of the bank overall and individual performance. Employees can earn bonuses worth between zero and many multiples of salary.

As well as the bonus scheme there is a share plan, which is a conditional scheme with stock options restricted for between one- and two-year periods. The amount awarded depends on bonus level, market and economic conditions. Initially, while the plan was good at tying in staff, over time this has reduced, as many banks are now prepared to buy out talented individuals. While few traders leave because of the money, most that leave do so because they want a different challenge or to go to a bigger bank.

The reward function believes that the bonus scheme motivates staff, in particular those in the front office, to make bigger profits for the bank. There is a lot of satisfaction in being a top earner in a particular product line and pride in working for an investment house, like Commerzbank, with strong and profitable product lines. In addition, there is considerable scrutiny by analysts on the amount paid by each investment bank in bonuses as a percentage of income, so the process can be very transparent both for the banks and for staff. The reward function also believes that the bonus plan helps to align the interests of the staff with those of the shareholder.

Commerzbank (continued)

One of the biggest challenges faced by the reward function can be managing bonus expectations. This is easier to manage for front-office staff, as the product heads knows what each of their employees is bringing into the firm and the associated costs, so they are able to indicate to them what they may expect to earn. For mid- and back-office staff, it's harder to assess the size of the bonus pot and their likely award – they read the stories in the media about the 'huge city bonuses' and some assume that they too are in line for such payments.

The reward function at Commerzbank, London, is held in high regard by both front-, mid- and back-office staff. Ian Davidson, Head of Compensation and Benefits, believes that this is based largely on getting to know what drives the business and drives its employees. 'Being able to talk to the front-office staff about such issues as the state of the markets and trading models helps establish our credibility in their eyes. They understand how we can add to the business. However, there are occasional times when we do have to be prepared to stand firm with some individuals whose requests with regards to their bonus payments fall outside of the bank's payment criteria.'

This information was supplied by Ian Davidson, Head of Compensation and Benefits, Commerzbank, London.

Bonus plans at Citibank

Citibank is a global bank employing over 300,000 people across 100 countries. The consumer business in the UK has an annual turnover of £350 million and has 850 employees across three divisions – retail, cards and consumer finance. Retail has a small branch network and also provides services for high-net-worth individuals; there is a separate credit card operation located in Manchester, while consumer finance provides lending services to a discrete market segment. The vast majority of employees are full-time (90%), just over half are male (51%), the average age is 34 and the average length of service is six years, though there are variations by division.

Despite a highly competitive environment, the bank is successful in making money and attracting the individuals it needs to be profitable. The UK operation takes its lead from its American parent, where there is a strong focus on driving down fixed costs and on encouraging and rewarding high individual performance.

Employees are split into two main groups, referred to as officers (managerial and professionals) and non-officers (operational and support staff, mostly employed in retail and consumer finance). Benefits between the two groups are harmonised.

The majority of the UK officer population is covered by the Citibank global performance-based bonus plan, awarded each January. Typically, staff receive the bonus in cash, though senior employees receive a proportion either as restricted or deferred stock. The global business allocates a bonus pool to each of the regions, based on their performance. This pool is then cascaded down through regions into the various business units.

From this pool, individual awards are based on assessment of performance, taking into account the rating on a five-point scale. Those with scores one to three qualify for a discretionary bonus payment. Performance is assessed on a judgement of outputs, such as how much new business they have brought in or how much efficiency they have achieved, as well as inputs and how they have achieved these results. The 'how' element is important given that Citibank operates in a highly regulated environment. In addition to performance, the size of the bonus may be influenced by market data and review by the general managers of the business and the regional chief financial officer, who will compare all the bonus data to ensure consistency and validity.

The reward department's role is to help managers come to an agreement about who gets what and ensure that the payments are performance-driven. Reward and general managers will also focus on the large payments to ensure that they are justified. Different jobs and skill sets are treated differently, for instance fee earners can receive a bonus typically worth between 30% and 40%, while those in professional roles can expect between 10% and 20% of base pay for good performance.

Typically, the non-officer population will participate in a formula-driven incentive plan which comprises five elements: financial results, other results, customer acquisitions, cross-sell and a discretionary element worth up to 10%. All elements have different weightings. Within these elements there are a number of key factors that are assessed. There is sufficient flexibility for line managers to adjust the criteria to meet local business needs. The aim is that the bonus makes up 40% of total pay of those employees who hit their targets. Depending on the 'line of sight', these awards can be made quarterly, bi-annually or annually.

Citibank (continued)

Overseeing the awards is a governance committee made up of HR, Finance and Compliance to review the awards from a risk perspective and to ensure that they support performance. There are no caps on the awards, but there are review points to ensure that the organisation is not inadvertently incentivising inappropriate behaviours.

According to John Campbell, Regional Director of Rewards and Recognition: ‘The key role of the reward function is to examine the various ways that individual and collective contribution is rewarded. Bonus schemes are a powerful way of telling our employees: “this is what we need from you and this is how we will reward you.” However, you have to invest time in ensuring that bonuses that are awarded support what the business needs and do not encourage the wrong values and behaviours.’

This information was supplied by John Campbell, EMEA HR, Citibank.

Benefits

Despite the well-publicised difficulties, around 96% of employers have a pension scheme for their employees. However, there are variations in what is offered by sector.

Pensions

Overall, final salary pension schemes are the most common form of workplace pension arrangement within our sample, followed by group personal pensions and stakeholder pensions (with employer contribution). By sector, defined-benefit arrangements (such as final salary or career average) are more prevalent among manufacturing and production firms and public service employers, while money-purchase schemes (such as group personal or stakeholder) are more common in the private sectors (see Table 20).

Among the private sector, size is an influence. Group personal pensions and stakeholder schemes are more prevalent among small and medium-sized firms, while trust-based defined-contribution arrangements are more common among larger companies that are able to achieve lower management charges through economies of scale.

Further examination of the state of final salary pension schemes (the most common form of defined-benefit scheme) reveals that many in the private and voluntary sectors are closed to new employees. Table 21 shows that

Table 20: Main occupational pension arrangements, by sector, 2007

	Percentage of respondents				
Pension scheme	All	Manufac-turing and production	Private sector services	Voluntary sector	Public services
Final salary	56	64	43	47	87
Group personal pension	38	43	46	31	11
Stakeholder with employer contribution	26	31	29	24	17
Defined contribution (DC)	22	31	29	7	4
Stakeholder without employer contribution	20	22	25	20	5
Contribute to personal pension	6	2	7	7	7
Career average	3	5	3	–	4
Hybrid scheme	1	2	2	–	–

Table 21: Defined-benefit pension arrangements, by sector, 2007

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Final salary					
Open to all	45	27	18	67	92
Closed to new employees but not future accruals	34	50	52	24	3
Closed to new employees and future accruals	10	13	16	5	3
Wind up	10	13	16	5	3
Career average					
Open to all	36	10	17	–	100
Closed to new employees but not future accruals	36	40	50	–	–
Closed to new employees and future accruals	14	20	17	–	–
Wind up	14	20	17	–	–

while 92% of employers with final salary pension schemes allow new employees to join, just 18% of service sector companies do likewise. Instead, most of the former have either shut them to new entrants, closed them to new employees and future accrual, or are in the process of winding them up. A scheme is wound up when it is closed and the assets are collated and then used to meet the scheme's liabilities, either by purchasing annuities or by transferring the assets and liabilities to another pension scheme.

Encouraging take-up

Our survey reveals that around three in ten employers operate a salary-sacrifice arrangement. Such an approach reduces the cost to employees of contributing to a pension scheme so encouraging greater participation and contribution levels. This can be linked when employers ask employees to increase their contribution levels to a defined-benefit plan. However, given that salary-sacrifice arrangements are more common in larger employers and those with a younger workforce, this would indicate that many employers with a trust- or contract-based defined-contribution pension scheme are also using it to boost take-up rates and levels of contribution.

Another common approach (29%) to increase employee participation is to automatically enrol staff into an occupational scheme. Table 22 overleaf shows that there are variations by sector where public service organisations are more likely to use such a scheme. The remaining employers either allow employees to join the scheme on day one (29%), or have a waiting period (40%). Table 23 overleaf shows that the most common waiting period is between three and six months. The Government is proposing that by 2012 employers should automatically enrol employees, either into the newly created personal accounts, or existing occupational arrangements if superior. This could be one of the reasons why some of our sample aim to introduce automatic enrolment in 2007.

A more unusual way that employers are trying to increase employee contributions is to operate a Save More Tomorrow™ plan. Around 4% of employers allow employees to pre-commit to save a proportion of any future pay rise into their pension fund.

Table 22: Popularity of salary-sacrifice arrangements and automatic enrolment, 2007

	Percentage using	
	Salary sacrifice	Automatic enrolment
All employers	29	29
By sector		
Manufacturing and production	35	24
Private sector services	34	19
Voluntary sector	17	17
Public services	19	67
By size		
0–49	18	21
50–249	25	25
250–999	35	36
1,000–4,999	32	35
5,000+	37	31
By average age of employee		
18–29	49	13
30–40	31	28
41–51	25	38
52+	25	-

Table 23: Waiting period to join main pension arrangement, 2007

	Percentage of employees
No waiting period	29
1–2 months	5
3–6 months	30
7–12 months	3
12–24 months	1
24+ months	1

Changes planned for 2007

Table 24 shows that introducing a salary-sacrifice scheme is a popular option for those making changes to their occupational pension scheme arrangements this year. Of the fifth of employers who are making changes this year, 31% of them are introducing a salary-sacrifice scheme.

Another popular option is to increase employee and employer contributions. Just under half of those employers who are raising their contributions are doing so to a money-purchase scheme (such as group personal pension), possibly a reflection of concern of the small pension that such schemes may generate if contributions are low.

Other approaches focus on reducing the risk of escalating pension costs by amending the existing final salary pension scheme (20%). Of those who are changing their existing final salary plan, the most popular approach is to raise retirement ages at which a full pension is payable, followed by reducing the rate of accrual and lower pension increases (in payment).

Another way of cutting the future pension cost is to make the annual pay rise non-pensionable, which 8% of our whole sample intend to do in 2007, while 6% intend to differentiate pay rises for staff in defined-benefit and defined-contribution arrangements.

Table 24: Changes planned to occupational pension arrangements, 2007

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Introduce auto-enrolment	34	39	19	75	38
Introduce salary sacrifice	31	39	44	25	–
Increase employer contributions	30	33	22	75	–
Amend existing final salary pension scheme	20	17	6	38	44
Close final salary scheme to new employees	15	22	9	13	19
Increase employee contributions	12	17	9	25	6
Close final salary scheme to new and existing employees	11	17	13	13	–

Other benefits and perks

Table 25 shows the ten most common paid-for benefits provided by employers, ranging from 25 days or more of paid annual leave (excluding statutory holidays) to childcare vouchers (53%). There are variations in benefit provision by sector. For instance, many private sector

Table 25: Top ten employer-provided benefits, by sector, 2007*

All	Manufacturing and production	Private sector services	Voluntary sector	Public services
25 days' or more paid leave (81%)	On-site car parking (89%)	Tea/coffee/cold drinks (84%)	25 days' or more paid leave; Tea/coffee/cold drinks (84%)	25 days' or more paid leave (92%)
Occupational sick pay (80%)	Occupational sick pay (85%)	Christmas party/lunch (83%)	Training and career development (82%)	Occupational sick pay (88%)
Training and career development (80%)	Private healthcare; 25 days' or more paid leave (78%)	Training and career development (80%)	Occupational sick pay (77%)	Training and career development (86%)
On-site car parking (73%)	Training and career development (75%)	25 days' or more paid leave; Life assurance (77%)	On-site car parking (61%)	On-site car parking (77%)
Tea/coffee/cold drinks (72%)	Company car; Life assurance (73%)	Occupational sick pay (75%)	Christmas party/lunch (59%)	Enhanced maternity leave (65%)
Christmas party/lunch (64%)	Tea/coffee/cold drinks (72%)	Private healthcare (72%)	Enhanced maternity leave (45%)	Enhanced paternity leave (60%)
Life assurance (63%)	Car allowance (65%)	On-site car parking (67%)	Life assurance (43%)	Childcare vouchers (49%)
Private healthcare (58%)	Relocation assistance (61%)	Car allowance (64%)	Relocation assistance (41%)	Employee assistance programme (42%)
Car allowance (55%)	Christmas party/lunch (60%)	Childcare vouchers (59%)	Car allowance (39%)	Tea/coffee/cold drinks (35%)
Childcare vouchers (53%)	Childcare vouchers (50%)	Long-term disability (53%)	Enhanced paternity leave (34%)	Car allowance (30%)

** Percentage of respondents in brackets* employers are prepared to pay for a staff Christmas party or to offer private medical cover (typically to higher-graded employees); however, in the public sector, such practices are rarer.

Changes planned in 2007

In response to skill shortages, more employers are set to enhance their benefit offering in 2007 than are reducing it (see Figure 3). The most popular benefits that are being introduced are the tax-advantaged childcare vouchers and bicycle loans. Annual leave is also being improved, possibly a response to the Government's plans to ensure public holidays are not included in the statutory 20-day minimum entitlement.

However, Table 26 shows that holidays are also being cut back. This may be a response to the Government's

Figure 3: Benefit changes planned, 2007

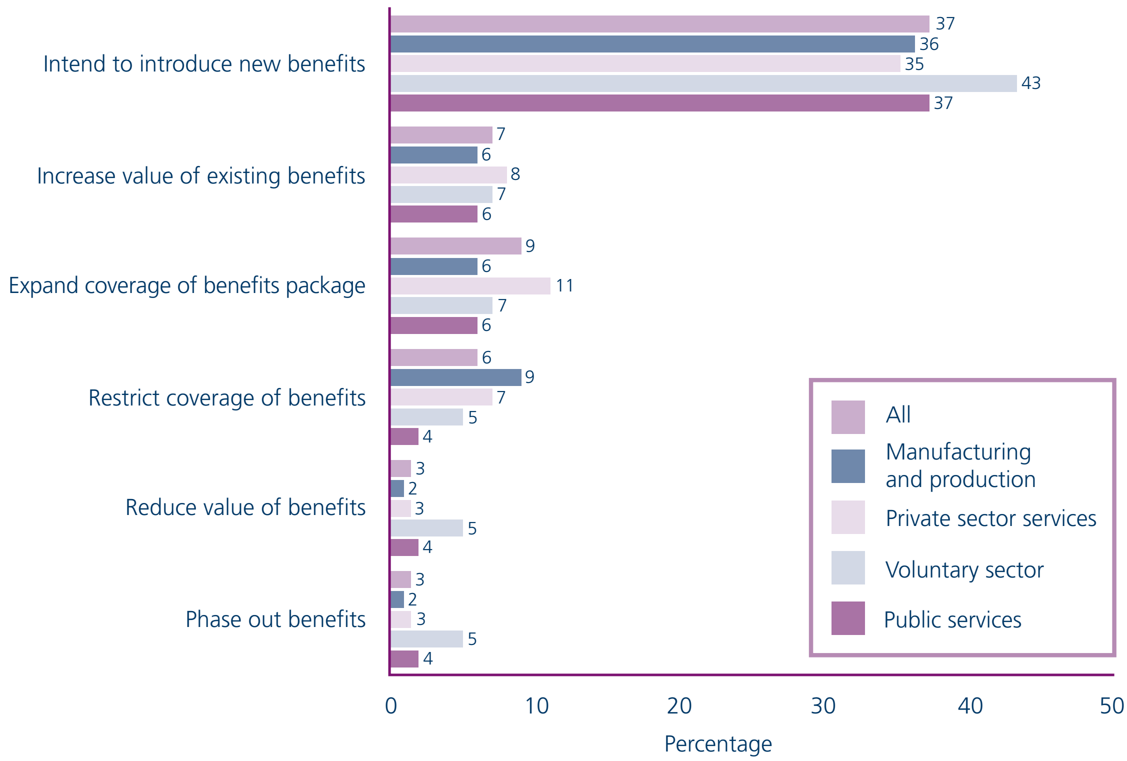


Table 26: Top three employee benefits being amended, 2007

Intend to introduce	**Increase value of**	**Expand coverage of**
Childcare	Annual leave	Annual leave
Bicycle loan	Car allowance	Private healthcare
Dental insurance	Enhanced paternity	Car allowance
Restrict coverage of	**Reduce value of**	**Phase out**
Car allowance	Annual leave	Annual leave
Company car	Car allowance	Car allowance
Annual leave	Childcare vouchers	Childcare vouchers

anti-age discrimination legislation and some employers using this as an opportunity to review and amend their existing service-related leave arrangements. Likewise, while some employers are enhancing their offering through childcare vouchers and car allowances, others are revising them down as business circumstances change.

What Figure 3 and Table 26 indicate is that organisations are increasingly managing their employee benefit offering in an active manner, introducing, axing and amending them so as to support the overall reward strategy of the organisation. This is in contrast to the previous 'Cinderella' status of employee benefits, where little changed from year to year because they were not seen as delivering added value to the organisation.

Flexible rewards

As part of the drive towards total and flexible rewards, just over half of respondents offer flexible working such as flexitime or homeworking opportunities. This is more prevalent in the public and voluntary sectors. By contrast, the private sectors are more likely to offer some form of flexibility around perks, either in the form of voluntary or flexible benefits.

Despite the huge interest, Table 27 reveals that flexible benefit schemes are relatively rare, being more common among larger, private service sector employers with young workforces. However, this may change this year. Table 28 overleaf shows that of all the flexible forms of reward, flexible benefits is the one that will see the greatest growth in 2007. However, as we have noted

Table 27: Proportion of employers who offer flexible rewards, 2007

	Percentage offering		
	Voluntary benefits	Flexible benefits	Flexible working
All	24	8	52
By sector			
Manufacturing and production	22	7	42
Private sector services	32	11	48
Voluntary sector	17	6	68
Public services	16	5	73
By size			
0–49	4	–	40
50–249	12	6	48
250–999	26	11	55
1,000–4,999	43	9	64
5,000+	66	29	71

Table 28: Proportion of employers who are planning to offer flexible rewards, 2007

	Percentage planning		
	Voluntary benefits	Flexible benefits	Flexible working
All	12	16	9
By sector			
Manufacturing and production	9	9	13
Private sector services	11	23	9
Voluntary sector	11	15	6
Public services	18	8	11
By size			
0–49	4	7	7
50–249	9	14	12
250–999	17	18	11
1,000–4,999	10	22	6
5,000+	17	14	6

previously, while many firms plan to introduce a flexible benefits scheme, not all seem able to accomplish it within the 12-month timeframe.

As a percentage of the pay bill, it costs employers 15% (at the median) to provide these benefits to their employees, with an inter-quartile range of between 10% and 25% (see Figure 4). This is the same as last year's survey – not surprising as most then did not predict an expansion in the benefit budget. Nor do respondents anticipate an increase in their budget in the forthcoming 12 months (see Figure 5), with those in the public and voluntary sectors more likely to forecast a cut. This median figure may be low because many of the small and medium-sized companies within our sample provide minimal benefits and/or because some have forgotten to include a value for annual leave.

Figure 4: Value of benefit provision as a percentage of pay bill, 2007

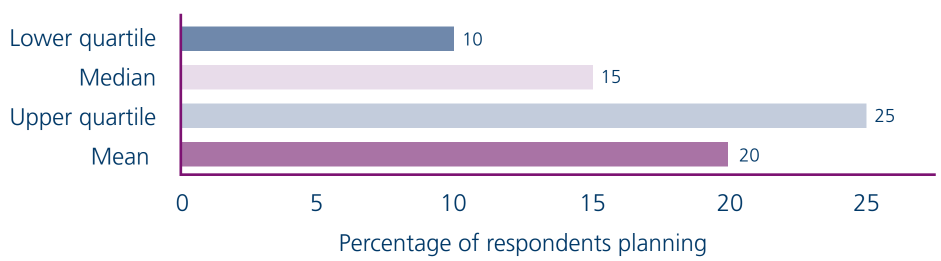
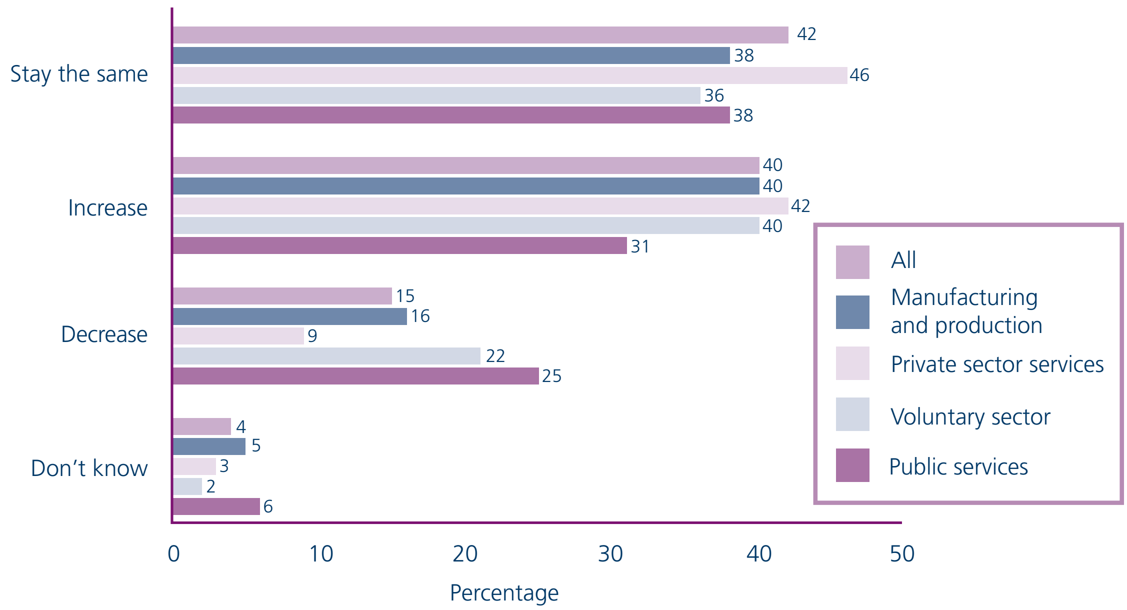


Figure 5: Proportion of organisations predicting whether their benefit spend will increase or decrease in the next 12 months, by sector



How Nationwide found out which benefits staff really, really want.

Nationwide is the UK's largest building society and employs around 17,000 people in around 870 retail outlets as well as in administration centres. Around 70% of its workforce is female, while a similar proportion work full-time. The average age of its employees is 36 years and its average length of service is ten years. It has been voted one of the UK's best companies to work for in the *Sunday Times* annual survey and won the accolade of being the best big company to work for in 2005. When it comes to the remuneration package, it would be easy to assume that what employees in most companies want is 'more'. But the question is 'more what?'. In an attempt to try and understand what it was that their employees really valued, Nationwide undertook a conjoint analysis.

The conjoint technique (or designed trade-off survey) is one that is well known to marketing professionals, who use it to find out which attributes of products prospective purchasers really want. The technique has been used before in connection with rewards, but to date there are limited examples of organisations using this method to understand their employees, preferences and thereby influence the redesign of the package.

Nationwide worked with specialist consultants Maritz Research to design an internal survey that looked at many aspects of the society's benefit proposition. The survey was sent to a representative sample of employees and the results identified which parts of the offering employees valued most.

Some findings were definitely surprising, such as a very high rating for the £50 gift given to employees at Christmas. Overall, a clear value picture was established which will be used in future to support the redesign of the package in a more cost-effective way. In addition, the research has revealed five different groups of employees with various needs and wants who made up the total population. It was clear that without flexibility in the benefits package, it would be impossible to please them all.

As Paul Bissell, Senior Manager – Rewards, at the Nationwide Building Society points out: 'While our organisation has been at the forefront of flexible benefits provisioning for many years, the results of this analysis will help to shape the benefits package of the future.'

This information was supplied by Paul Bissell, Senior Manager – Rewards, Nationwide Building Society.

Equal pay reviews

Around one-fifth of respondents intend to carry out an equal pay review in 2007.

Last March saw the publication of the final report of the Women and Work Commission, which came up with 40 recommendations to help tackle gender inequalities in the workplace, including better careers advice, part-time work and funding for the training and development of equality representatives. However, it did not call for compulsory equal pay reviews (EPRs). Instead, it believed that EPRs would be more effective if employers understood the business reasons for not having biased reward systems, as well as examples of good practice.

Table 29 shows that EPRs were most likely to have been carried out by public sector employers last year, unsurprising given the requirement on government departments to have carried them out. However, in 2007 private sector organisations are just as likely to be carrying one out to ensure that the way they reward employee behaviour, values and performance is fair and equitable. If we are to see more employers carrying out effective EPRs, then there has to be sufficient resources devoted to publicising the business drivers for such an approach, as well as good practice examples.

Table 29: Proportion of employers who have completed, or are completing, an EPR, by sector and size

	Percentage who have completed a review	
	2006	2007
All	19	20
By sector		
Manufacturing and production	16	21
Private sector services	14	22
Voluntary sector	17	15
Public services	38	24
By size		
0–49	13	7
50–249	11	21
250–999	20	20
1,000–4,999	23	26
5,000+	37	31

Table 30: Other aspects of fair pay covered by the equal pay review in 2007

	Percentage of respondents
Age	97
Race	69
Disability	64
Religion	45

Of those employers who plan to carry out an EPR this year, Table 30 shows that most report that they will also use this opportunity to review their reward practices to ensure that they don't discriminate on the basis of age – a reflection of the anti-age discrimination legislation implemented in October 2006.

Conclusions and implications

The CIPD's Reward Adviser gives his personal views on some of the implications from this research for reward and HR professionals.

This year's reward survey shows that reward and HR practitioners and consultants are busy trying to balance a number of competing pressures. On the one hand we have global competition pushing employers to look at how they can cut their costs, while increasingly diverse and demanding consumers are seeking higher quality goods and services. Public and voluntary sector employers are under pressure to justify their expenditure, as taxpayers and donors demand value for money.

Although there are forces pushing costs down, there are also a number of upward cost pressures. According to the latest CIPD *Recruitment, Retention and Turnover* survey, most employers report that they have difficulties in recruiting talent, while respondents to the reward survey cite that pension scheme deficits and rising medical insurance cover are pushing up their benefit bills. Respondents also report that employees are becoming just as discerning as their customers in what they want from their employer.

Will the rate of wage rises increase or decrease in 2007? The UK economy is predicted to expand in 2007, but it's uncertain how this will impact on pay. Increased demand for labour may feed into higher wages, but then the expansion in the domestic labour market, fuelled in part by recent EU migration, may keep a lid on salary inflation. The rises in energy, fuel and house costs could trigger compensatory salary hikes, but the increased labour supply may, again, keep a lid on pay.

In practice, the search for talent is likely to be crucial, with talented employees still able to command high pay rises while the less talented feel more of a squeeze.

So how are HR and organisations responding to these cost pressures? Based on this research, and on the many conversations that I've had with senior reward practitioners and consultants, employers are responding by becoming more: strategic; holistic; performance-focused and cost-conscious. Below I examine each of these before discussing some of the implications of these trends for practice.

Strategic

Employers are increasingly asking themselves whether their current reward practices have validity in the present and future business context. They are examining what they are rewarding and whether it adds value to the organisation. Having an articulated reward strategy helps in working out what the organisation needs to do to be a success, what values, behaviours and performances they need from their employees to be a success, and how they will communicate these expectations and reward those individuals who exhibit the values, behaviours and performances required.

But it is more than a top–down process; it is also bottom–up. It involves organisations examining what rewards will be valued by their existing and potential staff, what will attract an individual to the organisation, what will keep them there and what will engage them. The CIPD's latest research on employee engagement finds that the main drivers are 'having opportunities to feed views upwards', 'feeling well-informed about what is happening in the organisation' and 'thinking that your manager is committed to your organisation'. Engaged employees are more engrossed and focused in their work and more willing to go the extra mile. They are less likely to leave the organisation and take sick leave and are more likely to recommend their employer as a great place to work. To be effective, reward practitioners need to be able to straddle the top–down as well as the bottom–up parts of strategy.

Performance-based

Our research shows that most private sector employers have now linked an element of pay to performance. However, there are a wide range of practices, including:

- consolidated pay rises
- non-consolidated pay rises
- bonus awards
- recognition and non-cash incentives.

And there is a wide variation in the factors used to define what is meant by performance, including:

- individual performance
- individual performance and competency
- individual and organisational performance
- individual performance and length of service
- competency and organisational performance.

The survey also shows that the 'traditional' general annual pay award is becoming more unusual. Employers are increasingly likely to award a pay increase that matches inflation only if an individual's performance merits it and the organisation can afford it. In this way, employers are trying to isolate themselves from responding solely to the impact of cost-of-living increases.

The not-for-profit sector is catching up in linking pay to performance. While the use of bonus schemes is rare, just over three-fifths of public sector employers now claim to take into consideration such factors as individual performance or competency in addition to length of service when progressing someone along their pay band. However, private sector employers do appear to be more focused on the external market, while voluntary and public sector employers are more concerned with internal equity – though all sectors actively use a combination of job evaluation, market pay data, individual contribution and affordability when determining pay increases.

Holistic

Just as employers have defined performance in different ways, there are also variations in how they have defined reward. Some focus on the financial aspects. However, a sizeable proportion of our respondents have taken a broader, more holistic approach that looks at integrating their financial offering with the non-financial elements that makes the work and the organisation such an appealing proposition for employees. For instance, this survey shows that many employers offer training and career development and opportunities for flexible working. And more employers plan to adopt a total reward approach this year.

Cost-conscious

The shift from defined benefit to defined contribution has mostly been confined to pensions. However, the interest in flexible benefits also suggests a possible wider trend, with employers simply defining their contribution and letting employees select their own benefits within that framework, rather than defining the benefits that they will provide. Not only does it allow individuals to select those benefits that best meet their needs, but it allows employers to cap their costs – especially important given the increase in premiums for well-being benefit. It also provides employers with the opportunity to switch from being a benefit provider to a facilitator. At present, however, our survey suggests that employers see benefits more as a major weapon in the war for talent than a cost that needs to be cut.

Instead, employers are looking to get more from their benefit spend with such cost-conscious initiatives as pooling the government-backed tax-advantageous benefits (such as childcare vouchers) and voluntary benefits.

But what are the implications for practice of this emergent reward landscape?

Implications

Employers are only too aware of how much they spend on pay and benefits and want to know that they are getting value for money. However, to achieve this, reward practitioners will need to show that their reward practices are valid, in other words that they support the business. But our research finds that only a minority of respondents have a written reward strategy that allows them to establish the validity of their reward practices. One plausible explanation for why so few have a strategy is that it can be difficult for some organisations to articulate the reason for their existence. It can be easier for a smaller organisation or a commercial organisation to be able to articulate what it's all about. For instance, in the case of Honda F1 Racing – a case study from last year's research – it's all about winning, and that triumph on the track will lead to great financial results.

Another is that if you have a reward strategy, then expectations may be raised too high – and as most of those with a reward strategy tell us in our survey, implementation can be incredibly difficult. The strategy can also get blown off course due to changes in the external environment, such as new legislation or downturns in the market. Also, for a reward strategy to work, you have to be able to articulate and justify what is being rewarded and why. This can be hard if the organisation has pay legacy issues and the people responsible for the communication of the strategy have poor 'tell-and-sell' skills. If you're going to have a successful reward strategy, you need to consider how to implement it and whether, given the capability of the people who are going to deliver it, a suboptimal but achievable strategy is more preferable.

As well as being able to validate reward policies, reward professionals also need to evaluate them – that is, assess the impact that they are having on the organisation. Again, many organisations do not appear to attempt to work out whether their return on investment is justified. Of those that do, few are able to make the link between business measures and reward and HR practices. Yet our research shows that total reward practices do have an impact on levels of employee engagement. And engaged employees are more likely to work harder, be more focused, be loyal, are less likely to take sick leave, and so on. At the recent CIPD Annual Conference in Harrogate, Vicky Wright said that HR practitioners can no longer use the excuse that they are interested in people, not numbers. To add value to the business they have to be interested in both.

Another issue among the many employers that I have talked to over the course of this research is whether employees are in a position to be able to deal with the shift in the cost and risk (reward) of the employment relationship. Employees will increasingly have to make difficult reward decisions. In which case, employers will need to evaluate whether their staff are in a position to make the right decisions. Unsurprisingly, we have seen employers examining the business case for establishing a workplace financial education programme so that their employees are able to make informed choices.

And if people are able to make informed choices, they have to be aware of the choices that exist. Many reward practitioners express dissatisfaction with how their organisation communicates with employees about reward. This ranges from how the organisation communicates its employee benefits package in an engaging way to how it articulates the rationale behind performance-related bonus or salary awards. Yet there are examples of good practice, as the CIPD guides on pension communications and financial education show. The implication for practice for reward professionals is that they need to argue for a bigger communication effort, and increase their own competence in this area.

One issue that has been a constant refrain for the past number of years is concerns over front-line managers. Do they have the attitudes, skills and knowledge to manage performance-based rewards? No, if you ask many pay professionals. However, the CIPD has recently carried out research on how front-line managers actually make reward decisions – from their perspective. In the organisations where we have carried out our research, we find that most front-line managers support the proposition of differentiating reward according to individual or collective performance.

What those front-line managers have problems with is that the performance management and reward process is often developed in splendid isolation by the HR department. The people expected to turn policy into practice are largely ignored until the programme has been designed and then, at best, they are sent off to be trained on how to implement it. If our research is representative of UK organisations, then the process of rewarding performance is something that is ‘done to’ rather ‘done with’ line managers.

The implication of this for practice is that it’s probably going to be more effective to design reward processes around the capability of line managers, involving them in the design and in the associated education and communication programme – then subsequently increase their capability via training and coaching rather than imposing the policy and the required training on them, no matter how ‘best practice’ the initiative. This highlights the importance of another skill-set for reward professionals. To misquote Vicky Wright, it is no good for reward practitioners to say that they are interested in numbers, not people. To add value to the business, they must be able to do both – manage people as well as the figures.

To help, the CIPD has a wealth of resources on its website. We have a special interest group focusing on reward, hold conferences and training courses, and produce reward publications. We also have a popular qualification for those pay and benefit specialists who want to know more about the people management context and for people managers who want to know more about reward.

Charles Cotton
CIPD Reward Adviser
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Background to the survey

This is the sixth annual survey of reward management by the CIPD. The main aims of the survey are to:

- inform the work of the CIPD on reward management
- provide readers with an information and benchmarking resource in respect of the changing face of reward management policies and practices in the UK.

The research was carried out in late 2006 and questionnaires were sent to reward specialists and people managers in the public, private and voluntary sectors. Replies were received from 466 organisations employing around 1 million employees. The following figures give breakdowns of the response by organisational size and by sector.

If you need further information or have any suggestions for next year's survey, please contact Charles Cotton at c.cotton@cipd.co.uk

Table 31: Participant breakdown, by sector and size

		Percentage of respondents by sector			
Number of staff	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
0–49	11	5	15	14	4
50–249	33	36	36	45	16
250–999	30	32	26	27	41
1,000–4,999	18	24	15	12	22
5,000+	9	3	8	2	16

Table 32: Numbers employed by participants, broad occupational sector

Sector	Median employment	Mean employment
Manufacturing and production	325	1,004
Private sector services	243	1,833
Voluntary sector	170	609
Public services	3,379	700
All	321	1,840

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