Survey report 2008

# Reward management

# Contents

# Summary of key findings

The seventh annual survey of UK reward management is based on responses received from 603 organisations, across all industrial sectors, employing around 2 million employees. The main aims of the research are to provide readers with an invaluable information and benchmarking resource in respect of current and emerging practice in UK reward management.

**Strategic reward**

- One-third of respondents report having a reward strategy. A further one-quarter plan to create one in 2008.
- A total rewards approach has been adopted by three in ten of the sample, with a further one-fifth taking up this approach in 2008.

**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 an ability to pay. For managing pay progression the most common approach is to use individual performance (either solely or, more usually, in combination with other factors, such as competency).
- Just over half of employers still make a traditional general annual pay rise or cost-of-living uplift, though this approach is far less prevalent in the private sectors and for senior employees. The key factors influencing the size of this year's annual pay review are organisational performance, inflation and movement in market rates.
- Reward specialists will be busy in 2008 amending the way that their organisations structure pay, attaching salaries to these structures and managing pay progression.

**Variable pay**

- Short-term, cash-based bonus and incentive schemes are widespread in the private sectors, with most employers operating more than one scheme. The most common types are individual-based schemes, followed by ones driven by business results, such as profit.
- Around two-fifths of those organisations with bonus or incentive arrangements will be changing them this year. Typically, most employers review their existing bonus arrangements every other year.
- One-third of all respondents use recognition/non-cash incentive schemes. They are more common among private sector employers and large organisations. Such schemes are usually reviewed every other year.
- Just half of private sector employers operate a share scheme or other long-term incentives for employees. The most common arrangements are executive share option schemes, company share option schemes and share incentive plans. For the first time share incentive plans are more popular than save-as-you-earn schemes.

**Pensions and benefits**

- Ninety-seven 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 stakeholders 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.
- Three in ten employers use salary-sacrifice arrangements for their occupational pension, more commonly in the private sector. Around

half of those who operate salary sacrifice pass on their National Insurance Contribution savings to employees, while the rest keep it for themselves.

- One-fifth of employers are planning changes to their pension arrangements in 2008, with the most popular options being to increase employee contributions, introduce salary-sacrifice arrangements and increase employer contributions. Of those increasing their contributions, the majority are doing so for money-purchase arrangements.
- As a percentage of the pay bill, the median cost of providing pensions and other benefits is 17%, with the inter-quartile range between 10% and 30%. In 2008, just over two-fifths of respondents expect their benefit spend will stay the same, while just under two-fifths predict it will rise, similar to predictions for 2007.
- Reward professionals will be active this year in 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 formal coaching/mentoring roles.

Table 1: Summary of key findings

| | Reward approaches | Percentage of respondents using |
|---|---|---|
| | Written reward strategy | 33 |
| | Adopted a total reward approach | 29 |
| Pay structures | Individual pay rates/ranges/spot salaries | 32 |
| | Broadbands | 28 |
| | Job families/career grades | 22 |
| | Pay spines | 14 |
| | Narrow-graded pay structures | 13 |
| Factors used to determine salary levels | Linked to market rates | 31 |
| | Ability to pay | 22 |
| | Job evaluation pay database | 20 |
| | Owner's/managing director's views | 12 |
| | Collective agreement | 10 |
| Factors used to manage pay progression | Combination/hybrid approach | 76 |
| | Individual performance only | 10 |
| | Length of service only | 6 |
| | Market rates only | 3 |
| | Other | 3 |
| | Competency only | 2 |
| | Annual general pay rise | 54 |
| Key factors used to determine size of overall pay review | Organisational performance | 53 |
| | Inflation | 44 |
| | Movement in market rates | 32 |
| | The going rate of pay awards elsewhere | 27 |
| | Recruitment and retention issues | 27 |
| | Level of government funding/pay guidelines | 15 |
| | Employers with cash-bonus or incentive plans | 70 |

Table 1 (continued)

| | Reward approaches | Percentage of respondents using |
|---|---|---|
| Types of bonus and incentive plans | Individual-based | 60 |
| | Scheme driven by business results | 51 |
| | Combination | 50 |
| | Team-based | 27 |
| | Ad hoc/project-based | 19 |
| | Gainsharing | 3 |
| | Employers with recognition or non-cash incentive schemes | 35 |
| | Private sector long-term incentives | 47 |
| Types of long-term incentivies | Executive share option scheme | 50 |
| | Company share option plan | 33 |
| | Share incentive plan | 31 |
| | Save as you earn | 28 |
| | Executive restricted/performance share plan | 28 |
| Top employee benefits | Pension plan | 97 |
| | 25 days' or more paid leave | 84 |
| | Training and development | 79 |
| | Tea/coffee/cold drinks | 70 |
| | Christmas party/lunch | 69 |
| | Childcare vouchers | 62 |
| | Life assurance | 59 |
| | Health and well-being benefits | 57 |
| | Mobile phones | 57 |
| | Car allowance | 57 |
| Reward management changes in 2008 | Benefits | 50 |
| | Amending existing bonus/incentive scheme | 33 |
| | Pay progression | 32 |
| | Way pay levels determined | 27 |
| | Factors determining the annual pay review | 25 |
| | Adopting a reward strategy | 23 |
| | Introducing a job evaluation scheme | 23 |
| | Adopting a total reward approach | 21 |
| | Pensions | 18 |
| | Changing an existing job evaluation scheme | 13 |
| | Introducing a bonus scheme for the first time | 4 |
| | Introducing another bonus scheme | 4 |

# Strategic and holistic reward

**One-third of our sample have adopted a reward strategy, while a further 23% intend to adopt one in 2008, though Table 2 shows variations by sector and size.**

Last year 40% of our sample intended to bring in a reward strategy; most have not succeeded so far, indicating that implementing a reward strategy is far from easy.

Compared with last year, a smaller proportion of our respondents have adopted a total reward approach. This may be simply a reflection of sampling or that some employers are not confident that what they are following is truly a total reward approach. Similarly, a smaller proportion of employers than last year intend to create a total reward approach.

Table 2 shows that larger employers and those in the private sector are more likely to have adopted a reward strategy and a total reward approach.

Table 2: Adopting a total reward approach (%)

| | With a reward strategy | Adopting a reward strategy | With a total reward approach | Adopting a total reward approach |
|---|---|---|---|---|
| All | 33 | 23 | 29 | 21 |
| By sector | | | | |
| Manufacturing and production | 31 | 22 | 28 | 21 |
| Private sector services | 39 | 22 | 36 | 19 |
| Voluntary sector | 25 | 29 | 21 | 23 |
| Public services | 28 | 22 | 17 | 26 |
| By size | | | | |
| 0–49 | 21 | 23 | 33 | 8 |
| 50–249 | 29 | 24 | 23 | 18 |
| 250–999 | 22 | 28 | 22 | 27 |
| 1,000–4,999 | 53 | 19 | 38 | 28 |
| 5,000+ | 58 | 18 | 39 | 21 |

# Base pay

The survey finds pay becoming increasingly individualised as fewer private sector companies make a traditional collective across-the-board pay rise and more employers in general link salary progression to individual contribution.

**Pay structures and levels**

Tables 3 and 4 examine how our survey respondents manage their pay structures. The most common approach is to use individual pay rates/ranges and spot salaries. However, there are variations by sector and occupation. For instance, in the public sector, employers are far more likely to use pay spines, which provide for a greater degree of control and certainty. When it comes to occupation, senior managers are more likely to be on individual pay rates/ranges/spot salaries, while the other occupations are more likely to be covered by broadbands.

Table 3: Pay structure management, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Individual pay rates/ranges/spot salaries | 32 | 39 | 39 | 27 | 10 |
| Broadband pay structures | 28 | 30 | 27 | 27 | 29 |
| Job family/career-grade structures | 22 | 23 | 25 | 9 | 23 |
| Pay spines | 14 | 3 | 2 | 26 | 49 |
| Narrow-graded pay structures | 13 | 10 | 11 | 12 | 20 |
| Other | 3 | 4 | 4 | 1 | 2 |

Table 4: Pay structure management, by occupation (%)

| | Senior management | Middle/ first-line management | Technical/ professional | Clerical/ manual |
|---|---|---|---|---|
| Individual pay rates/ranges/spot salaries | 46 | 29 | 28 | 25 |
| Broadband pay structures | 25 | 31 | 30 | 26 |
| Job family/career grade-structures | 17 | 23 | 25 | 24 |
| Pay spines | 11 | 14 | 15 | 15 |
| Narrow-graded pay structures | 9 | 13 | 13 | 16 |
| Other | 4 | 3 | 3 | 4 |

Table 5 shows that the most important factors used when attaching salary levels to these grades are market rates, followed by ability to pay and job evaluation. There are variations by sector with market rates being more of a factor in the private sector, while job evaluation is more important in the public and voluntary sectors. By occupation, clerical and manual staff are more likely to be covered by collective bargaining (14%) than senior managers (7%). By size, the views of the owners or managing director is an important factor in a small- (27%) and medium-sized employer (18%) and less so with the largest employers (8%). Job evaluation as a factor increases in importance with employer size, from 14% in small employers (0–49 staff) to 29% in the very largest organisations (5,000+).

### Pay progression and awards

The most popular approach (76%) to progressing someone along their pay grade is to use a number of factors (what we call a combination approach), such as individual performance and length of service, while the remainder of employers use solely one factor, such as individual performance (10%) or length of service (6%).

Focusing on combination approaches, Table 6 indicates which factors are used by which sectors. It finds that individual performance is the most common across all sectors. Market rates are often used as a criterion in the private sector, while length of service is more common in the public and voluntary sectors. Since last year, employers are using more factors. In percentage terms, the highest increase has been in the proportion of employers using team performance as a factor, followed by organisational performance, length of service, skills and competency.

Table 7 shows that individual performance is common for all occupational groups, but progression linked to organisational and team performance is more common among the higher-graded staff, where there can be a better line of sight.

Table 5: Most important factor used to determine salary rates/ranges/mid-points, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Market rates | 31 | 37 | 36 | 30 | 11 |
| Ability to pay | 22 | 23 | 25 | 27 | 12 |
| Job evaluation database | 20 | 17 | 10 | 28 | 41 |
| Owner's/managing director's views | 12 | 11 | 16 | 7 | 9 |
| Collective bargaining | 10 | 8 | 7 | 6 | 21 |
| Shareholders' views | 5 | 4 | 6 | 2 | 6 |

Table 6: Pay progression criteria used within a combination approach, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Individual performance | 87 | 92 | 88 | 78 | 79 |
| Market rates | 69 | 73 | 74 | 64 | 41 |
| Competency | 54 | 55 | 55 | 49 | 54 |
| Organisational performance | 51 | 55 | 57 | 43 | 20 |
| Skills | 38 | 40 | 42 | 31 | 24 |
| Team profit/performance | 23 | 26 | 27 | 17 | 6 |
| Length of service | 17 | 8 | 12 | 34 | 46 |

Table 7: Pay progression criteria used within a combination approach, by occupation (%)

| | Senior management | Middle/first-line management | Technical/ professional | Clerical/manual |
|---|---|---|---|---|
| Individual performance | 90 | 90 | 87 | 82 |
| Market rates | 68 | 69 | 70 | 67 |
| Competency | 55 | 54 | 56 | 51 |
| Organisational performance | 64 | 52 | 44 | 41 |
| Skills | 36 | 36 | 41 | 39 |
| Team profit/performance | 28 | 27 | 20 | 17 |
| Length of service | 16 | 16 | 18 | 19 |

Table 8: Organisations that award an annual general or cost-of-living pay rise, by sector and occupation (%)

| | Senior management | Middle/first-line management | Technical/ professional | Clerical/manual |
|---|---|---|---|---|
| All | 52 | 54 | 55 | 54 |
| By sector | | | | |
| Manufacturing and production | 46 | 47 | 47 | 49 |
| Private sector services | 34 | 35 | 36 | 34 |
| Voluntary sector | 72 | 80 | 82 | 77 |
| Public services | 85 | 86 | 90 | 87 |

Table 9: The most important factors for employers when determining their annual pay review, by sector, 2008

| Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|
| Organisation's performance (61%) | Organisation's performance (68%) | Inflation (60%) | Level of government funding/ pay guidelines (68%) |
| Inflation (55%) | Movement in market rates (43%) | The 'going rate' of pay awards elsewhere (38%) | Union/staff pressures (40%) |
| Movement in market rates (35%) | Inflation (39%) | Organisation's performance (34%) | Inflation (33%) |
| The 'going rate' of pay awards elsewhere (26%) | Recruitment and retention issues (34%) | Recruitment and retention issues (27%) | The 'going rate' of pay awards elsewhere (18%) |
| Recruitment and retention issues (24%) | The 'going rate' of pay awards elsewhere (28%) | Movement in market rates (24%) | Organisation's performance (18%) |

Table 8 shows that just over half of our respondents award an annual pay rise or cost-of-living adjustment. However, it finds that both manufacturing and production and private sector service employers are less likely to provide an across-the-board rise, preferring to allocate a pay budget to departmental heads to allocate among staff according to team and individual contribution, market rates and inflation. Even support staff in these sectors are now no longer likely to receive a traditional across-the-board rise.

We asked our respondents which three factors would be most influential in determining the size of the overall pay review budget (including across-the-board pay

Table 10: Organisations changing their pay arrangements, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Changing the way the pay structure is organised | 37 | 37 | 36 | 40 | 36 |
| Changing the way that pay rates/ ranges/mid-points are attached to the pay structure | 27 | 25 | 24 | 31 | 32 |
| Changing the way that employees progress within their pay ranges | 32 | 33 | 30 | 31 | 34 |
| Changing the factors that determine the size of the pay review | 25 | 25 | 29 | 25 | 17 |
| Introducing a new job evaluation scheme | 23 | 25 | 19 | 33 | 23 |
| Changing the existing job evaluation scheme | 13 | 14 | 13 | 11 | 16 |

increases) in 2008. Table 9 (page 9) shows that organisational performance is most important, though there are variations by sector, with the level of government funding being key in the public sector and inflation in the voluntary sector.

### Changes planned

As ever, 2008 will prove a busy year for reward professionals, with many employers planning to amend how they manage their existing base pay arrangements. Table 10 shows that the most common approach is to amend the existing pay structure, followed by the way that salaries are attached to it and the way that individuals progress along that structure.

# Variable pay

Our survey shows the widespread use of bonus and employee share schemes as employers seek to link reward with individual and/or collective performance.

**Bonuses and incentives**

The use of variable pay is a popular method of reward, with 70% of our respondents using it. Table 11 shows the variations by sector and size, with these arrangements being more popular in the private sector. The frequency of these schemes has dipped since last year in the public sector, which may reflect equal pay concerns in local government.

Table 12 overleaf shows that most employers operate more than one scheme, with the median at 2.0 schemes and the mean at 3.68, indicating that a number of employers operate a large number of cash-based bonus and incentive schemes.

Of those with a scheme, the most popular arrangement is an individually based plan (such as commissions), followed by a plan driven by business results (such as profit). Table 13 overleaf shows the various approaches adopted by the four main economic sectors, with a scheme linked to individual performance being the most common form of bonus plan within the public services sector.

Table 11: Use of cash-based bonus/incentive plans and recognition schemes, by sector and size (%)

| | Cash-based bonus or incentive plan | Recognition scheme |
|---|---|---|
| All employers | 70 | 35 |
| By sector | | |
| Manufacturing and production | 86 | 30 |
| Private sector services | 89 | 46 |
| Voluntary sector | 30 | 15 |
| Public services | 30 | 27 |
| By size | | |
| 0–49 | 67 | 15 |
| 50–249 | 66 | 24 |
| 250–999 | 72 | 35 |
| 1,000–4,999 | 78 | 47 |
| 5,000+ | 69 | 49 |

Table 12: Numbers of cash-based bonus or incentive schemes, by sector (%)

| | Lower quartile | Median | Upper quartile | Mean |
|---|---|---|---|---|
| All | 1 | 2 | 3 | 3.68 |
| By sector | | | | |
| Manufacturing and production | 1 | 2 | 3 | 2.83 |
| Private sector services | 1 | 2 | 5 | 4.52 |
| Voluntary sector | 1 | 1 | 2 | 1.55 |
| Public services | 1 | 2 | 3 | 2.00 |
| By size | | | | |
| 0–49 | 1 | 1 | 3 | 1.97 |
| 50–249 | 1 | 2 | 3 | 2.29 |
| 250–999 | 1 | 2 | 4 | 3.14 |
| 1,000–4,999 | 2 | 3 | 5 | 5.70 |
| 5,000+ | 1 | 2 | 4 | 6.34 |

Table 13: Types of cash-based or incentive plans on offer, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Individual-based | 60 | 53 | 61 | 65 | 72 |
| Schemes driven by business results | 51 | 57 | 54 | 26 | 19 |
| Combination | 50 | 46 | 57 | 35 | 25 |
| Team-based | 27 | 24 | 30 | 26 | 16 |
| Ad hoc/project-based | 19 | 20 | 20 | 4 | 28 |
| Gainsharing | 3 | 3 | 3 | – | 3 |

Table 14: Changes planned, by sector (%)

| | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|
| No changes planned | 59 | 47 | 77 | 76 |
| Amending existing bonus arrangements | 32 | 46 | 13 | 18 |
| Introducing a bonus scheme for the first time | 5 | 2 | 9 | 4 |
| Introducing an additional scheme | 4 | 0 | 1 | 2 |

Around two-fifths of respondents plan to amend their present bonus and incentive arrangements or introduce new schemes, either to sit alongside existing plans or for the first time. Table 14 shows that private sector service firms will be most likely to be busy in this regard.

On average, our respondents review their existing bonus and incentive schemes within two years (1.83 years). By sector, private sector service organisations typically review their arrangements every 1.69 years, followed by public sector service employers (1.95), manufacturing and production companies (1.98) and voluntary sector firms (2.11).

**Recognition schemes**

Over one-third of employers operate recognition and non-cash incentive schemes. Table 11 (page 11) shows that both private sector and larger employers are more likely to operate such plans. The average number of such schemes is 2.24. Table 15 shows that private sector service firms operate the most number of schemes per organisation.

On average, our respondents review their existing recognition and non-cash incentive schemes within two years (1.91), slightly less frequently than cash-based bonus and incentive schemes are re-examined. By sector, private sector service organisations typically review their arrangements every 1.75 years, followed by manufacturing and production companies (2.01), public sector service employers (2.11) and voluntary sector firms (2.16).

**Share schemes**

Just under half (47%) of private sector respondents have a share arrangement or other long-term incentive arrangement for some or all of their employees. Table 16 lists the most common employee share plans on offer. Table 16 shows that share incentive plans are now a slightly more popular form of all-employee share plans among our survey respondents than the traditional save-as-you-earn scheme. On the executive front, while options still remain the most common option, restricted/performance share plan schemes have grown in popularity.

Table 15: Numbers of recognition and non-cash incentive schemes, by sector (%)

| | Lower quartile | Median | Upper quartile | Mean |
|---|---|---|---|---|
| All | 1 | 1 | 2 | 2.24 |
| By sector | | | | |
| Manufacturing and production | 1 | 1 | 2 | 1.77 |
| Private sector services | 1 | 2 | 3 | 2.63 |
| Voluntary sector | 1 | 1 | 2 | 1.42 |
| Public services | 1 | 1 | 2 | 1.58 |
| By size | | | | |
| 0–49 | 1 | 1 | 1 | 1.00 |
| 50–249 | 1 | 1 | 2 | 1.50 |
| 250–999 | 1 | 1 | 2 | 1.98 |
| 1,000–4,999 | 1 | 1.5 | 1 | 2.87 |
| 5,000+ | 1 | 1 | 2 | 2.39 |

Table 16: Common types of long-term incentives, by sector (%)

| | Manufacturing and production | Private sector services |
|---|---|---|
| Executive share option schemes | 55 | 46 |
| Share incentive plans (SIPs) | 39 | 26 |
| Company share option plans (CSOPs) | 30 | 33 |
| Save as you earn (SAYE) | 32 | 25 |
| Executive restricted/performance share plan | 32 | 25 |
| Other | 11 | 17 |
| Executive deferred/co-investment share plan | 9 | 9 |
| ‘Phantom’ share scheme | 8 | 2 |
| SARS/Equity-settled SARS | 6 | 3 |
| Enterprise management incentives (EMIs) | 2 | 5 |

## Transport for London adopting a new approach to reward

Transport for London (TfL) was created in 2000 as the integrated body responsible for the capital's transport system. The main role of TfL, which is part of the Greater London Authority, is to provide the most integrated, efficient, accessible, reliable and safe journeys possible, supporting London's economic development, environment and local communities. More than 27 million journeys are made across London every day, from local walks to deliveries and cycle trips to the daily commute. This means that TfL, by supporting the people who live, work and travel in the capital, has a pivotal role in sustaining London's success.

TfL employs approximately 21,500 staff in a variety of roles and specialisms including tube and some bus drivers, engineers and project managers, to name a few. According to most recent data, 34% of staff are from black, Asian and minority ethnic communities, women represent 21.5% of the workforce and the number of disabled people at TfL is 6.9%. As a percentage of total expenditure, labour costs account for around 14%.

In 2003–04, TfL embarked on creating a reward strategy to align the aims of the organisation with how it rewarded and recognised its employees. This built on a series of other initiatives that were taking place at this time in HR to enhance its systems, capability and culture, including a move to shared services and business partnering, and the introduction of a new integrated HR information system.

At the time, existing reward policies and practices were not seen as helping the organisation to achieve what was needed. Reward was too internally focused and reward for performance placed too much emphasis on rewarding purely 'what' had been achieved without rewarding the right behaviours. Additionally, there was no recognition of corporate or functional performance and there was little accountability for pay decisions at managerial level.

Jo Kelly, Head of Group Compensation and Benefits at TfL, started the process of creating a reward strategy by involving senior managers, via workshops and surveys, to get their opinions. Using this feedback, HR came up with a set of reward principles to underpin its strategy. The principles include: flexibility; transparency; pay for performance; capability development; appropriate market rates; total remuneration; and fostering teamworking. The resulting reward strategy aims to create a performance-driven organisation; build leadership, management and organisational capability; enable operational excellence and build an employee relations environment.

Once the strategy had been ratified, HR then embarked on a process of embedding it in the organisation, starting at the top with around 700 senior managers.

The senior management reward framework is made up of three elements: a base pay framework that measures internal relativity of roles and ensures market competitiveness through market pricing; a performance assessment framework for determining individual contribution; and a bonus scheme to differentiate and reward higher-performing employees. In addition, TfL has delegated pay authority to directors and created a supporting pay review tool to inform costs and impact on decisions.

For senior managers, their roles are now classified into groups based on an assessment against defined factors for leadership; complexity of problems; relationships and influencing; impact; and professional competence and expertise. Classification group pay ranges are then determined by relativity to external market pricings. Benchmark roles within each classification group are priced against the median

## Transport for London adopting a new approach to reward (continued)

position of TFL's comparator market. Jo Kelly says that this approach allows specialist skills to be recognised and rewarded without distorting the whole pay structure, recognises the regional premium of being based in London and provides ability to respond more flexibly to attraction and retention.

According to Jo Kelly, while a senior manager's salary now reflects sustainable individual contribution, their performance is reflected in non-consolidated cash bonuses. Previously performance-based pay had been linked to individual performance, but it has now been widened out to include organisational and business unit performance as well. A 'target' bonus is set for senior managers, with the 'actual' bonus budget based on the year-end assessment of performance against the business scorecard (people, financial, operational and customer). The individual bonuses paid within this budget are then determined by how each employee has performed, that is, what they have contributed as well as how they contributed (based around TfL's leadership principles and values). Bonus payments vary between 0% and 15% and must be kept within the available budget. Pay decisions are audited by HR to ensure that there is equity within business units as well as across the organisation.

Kelly admits that TfL's base and variable pay approach was a radical departure for the organisation from the existing pay framework. While performance had previously been recognised, the supporting performance assessment was now based on a greater variety of measures. In addition, the flexibility now exists to deal with pay relativities during the annual review, based upon peer as well as market comparisons. Clearly, this increases the interest in and places greater scrutiny on the robustness of the data used to market-price salaries.

There was also some concern from employees about the impact of non-consolidated increases on TfL's final salary pension scheme. The organisation was keen to stress that the new reward strategy was not about cutting pension costs, but fostering and supporting sustainable high performance. Bonus awards can be salary-sacrificed into TfL's supplementary pension scheme, and 17% of senior managers have taken this up. To help senior managers understand the scheme, HR run a series of seminars on how it operates and the range of investment options available.

For the remainder of employees, operational employees (for example, station staff) are paid spot salaries, according to their role within job families. These salaries are increased annually by an award negotiated with recognised trade unions (currently a three-year RPI + deal). Administrative and management grades receive pay increases based on an assessment of their individual performance; each performance rating attracts the same pay increase.

To support directors with the annual pay review of their staff, HR has developed an online pay review tool. Directors can enter pay decisions into the system and then generate reports before making final pay decisions, to check that their department is within budget and that there is no bias within the decisions. According to Jo Kelly, 'This was a great improvement on previous years when, like many other employers, the pay planning process was based on a myriad of Excel spreadsheets and concerns around potential data protection issues.' The new system also gives managers basic information about the employee, such as previous pay awards.

(continued)

## Transport for London   adopting a new approach to reward (continued)

While it is still early days, Jo Kelly believes that already there have been a number of positive impacts on the organisation so far. One is a greater maturity over pay decisions: with HR business partners working proactively with directors to provide support with their pay and bonus decisions, the focus is increasingly on a total cash perspective. Another is a better alignment between what the organisation and its business units are trying to achieve and how it rewards and recognises this.

Going forward, TfL is looking to improve pay education and communication through business partnering, which means that business partners need to be equipped with the knowledge and experience to support their businesses. It is also looking at how the reward strategy can be applied to other managerial groups. However, Kelly concedes that the frameworks may have to be adapted, especially given that some employee groups have less influence on the performance indicators used in the business scorecards. 'If some employees cannot see a direct link between how they're rewarded and their impact on the organisation then we have to ask ourselves is this the right approach? And if not, what are the alternatives? We need to focus first on getting the questions right before we start coming up with the answers.'

*Information supplied by Jo Kelly, Head of Group Compensation and Benefits, TfL.*

# Pensions and benefits

The decline of final salary provision within the private sector continues according to our survey, but it also finds some employers starting to increase their contributions to their defined-contribution arrangements. The survey also finds reward practitioners busy enhancing the benefit package offered to employees.

Virtually all of our sample (97%) provide their employees with access to a pension scheme. Table 17 shows that final salary schemes are the most common type of pension provision, followed by group personal pension (GPP) schemes. There are variations by sector and size, with money purchase arrangements (such as GPP or stakeholders) more common among smaller private sector employers. This year for the first time, a new type of pension arrangement was picked up by our survey: group self-invested personal pension.

Further analysis of the most prevalent form of pension arrangements – final salary benefit schemes – shows that while most are still open to new employees in the public sector, they are now mostly closed to new entrants or future accrual in the private sector (Table 18 overleaf).

Since 2007, the overall proportion of final salary pension schemes closed to new employees has increased from 34% to 44%, mostly within the private sector.

Just 3% of our sample use enhanced transfer values to encourage employees who are members of final salary pension schemes to switch to money-purchase arrangements.

To support pension take-up and contribution among employees, 29% of respondents have adopted salary sacrifice. Employers within private sector service firms (37%), followed by manufacturing and production companies (29%), are most likely to be using this practice compared with 19% of public service organisations and 12% of voluntary sector employers.

Table 17: Main pension provision, by sector (%)

| | Total | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Final salary scheme | 53 | 47 | 41 | 52 | 88 |
| Group personal pension (GPP) | 34 | 39 | 47 | 25 | 3 |
| Stakeholder pension (with employer contribution) | 26 | 29 | 25 | 29 | 21 |
| Defined-contribution (DC) plan | 22 | 39 | 24 | 12 | 4 |
| Stakeholder pension (no employer contribution) | 15 | 13 | 22 | 8 | 5 |
| Contribution to personal pension | 6 | 5 | 6 | 8 | 6 |
| Career-average scheme | 5 | 2 | 5 | 13 | 5 |
| Group self-invested personal pension (SIPP) | 2 | 2 | 2 | 1 | 1 |
| Hybrid | 1 | – | 2 | – | – |
| Other | 1 | – | 2 | – | 2 |

Table 18: Final salary pension arrangements, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Open to all | 47 | 18 | 19 | 60 | 83 |
| Closed to new employees but not future accruals | 44 | 68 | 64 | 35 | 10 |
| Closed to new employees and future accruals | 11 | 15 | 14 | 5 | 6 |
| Wind up | 3 | – | 5 | – | 2 |

Such arrangements are more common among larger employers, with 41% of those with 5,000 or more staff operating such an arrangement.

Interestingly, respondents are evenly split in what they do with the National Insurance Contributions (NICs) that they save. Around half of employers retain the NICs that they have saved, while the other half share it with their employees. By sector, private sector service firms are more likely to share the NICs saving with their staff (53%), followed by manufacturing and production (49%), and the voluntary and public sectors (both 43%).

Another approach to boosting pension savings is to operate a Save More Tomorrow™ plan. Around 6% of employers allow their staff to pre-commit to save a proportion of any future pay rise into their pension fund.

### Changes planned for 2008

Around one-fifth of employers (18%) will be amending their existing pension arrangements this year. By sector, public sector employers (23%) and private sector service firms (22%) are more likely to be making changes, followed by manufacturing and production firms (11%) and voluntary sector organisations (10%). Table 19 reveals that increasing employer contributions is the most common approach, though this varies by sector.

Of those employers increasing their contributions, 40% are putting more money into their defined-benefit (DB) plans, while 60% are putting them into their money-purchase plans, especially trust-based defined-contribution (DC) plans (23%), GPPs (23%) and stakeholders (14%). That more employers are increasing their contributions to money-purchase schemes may reflect concerns that in the future employees covered by these pension arrangements may have to stay with them for longer, as they cannot afford to retire.

### Benefits

By sector, Table 20 shows which benefits are most commonly provided to some or all employees. We don't examine individual well-being benefits (such as private medical insurance or permanent health insurance), as these have already been covered by our *Employee Absence* survey report.

Table 19: Changes planned to occupational pension arrangements, by sector (%)

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Increase employer contributions | 30 | 33 | 27 | 43 | 29 |
| Introduce salary sacrifice | 29 | 33 | 33 | 14 | 21 |
| Increase employee contributions | 24 | 27 | 16 | 29 | 38 |
| Amend existing final salary pension scheme | 24 | 20 | 11 | 43 | 50 |
| Close final salary scheme to new employees | 10 | 13 | – | 29 | 17 |

Table 20: Top ten employer-provided benefits by sector, 2008

| All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|
| 25 days' or more paid leave (84%) | 25 days' or more paid leave (90%) | Tea/coffee/cold drinks – free (85%) | Training and career development (90%) | 25 days' or more paid leave (89%) |
| Training and career development (79%) | Training and career development (78%) | Christmas party/ lunch (84%) | 25 days' or more paid leave (86%) | Training and career development (85%) |
| Tea/coffee/cold drinks – free (70%) | Christmas party/ lunch (77%) | 25 days' or more paid leave (78%) | Tea/coffee/cold drinks – free (86%) | Enhanced maternity/ paternity leave (74%) |
| Christmas party/ lunch (69%) | Company cars (75%) | Life assurance (73%) | Christmas party/ lunch (63%) | Childcare vouchers (66%) |
| Childcare vouchers (62%) | Life assurance (75%) | Training and career development (73%) | Enhanced maternity/ paternity leave (63%) | Health and well-being benefits (59%) |
| Life assurance (59%) | Car allowances (70%) | Car allowances (66%) | Childcare vouchers (50%) | Relocation assistance (58%) |
| Car allowances (57%) | Tea/coffee/cold drinks – free (69%) | Childcare vouchers (64%) | Mobile phones (47%) | Carer's leave – paid (44%) |
| Health and well-being benefits (57%) | Childcare vouchers (69%) | Health and well-being benefits (60%) | Life assurance (44%) | Formal coaching/ mentoring schemes (42%) |
| Mobile phones (54%) | Mobile phones (69%) | Dress-down days (60%) | Health and well-being benefits (41%) | Mobile phones (35%) |
| Enhanced maternity/ paternity leave (54%) | Relocation assistance (63%) | Mobile phones (60%) | Relocation assistance (40%) | Bicycle loan (34%) |

*Percentage of respondents in brackets*

At the other end of the spectrum, less commonly provided employee benefits include: loans for first home (2% of all employers); mortgage assistance (4%); concierge benefits (4%); paid leave to train or compete in a sports event (6%); on-site crèche (6%); paid sabbaticals (7%); and all-employee car ownership schemes (7%). With the 2012 London Olympics approaching it will be interesting to see whether more UK employers offer financial support to employees competing in these games.

Table 21 compares the provision of benefits between very small and very large employers. Interestingly, some low-cost benefits that are common in small employers,

Table 21: Benefit provision by employer size

| Number of employees (0–49) | Number of employees (5,000+) |
|---|---|
| 25 days' or more paid leave (88%) | 25 days' or more paid leave (90%) |
| Tea/coffee/cold drinks – free (83%) | Training and career development (85%) |
| Christmas party/lunch (81%) | Relocation assistance (74%) |
| Training and career development (69%) | Car allowances (72%) |
| Life assurance (52%) | Health and well-being benefits (72%) |
| Mobile phones (52%) | Childcare vouchers (69%) |
| Childcare vouchers (44%) | Enhanced maternity/paternity leave (68%) |
| Health and well-being benefits (40%) | Formal coaching/mentoring schemes (56%) |
| Dress-down days (35%) | Life assurance (56%) |
| Car allowances (33%) | Mobile phones (56%) |

*Percentage of respondents in brackets*

Table 22: 'Flexible' benefits (%)

| | Voluntary benefit scheme | Flexible benefits | Opportunities for flexible working |
|---|---|---|---|
| Currently offer | 27 | 13 | 60 |
| Plan to offer | 10 | 12 | 8 |
| Does not offer or plan to offer | 64 | 76 | 32 |

such as free drinks and a Christmas party, are not that usual among the largest organisations. Many of the top ten benefits provided by small and large employers are the same; it is just that fewer smaller employers offer them. For instance, both offer childcare vouchers, but 69% of large employers offer this benefit while just 44% of small employers do likewise.

## Flexibility

Table 22 shows that the most popular form of flexible benefit is flexible working, with 60% offering it to their employees. By sector, public sector employers (78%) are most likely to offer this benefit, followed by voluntary sector employers (67%), private sector service firms (56%) and manufacturing and production companies (50%). By size, either the very largest employers (76%) or the very smallest (71%) are most likely to offer this arrangement.

The second most common 'flexible' arrangement on offer is voluntary benefits. By sector, this is most popular among private sector service employers (34%), followed by public sector organisations (25%), manufacturing and production firms (21%) and voluntary sector firms (18%). Just over one in ten employers (13%) offer flexible benefits. By sector, this is most popular among private sector service employers (17%), followed by manufacturing and production firms (15%), public sector organisations (7%) and voluntary sector firms (5%). The incidence of flexible and voluntary benefits increases with employer size. Among those with over 5,000 staff, 49% have voluntary benefits and 22% have flexible benefits.

## Benefit expenditure

Table 23 shows that, on average, employee benefits account for 16% (mean) of the total pay bill; however there are variations by sector and by size.

Table 23: Benefit expenditure as a percentage of the pay bill, by sector and size (%)

| | Lower quartile | Median | Upper quartile | Mean |
|---|---|---|---|---|
| All | 8 | 15 | 21 | 16 |
| By sector | | | | |
| Manufacturing and production | 10 | 17 | 30 | 20 |
| Private sector services | 8 | 15 | 20 | 16 |
| Voluntary sector | 5 | 10 | 15 | 12 |
| Public services | 9 | 15 | 25 | 16 |
| By size | | | | |
| 0–49 | 9 | 11 | 20 | 13 |
| 50–249 | 8 | 11 | 20 | 14 |
| 250–999 | 8 | 15 | 20 | 16 |
| 1,000–4,999 | 9 | 17 | 30 | 19 |
| 5,000+ | 12 | 20 | 25 | 21 |

When asked to predict what would happen to their benefit budget this year, 43% believe that it will stay the same, 39% say it will increase, 2% say it will fall while 16% were unable, or unwilling, to offer a prediction. Private sector service employers are the most bullish, with 46% predicting a growth in the benefit budget, followed by manufacturing and production (37%), voluntary sector employers (36%) and public sector firms (28%).

### Changes planned in 2008

Many reward and HR practitioners will be busy in 2008 amending their existing benefit package to support business goals, enhance the employer brand and deliver value for money, with just over half of respondents planning to make changes in 2008. The most common employee benefits being introduced include: childcare vouchers (10% of all employers); bicycle loan (9%); formal coaching/mentoring schemes (7%); health and well-being benefits (4%); and free financial education/advice (4%).

However, 15% of our sample intend to phase out an existing employee benefit this year. Employee benefits being axed by respondents include: home computers (5%); company cars (3%); car allowances (3%); all-employee car ownership schemes (1%); and car loans (1%). With the end of the home computer initiative, employers are not renewing these benefits. Similarly, due to the tax changes around holiday pay schemes, we predict that the 5% of employers who already operate such a scheme or who were planning to introduce it will reconsider this benefit.

While 9% of employers intend to expand the coverage of some of their benefits package (especially generous leave allowances), 10% intend to restrict coverage (especially car allowances, company cars and mobile phones).

When it comes to value, 8% of respondents intend to enhance the value of their benefits while just 2% plan to reduce it.

### Nottingham City Council

Sixty-three per cent of Nottingham City Council's 13,219 staff work part-time, 71% are female and most are aged between 35 and 44 years. The council employs such workers as teachers, street cleaners, lawyers, leisure workers, accountants, school cooks, architects, and so on. Labour costs represent around 75% of the council's total expenditure.

According to Ms Humphries, HR Consultant, there were a number of drivers behind Nottingham City Council's review of its employee benefits package.

In 2002, the Audit Commission suggested there should be a stronger link between what the council was trying to achieve as an organisation and its people management and development practices. It was pointed out how the council's aims and objectives could help to be met by changing the way it rewarded, recognised and then influenced required employee performance, values, behaviours and attitudes.

The council was also operating in a tight labour market and was struggling to recruit and retain employees. Before the new benefit package was introduced, overall employee turnover was running at 15%. The organisation saw that it could offer a strong employee value proposition by offering a great benefit package, which included flexible working opportunities, to attract and retain staff as well as promote high-performance working.

(continued)

## Nottingham City Council (continued)

After the Audit Commission's warning, the council embarked on creating a pay and benefit strategy aimed at supporting the organisation's business objectives and creating a strong employer brand.

At that time, the benefit package consisted of the usual local government benefits, final salary pension scheme, death-in-service benefit, leave, and so on, plus a few voluntary benefits that the council had negotiated locally. Feedback from employee exit interviews and the biennial staff engagement survey found low appreciation of the benefits. In part, this was because the council was not effectively communicating the benefits package other than at the recruitment and selection stage. The challenge would be threefold: offering benefits that employees wanted; communicating them in such a way that employees were aware of their existence; and creating and communicating the package in a cost-effective manner.

To ensure that the new benefit package did not cost the council money, it opted for a voluntary benefits scheme. By using its National Insurance savings through tax-favoured benefits, such as childcare vouchers, the council has been able to recycle the money to expand the range of benefits to meet employee demands, to keep the scheme fresh and to better communicate the benefits.

With so many staff, the package needed to be flexible enough to offer something to everyone. To help achieve this, the council selected a representative sample of council employees to get feedback on its proposal and to find out what benefits employees would like to see in the package. Once it had developed the benefits offering with the aid of its consultants, P&MM, it asked staff to come up with the name for the overall scheme: 'Works Perks'. The scheme was eventually launched in October 2005 to all employees, including its 2,000 teachers.

Since then, the council, with P&MM, has been on the lookout for new and exciting benefits to enhance its offering. One that it has created recently is 'greentravel2work'. This offers employees savings on bus travel to work through salary sacrifice. The council is keen to stress that the initiative also helps employees contribute to improving the environment. Overall, through their Employee Citycard – which carries the value of greentravel2work bus travel on Nottingham City Transport as well as the council ID card and gym and library membership – staff are able to obtain discounts on products from over 90 different firms.

As well as sorting out the costing of the scheme and the benefits it would provide, the council had to communicate the package to existing and potential employees. It has created a benefits book, listing all the benefits available under broad headings, such as health and well-being. Being able to take the booklet home was seen as important because it would help get the employee's family onside and help with staff retention. Unlike many other employers, Ms Humphries points out that they cannot rely solely on communicating the benefit package via computers because only half of its employees has access to one at work.

The council has created leaflets to put in job packs to attract new employees and also advertises benefits on the pay slips to highlight them to existing staff. The career section of the council website also lists the benefits offered by the council. In its employee magazine it has case studies of individuals who use Works Perks. According to Ms Humphries, it helps employees identify with the benefit scheme because they can see how people like them are using it.

## Nottingham City Council (continued)

Line managers are seen as key to promoting the package to individuals when they are thinking of joining or leaving the council, as well as dealing with benefit questions from their team. The council has run a number of benefit road shows, which it has filmed and subsequently turned into a DVD for distribution to line managers and every employee so that they may show Works Perks benefits to their families and friends.

According to Ms Humphries, the take-up of Works Perks among staff has been very positive, with 23% of staff taking up at least one of the benefits, and many more using the discount options. The launch of Works Perks has also coincided with a 6% drop in employee turnover. Over the same period, the proportion of locals employed by the council has increased from 45% to 53%. An employee engagement survey also shows an increase in the proportion of employees who are more satisfied with their rewards. To date, the scheme has won six national awards.

Ms Humphries believes the success of the scheme is down to a number of factors, namely: the marketing and communication effort, especially tailoring the message to meet the needs of various segments of employees; bringing out new benefits to refresh the brand and maintain employee engagement; and that there's a clear line of sight between what the organisation is trying to achieve and how Works Perks supports that.

However, the council is not content to rest on its laurels. It is still looking to increase the range of work–life balance and well-being benefits, and offer more benefits from local businesses. It is investigating the business case for an employee assistance programme, and it is analysing what would be needed to integrate the HR, payroll and benefit systems to create an online total reward offering.

Ben Browne, Human Resources Director, says: 'Good customer service is delivered by well-motivated and valued employees. Works Perks has helped us retain our workforce and demonstrate that Nottingham City Council does value the people that work here. It's helped us to compete for the position of employer of choice in Nottingham in attracting local people to apply for jobs with us in an increasingly competitive marketplace.'

*Information supplied by Helen Humphries, HR Consultant, Nottingham City Council.*

# Equal pay reviews

Just over half of respondents have carried out an equal pay review (EPR), or are planning to do so in the next 12 months.

Table 24 shows that there are variations by sector, where encouragement from the Government and its agencies, national employer bodies, unions and the law have resulted in 82% of employers undertaking an EPR. By size, smaller employers find it easier, or are more willing, to undertake an EPR.

Of the 32% of respondents that plan to carry out an EPR in 2008, 97% of them intend to use the opportunity to cover age, while 77% will look at race, 74% intend to cover disability, and 55% plan to cover religion.

Table 24: Percentage of respondents that have either carried out an EPR or are planning to do one in 2008, by sector and size (%)

| | |
|---|---|
| All | 54 |
| By sector | |
| Manufacturing and production | 44 |
| Private sector services | 48 |
| Voluntary sector | 56 |
| Public services | 82 |
| By size | |
| 0–49 | 63 |
| 50–249 | 42 |
| 250–999 | 38 |
| 1,000–4,999 | 33 |
| 5,000+ | 21 |

# Pay communication

**Respondents reveal concerns about whether what they do actually supports both their organisation's employer brand, or their line managers, when they communicate to their teams the rationale behind pay decisions.**

Traditionally, communications has been seen as a 'soft' area of reward, compared with the 'hard' elements such as technical knowledge and understanding, and design. However, communications is now being regarded as the new 'hard', something that employers can use to create a strong employer brand, an identity that rival employers will find hard to replicate.

Just under two-fifths of employers (37%) have a discernable employer brand that differentiates it as a workplace. However, those with an employer brand are not convinced that their current reward practices are aligned to it. We asked them to rank on a scale from 0 (not at all) to 3 (fully) how well they felt that their organisation's reward policies and practices supported their employer brand. Overall, they gave their reward programme a mark of 1.7, with little variation by sector or employer size. And this unease about how well reward practices support the brand is reflected in how well the organisation is communicating its messages around pay increases and bonus awards.

Table 25 shows the parties involved in delivering the message around pay and the ways that it is delivered. Overall, the parties most usually involved are line

Table 25: Who delivers the messages on pay and how, by sector and size (%)

| | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|
| Parties involved | | | | |
| Line managers | 75 | 82 | 63 | 50 |
| HR | 74 | 65 | 77 | 88 |
| Chief executive | 39 | 39 | 51 | 43 |
| Unions/staff associations | 22 | 17 | 22 | 59 |
| Methods used | | | | |
| Letters | 73 | 77 | 71 | 64 |
| Face-to-face, individual meetings | 59 | 65 | 47 | 23 |
| Emails | 21 | 24 | 39 | 50 |
| Intranet | 18 | 19 | 26 | 65 |
| Face-to-face group meetings | 24 | 22 | 36 | 27 |
| Union communication | 15 | 13 | 15 | 52 |
| Video/DVD | – | 1 | – | 2 |
| Blogs | 1 | 1 | – | – |
| Podcasts | – | 1 | – | – |

managers and HR. However, Table 25 reveals differences by sector, where unions and staff associations are more involved in pay communication in the public services sector.

And there are variations in the way pay messages are delivered. Public sector employers, because of their size, are far more likely to use IT to deliver pay messages, such as the intranet and emails, than other sectors. Because of the prevalence of performance-related pay systems in both of the private sectors, employers are more likely to use individual meetings to deliver the pay message. Despite the widespread use of blogs and podcasts among the young, many employers are failing to use this technology, possibly because they don't understand it or how it can be relevant to them.

Of the 73% of employers who say that line managers communicate the pay message, 68% have given them formal responsibilty for doing this. By sector, 81% of private sector service firms give their line managers a formal role, followed by manufacturing and production companies (75%), voluntary sector firms (49%) and public sector employers (40%). Again, these findings may be a reflection of the different ways that pay is determined between the for-profit (which often uses performance-related management/ appraisal as the basis of pay increases) and not-for-profit sectors where an individual's salary rise will only be withheld if they are a poor performer.

Of those employers that do give their line managers a formal role in delivering the pay message to their employees, we asked them to indicate on a scale of 0 (not at all) to 3 (fully) to what extent line managers are coached and developed to communicate the messages around pay increases and bonus awards. Overall, the mean score is 1.5, ranging from 1.6 in both of the private sectors to 1.0 in the voluntary sector. By size, the score starts at 1.4 for employers with fewer than 49 staff to 1.9 with those with more than 5,000.

Given these low scores, most employers who give their line managers a formal role in delivering messages around pay are not wholly confident in their line managers' capability to undertake this responsibility. We asked our respondents to rate on a scale of 0 (not at all) to 3 (fully) how confident they were in their line managers' ability to give the appropriate pay messages to staff. Overall, they gave them a 1, with little variation by sector. By size, confidence in line managers' capabilities falls as the organisation grows, from 1.4 (for employers with fewer than 49 staff) to 0.7 (with more than 5,000 employees). Interestingly, this is despite larger employers being slightly more likely to provide coaching and development to line managers. These findings suggest that employers should start to focus on developing line managers' capabilities in this area first, before expecting or giving them a role.

With the focus on total remuneration, some reward experts have suggested that under a total remuneration approach, rather than focusing on the percentage increase at the salary review, employers should focus on the increase in pounds. Overall, just under one-third of respondents (31%) now concentrate on the increase in pounds rather than percentage. At present, the approach is more common among private sector service employers (38%) and manufacturing and production firms (32%) than in public service organisations (22%) and voluntary sector companies (16%).

# The greening of reward?

While many employers have adopted a formal environmental policy, few have examined whether their reward and recognition practices actually support this policy.

Our research shows that just under half of our survey sample (49%) has a formal environmental policy. Manufacturing and production employers are most likely to have a scheme (72%), followed by private sector services (44%), public services (43%) and the voluntary sector (36%).

A smaller proportion of respondents (38%) have reviewed their existing reward and employment conditions policies and practices to ensure that they are environmentally friendly. Table 26 shows that again the lead is being taken by manufacturing and production firms.

This activity is probably a reflection that manufacturing and production firms are perceived to have a larger impact on the environment than service sector activity and so both the adoption of an environmental policy and review of existing reward and employment conditions to ensure that it supports it is seen as a way of managing the risk.

Table 27 overleaf shows which reward and employment practices are being examined. It finds that most reviews have focused on the physical work environment (such as office heating, the disposal of office waste, and so on). Few have focused on the financial reward elements, and of those that have, most activity has so far taken place around benefits. Few employers have examined their remuneration practices (such as pay increases or bonus awards) to ensure that they support, rather than conflict with, their environmental objectives.

Table 26: Who has reviewed their existing reward and employment conditions policies and practices to ensure that they are environmentally 'friendly'? By sector and size

| | |
|---|---|
| All | 38 |
| By sector | |
| Manufacturing and production | 43 |
| Private sector services | 37 |
| Voluntary sector | 33 |
| Public services | 37 |
| By size | |
| 0–49 | 21 |
| 50–249 | 38 |
| 250–999 | 39 |
| 1,000–4,999 | 40 |
| 5,000+ | 47 |

Table 27: What reward and employment policies and practices are being reviewed? (%)

| | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|
| Office recycling, waste collection and disposal | 81 | 89 | 96 | 90 |
| Office printing, photocopying and postage | 68 | 77 | 88 | 78 |
| Office heating, ventilation and lighting | 66 | 69 | 76 | 71 |
| Company travel policies | 46 | 58 | 68 | 51 |
| Cycle-to-work/public transport | 44 | 49 | 56 | 66 |
| Company car policies | 63 | 56 | 36 | 27 |
| 'Green' behaviour outside work | 17 | 30 | 36 | 51 |
| Carbon credits | 17 | 29 | 8 | 17 |
| Canteen meal ingredients | 15 | 15 | 16 | 32 |
| Measures used for salary rises, bonus awards and incentive payments | 15 | 17 | 20 | 12 |
| Pension investment options | 7 | 8 | – | 12 |
| Non-cash incentive awards | 10 | 5 | – | 5 |
| Other | 14 | 9 | – | 7 |

We asked our respondents what the drivers are behind these reviews: was it simply cost-cutting dressed up in green? On a scale of 0 to 3, where 3 is significant and 0 not significant, they told us that the most significant driver was enhancing the organisation's reputation (2.59 mean score), followed by protecting the organisation's reputation (2.17), cost-cutting (1.57) and purchasers requiring suppliers to 'go green' (1.34).

Using the same scale, we also asked respondents which stakeholders are the most significant. Senior managers are regarded as bearing the most significance (2.2) in driving the initiative forward, followed by HR (2.0), employees (1.8) and customers/clients (1.6). Interestingly, in the public sector, employees are regarded as more significant than HR in driving the review.

# Reward consultants

Our survey reveals that reward consultants are not the merchants of fad portrayed by their detractors; however, like their practitioner counterparts, most of their activity is focused around the transactional rather than transformational elements of reward.

Between 2004 and 2007, 65% of our sample reported an increase in the amount of reward work in their organisation, while 35% reported the level had remained constant. By sector, Table 28 shows that private sector service firms (70%) followed by public service employers (64%) experienced the greatest increase in reward work. By size, larger employers experienced the greatest increases in reward work.

However, Table 29 reveals that during this period, just 24% of employers took on extra staff to help them deal with this increase in the reward workload. To help overcome extra work with no additional resources, many employers (47%) have turned to using a reward consultant, with private sector service firms and voluntary sector employers leading the way.

The consultants that have been used most often during the past three years are recruitment consultants. Probably as many employers have tried to find suitably qualified and experienced reward staff (permanent or interim) to take on some or all of this additional work first before employing consultants.

Table 28: The growth in reward work, 2004–2007, by sector

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Increased | 65 | 58 | 70 | 61 | 64 |
| Decreased | 4 | 6 | 2 | 5 | 5 |
| Stayed the same | 31 | 36 | 28 | 34 | 31 |

Table 29: The growth of the reward function, 2004–2007, by sector

| | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Increased | 24 | 18 | 26 | 22 | 29 |
| Decreased | 8 | 10 | 8 | 3 | 11 |
| Stayed the same | 68 | 72 | 6 | 75 | 59 |

Table 30: Most common areas of work for reward consultants*, 2004–2007, by sector (%)

| Areas of work | All | Manufacturing and production | Private sector services | Voluntary sector | Public services |
|---|---|---|---|---|---|
| Recruitment of permanent/ interim reward staff | 45 | 42 | 45 | 44 | 48 |
| Job evaluation | 41 | 42 | 30 | 64 | 54 |
| Executive remuneration | 37 | 39 | 37 | 53 | 25 |
| Pensions | 37 | 53 | 44 | 33 | 4 |
| Job pricing/benchmarking | 32 | 26 | 3 | 36 | 25 |
| Pay structures | 26 | 25 | 22 | 42 | 31 |
| Voluntary/flexible benefits | 24 | 30 | 27 | 19 | 13 |
| Health and well-being benefits | 20 | 23 | 23 | 19 | 8 |
| Reward strategy | 17 | 19 | 15 | 17 | 19 |
| Tax | 16 | 28 | 19 | 3 | 4 |

*Includes reward recruitment consultants

According to Table 30, the next most common explanation given to employ a reward consultant is to carry out job evaluation, followed by executive remuneration, pensions and job pricing/benchmarking. Our research indicates that the majority of consultant work has been focused on the transactional side. Only around one-fifth of employers have used consultants to carry out strategic work, which reflects our finding that just one-third of our employers have a written reward strategy or have adopted a total reward approach.

Table 30 shows that there are variations in the areas of reward where consultants have been working, by sector. In the public sector, the prime driver behind the use of consultants has been the need to carry out job evaluation exercises. This is probably a reflection of various public sector pay reforms, such as the Agenda for Change, and concerns over equal pay.

While in manufacturing and production, the most common reason for using reward consultants has been to deal with extra work caused by the so-called pension crisis, with many firms grappling with their final salary pension commitments and the associated funding challenges. Judging by the amount of employers using consultants, pensions have also been important issues within private sector service firms and among voluntary sector employers.

Just one in 20 employers within the public sector has used a consultant to help deal with their pension scheme. Similarly, tax, health and well-being benefits and voluntary/flexible benefits have been less of an issue for public sector employers. Instead, they have been focusing on such issues as performance/ contribution-based pay, reward IT systems and improving the annual pay/salary review.

By employer size, Table 31 shows that small- and medium-sized employers have made more use of reward recruitment consultants than larger employers, while larger employers are more likely to have used reward consultants to undertake job evaluation. As one would expect, tax, reward strategy and executive remuneration work are linked to size. As employers grow, the greater is their need to adopt a strategic approach to reward, the more complex tax issues become as they adopt a wider range of employee benefits and tax minimisation tactics, and the more specialist input is required to set executive rewards – especially among listed companies, where it is regarded good practice to use outside help.

How satisfied have our sample been with their experience of reward consultants? We asked our respondents to rate their consultants on a scale from 0 to 3, where 0 was 'dissatisfied' and 3 was 'fully satisfied'. Table 32 shows that employers that used consultants for projects dealing with pensions, job pricing/benchmarking, pay structures, job evaluation and tax are most satisfied with their work, all gaining a mean score of 2. At the lower end of our

Table 31: Most popular areas of work for reward consultants*, 2004–2007, by size (%)

| Areas of work | 0–49 | 50–249 | 250–999 | 1,000–4,999 | 5,000+ |
|---|---|---|---|---|---|
| Recruitment of permanent/interim reward staff | 53 | 60 | 48 | 28 | 33 |
| Job evaluation | 27 | 28 | 36 | 52 | 59 |
| Executive remuneration | 20 | 33 | 34 | 43 | 54 |
| Pensions | 47 | 30 | 34 | 49 | 39 |
| Job pricing/benchmarking | 47 | 19 | 26 | 49 | 39 |
| Pay structures | 27 | 19 | 20 | 34 | 31 |
| Voluntary/flexible benefits | 27 | 16 | 20 | 34 | 31 |
| Health and well-being benefits | 13 | 15 | 25 | 22 | 18 |
| Reward strategy | – | 8 | 17 | 19 | 33 |
| Tax | 7 | 15 | 12 | 21 | 26 |

*Includes reward recruitment consultants

Table 32: Satisfaction with reward consultants* (%)

| Areas of work | All | Manufacturing and production | Private sector services | Voluntary sector | Public sector |
|---|---|---|---|---|---|
| Pensions | 2.13 | 2.20 | 2.12 | 2.00 | 2.00 |
| Job pricing/benchmarking | 2.11 | 2.19 | 2.06 | 2.17 | 2.25 |
| Pay structures | 2.06 | 1.90 | 2.00 | 2.24 | 2.07 |
| Job evaluation | 2.05 | 1.86 | 2.09 | 2.10 | 2.11 |
| Tax | 2.04 | 2.15 | 2.00 | 1.50 | 2.00 |
| Executive remuneration | 1.91 | 2.00 | 1.90 | 1.95 | 1.75 |
| Performance/ contribution-based pay | 1.90 | 1.00 | 2.06 | 1.67 | 2.00 |
| Reward strategy/total reward | 1.80 | 2.00 | 1.68 | 2.00 | 1.78 |
| Voluntary and flexible benefits | 1.79 | 1.86 | 1.79 | 1.71 | 1.60 |
| Recruitment of permanent/ interim reward staff | 1.78 | 1.76 | 1.87 | 1.69 | 1.64 |
| Annual pay/salary review | 1.74 | 1.43 | 1.92 | 1.40 | 1.67 |
| Cash bonus and incentive plans | 1.74 | 1.17 | 1.93 | 2.00 | 0.50 |
| Health and well-being benefits | 1.73 | 1.71 | 1.79 | 1.67 | 1.50 |
| Reward communication | 1.65 | 1.40 | 1.61 | 1.33 | 2.20 |
| Sales compensation | 1.46 | 1.20 | 1.62 | 1.00 | – |
| Non-cash incentives and recognition plans | 1.46 | 1.40 | 1.47 | 2.00 | 1.00 |
| Company cars | 1.45 | 1.64 | 1.45 | 1.00 | – |
| Other benefits | 1.39 | 1.29 | 1.45 | 1.00 | 1.50 |
| Employee financial education | 1.30 | 1.33 | 1.27 | 1.50 | – |
| Reward IT systems | 1.17 | 1.00 | 1.06 | 1.33 | 1.75 |

*Includes reward recruitment consultants. Mean satisfaction scores on a range of 0 (not satisfied) to 3 (fully satisfied).

satisfaction table, scoring between 1.17 and 1.46, are: reward IT systems, employee financial education, company cars, non-cash sales and recognition schemes, and sales compensation.

Perhaps it's not too surprising to find IT changes propping up our league table of satisfaction, as such change initiatives are notoriously difficult to implement successfully. What may be surprising is that public sector employers appear more happy with their consultants in this area than respondents in the other sectors, despite media stories of problematic IT initiatives in the public sector.

Between 2007 and 2010, one-fifth of respondents predict that they will increase the amount of work that they will give consultants, while around three in ten predict a drop. This decline is heavily concentrated within the public sector and voluntary sectors. This picture is also replicated for value, where both sectors predict that the size of these contracts will also be cut back. It is only in the private sector that respondents predict growth both in terms of the amount of work and the value of the contracts.

Table 33 shows the areas of reward consulting predicted to grow between 2007 and 2010, in order of importance, including: executive remuneration, pay structures and voluntary/flexible benefits.

However, while the demand for reward consultants is projected to drop, just under two-thirds of employers forecast an increase in the amount of reward work that they will be dealing with. Also, only around one-quarter of employers predict that they will be taking on more staff to deal with the extra workload. So, either most employers will be requiring their reward staff to work even harder or employers will be forced to employ consultants to help square this circle.

Of the half of respondents who have not used consultants in the past, around one in ten of them predict that they will be using them for the first time in the next three years.

Table 33: Growth areas for reward consultants, 2007–2010, by sector (%)

| Areas of work | All | Manufacturing and production | Private sector services | Voluntary sector | Public sector |
|---|---|---|---|---|---|
| Executive remuneration | 34 | 58 | 29 | 29 | 25 |
| Pay structures | 30 | 25 | 24 | 29 | 63 |
| Voluntary/flexible benefits | 28 | 8 | 32 | 43 | – |
| Recruitment of permanent/ interim reward staff | 26 | 33 | 34 | 29 | 25 |
| Job pricing/benchmarking | 26 | 42 | 21 | 29 | 38 |
| Pensions | 25 | 17 | 24 | 14 | 13 |
| Reward strategy | 25 | 17 | 24 | 43 | 20 |
| Job evaluation | 23 | 33 | 21 | 29 | 38 |
| Health and well-being benefits | 23 | 17 | 21 | 43 | – |
| Reward communication | 23 | 17 | 21 | 29 | 38 |
| Reward IT systems | 23 | 8 | 29 | 14 | 13 |
| Cash bonus and incentive plans | 12 | – | 18 | – | – |
| Performance/ contribution-based pay | 10 | – | 12 | 29 | – |
| Employee financial education | 10 | – | 12 | – | 13 |

# Conclusions and implications

CIPD Reward Adviser, Charles Cotton, gives his personal views on some of the implications from this research for reward and HR professionals.

Reward practitioners and consultants have been hard at work on a range of pay and reward initiatives over the past 12 months. On the one hand they are looking at how to cap or reduce labour costs and link reward to the achievement of success.

In the private sector, the traditional annual, across-the-board pay increase is becoming a thing of the past. Most have individualised their pay arrangements, claiming they now link a person's pay progression to their performance. Instead, collective contribution in the private sector is more likely to be rewarded through a bonus plan or a recognition scheme.

In the public and voluntary sectors there is also increased attention on performance; most now claim that pay progression reflects individual contribution. Bonus schemes have not taken off here, possibly due to funding constraints, cultural issues and equal pay concerns. Instead, public and voluntary sector employers appear to be exploring non-cash recognition schemes as a way of recognising collective contribution.

On the benefit front, more private sector employers have closed their final salary scheme to new entrants and some are now closing them to future accrual, while a few are actively exploring the opportunity of transferring their final salary pension commitments to a third party. Other benefits being scaled back are car-related, including company cars, allowances and car ownership schemes. To help increase the purchasing power of their employees' pay packet, employers, including those in the public sector, are using voluntary benefit schemes.

On the other hand, there are countervailing upward pressures on pay and benefits. To some extent, the overall upward pressure on pay has been met by an influx of eastern European migrants. However, employers report that they have difficulties in attracting individuals with the required skills and attitudes. Some employers have responded by uplifting the salaries for these groups in line with the market, while others are emphasising the size of the potential pay increase or bonus award for these individuals if they meet their personal objectives.

**Responses**

To help employees deal with this brave new world where the potential rewards are increasing but so too is the potential risk, employers are looking at the financial understanding of their workforce. A number of employers have already introduced a financial education programme, not just to improve the value and appreciation of the package of rewards on offer, but to help employees make informed decisions when faced by the choices offered by these packages.

Employers are also focusing more on how they communicate the rewards on offer at the organisation to build awareness and buy-in. Most use the traditional (but effective) face-to-face methods, but many are now taking advantage of electronic methods. Yet where employers have given line managers a formal role in communication we find concerns around the capabilities of line managers to deliver the appropriate messages – not surprising, as most employers don't believe that they provide them with the appropriate coaching and development.

Many employers have adopted a joined-up approach to communication and have a formal employer brand to attract, retain and engage existing and potential employees. Yet, of those with an employer brand, most are unsure whether their reward policies and practices actually support or hinder it.

Similarly, while a sizeable number of employers have adopted a formal environmental policy and communicated it to all employees, few have actually examined whether their reward policies and practices actually support the environmental aims and objectives that the organisation espouses.

And we find a similar situation when it comes to the demographic changes. Over the next 20 years the labour market is projected to become increasingly diverse, feminised, aged and demanding, yet few have considered whether their packages of reward are appealing to all individuals irrespective of their age, gender and caring responsibilities.

For instance, our recent Research Insight, *Managing an Ageing Workforce: The role of total reward*, shows that most of those in their 20s, 30s and 40s are already in employment. If employers want to keep on recruiting to meet demand then they will eventually need to start attracting and retaining those in their 50s, 60s and beyond. Yet few have actively considered whether their total reward practices are as appealing to older workers as they are to younger and middle-aged ones.

This research and the reward management survey show that, to stand out in the marketplace, many employers have introduced flexibility to their arrangements, such as flexible working or flexible benefits. Yet depressingly few have considered these and their other reward offerings in a systematic and integrated manner.

Overall, our survey shows many great reward initiatives are taking place within organisations. Yet most appear to be incremental and taking place in isolation from one another as employers introduce or revise their practices to deal with current issues and pressures. We have a multitude of techniques as employers seek to reward and recognise individual and collective performance, from performance-related pay to restricted performance share plans. On the benefit front it looks as if employers just keep on changing their existing package, either to stand apart from the rest of the competition, to bring themselves into line with what other employers are doing or to respond to HMRC as they re-examine the tax status of such benefits as medical screening, employee car ownership, approved mileage allowances, employee assistance programmes, holiday pay schemes, on-site canteens, and so on.

Unsurprisingly, what most employers appear to have ended up with is a list of reward schemes, yet what they need is an overarching narrative that joins all these up to create a compelling story. A strategic and holistic approach helps reward professionals create a compelling narrative for employees of what the organisation aspires to achieve, what values, behaviours, attitudes and performances it wants from its employees, and how it will then reward and recognise them, both financially and non-financially.

However, we know that while it is easy to design a strategic and holistic approach to reward and recognition, it is harder to implement it. Yet most of the difficulties identified are not insurmountable; they involve getting buy-in from line managers and employees. In the past, few employers asked employees what they wanted. However, more employers are using employee engagement surveys to elicit opinions from staff on how they feel about their employer's approach to reward and what they actually find rewarding from coming to work.

Yet, as our research, *Rewarding Work: The vital role of line managers*, shows, too often reward is designed in isolation from the line managers who are expected to implement it. Few actually engage line managers as 'customers' by asking them what they would need and like from the reward system so that it would make it easier to deliver value for the organisation – and then design their approach.

### Implications

To create and sustain a high-performing organisation with corporate agility that employees regard as a great place to work, reward professionals need to create a compelling narrative of what the organisation aspires to achieve. This involves adopting a systematic and integrated approach to all aspects of the reward relationship, from the financial to the non-financial, so that the total reward offering is greater than its various parts.

Reward and HR professionals then need to examine whether their existing reward interventions are appropriate to what the organisation is aspiring to achieve. For instance, if the organisation espouses environmental concerns, then is this supported by the way it rewards and recognises its employees? Are the measures and weighting used in the bonus scheme appropriate? If not, new approaches need to be brought in, but focus should be just as much on the implementation as on the design. And so on for the other business objectives of the organisation.

Better attention needs to be given to financial education so that employees are better able to: understand what behaviours, values, performances and attitudes the organisation is rewarding and why; appreciate and value the reward package; and make informed decisions to select those options that best meet their needs. Reward communication needs to be addressed. Reward and HR professionals should review all the methods and media that the organisation uses to communicate what it is doing and why to make sure that the most appropriate and engaging ones are adopted.

Employees should be involved in the reward design process to find out what they find attractive and engaging and why. This should ensure the creation of a reward approach that meets the needs of all employees, irrespective of such aspects as their age, gender and aspirations. They should also be involved in the implementation; reward and HR professionals should look at how they can harness the talents and enthusiasm of employees in this regard, such as the creation of review panels and employee champions.

Reward approaches should be built around the existing capabilities of line managers – who will be the ones responsible for their implementation. Line managers should receive appropriate learning and development opportunities so that their capabilities continue to allow more sophisticated reward approaches to be adopted.

Reward and HR professionals should also think about the measures that they will use to assess the success of their total reward approach. For instance, if it is supporting the development of a strong employer brand, then how can they demonstrate that they're adding value by doing this?

**Charles Cotton**
**CIPD Adviser, Reward**

*None of these design and implementation issues are easy, but the prize is worthwhile. The CIPD has many resources that should help reward and HR professionals meet these challenges, from our special interest group on reward, our online community and branch events to our commercial training, consultancy and conferences, and from our free survey reports and online tools to our paid-for research publications. Please visit our website for more information.*

# Background to the survey

## This is the seventh annual survey of reward management by the CIPD.

The main aims of the survey are to:

- inform the work of the Institute 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 2007 and questionnaires were sent to reward specialists and people managers in the public, private and voluntary sectors. Replies were received from 603 organisations employing over 2 million employees. The following figures give breakdowns of the respondents 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 34: Participants by sector (%)

| | |
|---|---|
| Manufacturing and production | 23 |
| Private sector services | 45 |
| Voluntary sector | 13 |
| Public services | 19 |

Table 35: Participant breakdown, by sector and size (%)

| Number of staff | Manufacturing and production | Private sector services | Voluntary sector | Public sector |
|---|---|---|---|---|
| 0–49 | 4 | 11 | 10 | 6 |
| 50–249 | 27 | 31 | 45 | 14 |
| 250–999 | 42 | 27 | 30 | 28 |
| 1,000–4,999 | 17 | 20 | 12 | 25 |
| 5,000+ | 9 | 11 | 3 | 27 |

Table 36: Numbers employed by participants, broad occupational sector (%)

| | Median employment | Mean employment |
|---|---|---|
| Manufacturing and production | 400 | 1,660.44 |
| Private sector services | 300 | 3,837.32 |
| Voluntary sector | 200 | 562.51 |
| Public services | 1,000 | 8,262.18 |
| All | 380 | 3,722.52 |

We explore leading-edge people management and development issues through our research. Our aim is to share knowledge, increase learning and understanding, and help our members make informed decisions about improving practice in their organisations.

We produce many resources on reward management including guides, books, practical tools, surveys and research reports. We also organise a number of conferences, events and training courses. Please visit www.cipd.co.uk to find out more.

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