



Symposium Report

REWARD MANAGEMENT

Report on a one-day conference held on 13 July 2005, organised jointly by e-reward and the Chartered Institute of Personnel and Development

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The online guide to reward management

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Website: www.cipd.co.uk

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Website: www.e-reward.co.uk

Executive summary

The Reward Management Symposium 2005, organised jointly by the CIPD and e-reward, offered a unique opportunity for academics to share leading-edge thinking, research and practice on the current issues in reward management, and for senior practitioners to discuss the implications for reward practice.

The idea was to examine how the latest reward research can be used by senior practitioners to increase their understanding of today's most pressing reward issues in order to make the best business decisions for their own organisations.

The event attracted 80 practitioners, academics and consultants, who met in London on 13 July 2005. The latest academic findings on a vast array of reward topics were presented, and, in workshops, practitioners were invited to indicate to the academics what questions the research raised for them as practitioners and what further research they would find helpful.

This report presents the conclusions that emerged from the day's proceedings.

Conclusions

- HR management practices are rarely based on academic evidence of what produces good organisational outcomes and what does not, and it's just as unusual for practices to be evaluated for their effectiveness. The Reward Management Symposium 2005 was an attempt to understand why, all too often, practitioners do not act on the research evidence, and what academics need to do to make their research more useful to those working in reward.
- Practitioners at the symposium acknowledged that there was a gap between evidence and practice. And, while it was agreed that evaluation of the operation of reward practices and processes would be useful, reward specialists thought there was no obvious easy or useful way to do this.
- The rise of HR metrics – a tool for evidence-based HR – is a breakthrough that will enable managers to establish what works for them and for their employees, Professor John Purcell of the University of Bath claimed. This has been made possible by an increase in the use of employee surveys. Paul Bissell of Nationwide showed how his organisation uses HR metrics to identify and then focus on desired characteristics in the workforce, such as longer service, to get better business results.
- Increasingly, HR policies and practices are now being designed to capture hearts and minds in order to get discretionary effort from employees, and the rise of HR metrics should make it possible to find out which policies achieve this objective and which get in the way. But practitioners at the symposium were nervous about gathering comprehensive HR metrics, due to the cost involved and the analytical challenge presented by large amounts of data.
- Templeton College's Ian Kessler and Helen Murlis of Hay Group discussed the controversial topic of variable pay – 'controversial' because there is conflicting evidence for its efficacy and plenty of evidence that managers use it for irrational reasons. Pay is only one of a number of factors that motivates staff, and may not always be the most important one.
- The importance of line management capability was stressed throughout the day. Employees experience HR policies through the way their manager interprets them, and the skill he or she brings to the task. Problems with understanding, conviction, capability and consistency were raised, and it was a more or less universal opinion that line managers need more training and support if they are to carry out their HR responsibilities, such as performance management, appraisal or recognition, effectively.

Specific areas of further research

Practitioners expressed interest in further research on the following issues:

- How much variable pay is needed to change behaviour?
- What is the impact of line managers on reward, and what are the effects of improving their capability on organisational performance?
- How could line managers' competencies in appraisal, making consistent decisions and interpersonal skills be improved?
- What level of pay gap is justifiable in the context of equal pay?
- Why do different practices in different organisations produce the same results?
- How are performance management systems maintained and sustained?
- What are the most effective communication mechanisms for the delivery of the reward message?
- Does the CIPD education system prepare HR practitioners for evaluating the effects of projects?
- Do HR metrics have to be comprehensive, or can specific metrics be identified for individual elements of reward, such as appraisal?

Reward Management Symposium

Bringing research and practice together

Reward practitioners tend to see their specialism as a particularly empirical and practical affair. Although they are prepared to take note of the outcomes of academic research, all too often they may not be aware of what's available and how beneficial it may be to their organisation. Meanwhile, academics conducting research into reward matters appreciate the importance of working with, and communicating to, practitioners. But, unfortunately, they find that the significant messages they wish to deliver don't always get through to the reward specialists' agenda. So we feel there's scope for much greater collaboration between practitioners and academics on research that would investigate essential reward matters.

In short, the aim of this symposium, organised jointly by the CIPD and e-reward, was to address this issue by acting as a bridge between practitioners and academics so that what is happening and what practitioners would like to happen in the way of research could be communicated and discussed to enhance mutual understanding and, importantly, identify areas for future joint research.

Both the CIPD and e-reward pride themselves on the quality of academic and management speakers they attract to their reward conferences. And the line-up at the symposium, held in central London on 13 July 2005, was no exception. Topping the bill for the academics were John Purcell, Professor of Human Resource Management, University of Bath, and Ian Kessler, Fellow in Human Resource Management, Templeton College. Among the other luminaries contributing to the keynote pay debates in the morning sessions were Helen Murlis, Director, Hay Group, and Paul Bissell, Senior Manager Rewards, Nationwide Building Society.

The format for the event was fairly straightforward. A panel of distinguished UK academics was invited to share the latest leading-edge research on current issues

in reward management and help build the dialogue between the academic community and practitioners to highlight what really works and why. The latest academic findings on a wide range of options and issues on the current strategic reward agenda – everything from 'new pay' to reward strategy, and from international reward to executive compensation – were explored, clarified and synthesised. Practitioners were then encouraged to let the academics know what questions the research raised for them as practitioners and what areas of further research they would find helpful.

This showcase for the latest academic thinking and practice in reward management attracted an audience of some 80 senior practitioners, academics and consultants.

The 'knowing–doing gap'

Although the CIPD supports evidence-based human resources management, HRM practices are rarely based on academic evidence as to what produces good organisational outcomes, said Duncan Brown, the CIPD's Assistant Director General, introducing the day's proceedings. With this in mind, the CIPD had decided to establish the Reward Management Symposium, in partnership with e-reward, in an attempt to understand and bridge the gap between academic evidence of what works and what HR managers actually do in their organisations.

For Brown, the 'knowing–doing gap' is at the heart of the problem. Professor Jeffrey Pfeffer of Stanford Graduate School in the USA described this eloquently some years ago: 'Why does so much business research and education, so many books and articles, produce so little change in what managers actually do ... so many managers know so many smart things about how to achieve high performance, yet do so many things to undermine it?'

One explanation, identified in the CIPD's 2005 reward management survey, is lack of time, said Brown. The survey revealed a gap between what reward practitioners

regard as their most important activities, and what they spend time doing. Supporting business strategy, developing a reward strategy and providing support to line managers are their most important activities, respondents said, yet they spend most time on reward administration, implementing reward policies and providing specialist input to wider business issues. These figures echo findings from a raft of HR surveys by the CIPD that have uncovered a similar mismatch between the importance of strategic activities and the time available to carry them out.

Brown also identified 'the engagement gap', where employees simply don't understand or trust decisions on pay, and line managers lack the skills to deliver new reward systems effectively, particularly when it comes to improving performance. The rapid spread of performance pay in the UK in the late 1980s and 1990s was a good example, Brown said, of the mismatch between evidence and practice. Many employers rushed to link pay to individual performance, in the absence of any evidence that it would work for their organisation. High-profile academic research – with an emphasis on the troubled experience of public sector organisations – had cast doubt on the effectiveness of merit pay, but it did not appear to have dampened management enthusiasm for such schemes.

What's more, organisations also made few attempts to evaluate its subsequent effectiveness. Academics were no better, Brown continued, often basing their research on outdated theories and concepts, ignoring the employee experience and focusing on what didn't work rather than on what did.

In contrast, the aim of the symposium was to share academic and practitioner perspectives on what's working, with a view to encouraging more evidence-based practice and more useful research. As later speakers made clear, the rise of HR metrics has made it much easier to link particular HR practices with good outcomes, so in future the evidence should be clearer and therefore more compelling as a guide to action.

HRM and organisational effectiveness

A significant increase in the use of employee surveys, according to the first findings of the 2004 Workplace Employee Relations Survey (WERS 2004), means that we can now ask 'what is the impact on employees of a particular HR practice or set of practices, and what does that do for organisational performance?' This is a fundamental shift, according to John Purcell, away from a focus on policies towards how they impact on staff. And it's one that enables employers to evaluate the effects of their policies themselves.

But in order to understand the effect of a particular HR practice, you need a holistic view of the whole system, Purcell suggested in one of the symposium's two keynote addresses, since the impact of HR practices isn't straightforward. The way HR practices are experienced by employees is affected by organisational values and operational strategies, such as staffing policies or hours of work, as well as the way they're implemented. And what emerges very clearly from the research is that it's front-line managers who make all the difference to the way policies are perceived and put into practice, said Purcell. We know that this is an area of unease. For example, when HR managers are asked about the implementation of almost any HR policy, they report that the way this is done by line managers – with greater or lesser enthusiasm and skill – is often a cause for concern.

Work climate – 'how do you get on in this organisation?' – and the experience of actually doing the job – pace, demand and stress – all influence the way employees experience HR practices, and this has an important effect on how they react to them, and the consequent effect on organisational outcomes. Purcell told delegates that the research suggests that employees react in a number of ways, and this impacts on whether they want to learn more, are committed to the organisation and are satisfied with their jobs. This, in turn, strongly influences how well they do their jobs, whether they're prepared to contribute discretionary effort – going the extra mile – for example, coming to work rather than taking 'sickies' and staying with the organisation rather than leaving. And research has shown that people who are committed to their organisations tend to define their jobs in bigger ways. These are the employee outcomes that have a direct effect on organisational performance.

The beneficial effects of organisational commitment or employee engagement are being increasingly recognised, so encouraging these is now a priority for organisations. Purcell has been studying the links between a range of HR practices and organisational commitment, and he demonstrated the use of HR metrics when presenting some of the findings of his influential research study for the CIPD into people and performance in 12 'excellent organisations'. Because these organisations are 'excellent', they have a wide range of policies, but his analysis showed that some policies had more impact than others on organisational commitment across all occupational groups (namely, managers, professionals, and workers). These were, broadly speaking, rewards and recognition, communication and work-life balance. Performance-related pay, on the other hand, doesn't trigger organisational commitment across the board, and had a slightly negative effect on workers' commitment.

Purcell said that HR metrics – a tool for evidence-based HR – is a breakthrough that will enable managers to establish what works in their organisation and for their employees. The next symposium session demonstrated how Nationwide currently uses them.

Using HR metrics at Nationwide

Research undertaken by the reward team at Nationwide Building Society has established that five variables – pay, length of service, coaching, resource management, and values – explained half of the relationship between committed employees, committed members and business results. From the raft of data, the study found that committed employees:

- stay longer
- have greater experience and skills
- display a positive service attitude.

These attributes result in higher customer satisfaction scores, higher levels of customer commitment and retention, and ever-increasing customer sales. Paul Bissell, Senior Rewards Manager, Nationwide Building Society, described Project Genome as 'the process of identifying, characterising, and mapping the key drivers (or corporate DNA) of employee engagement in our business to establish their effect on and importance to member commitment and business performance (or the service-profit chain)'.

For example, the Genome business simulator predicts that if Nationwide increases the average length of service of employees from 10.2 to 11.2 years, this will improve customer commitment by almost 1 per cent, improving mortgage completions against target by almost 2 per cent, bringing in an additional £5.6 million in revenue. Similarly, a 1 per cent increase in employees' perceptions of coaching leads to almost a 1 per cent increase in personal loan sales against target, generating an additional £136,000 in revenue.

Bissell said Nationwide uses the information from the Genome Project to 'improve the characteristics of our employee brand/proposition to increase employee engagement and in so doing improve the value our members derive from doing business with us'.

The company's employee commitment model, which is built around a total reward framework, helps Nationwide understand what the organisation should provide in order to have a committed and engaged workforce. It has five elements – reward, development, environment, quality of work, and leadership behaviours – and each of these has between three and eight constituent parts.

Which of these is most important, and what return will Nationwide get on any investment it makes in HR practices? The tools used by the Genome Project to answer these questions are an annual employee survey, which has an impressive 90 per cent response rate, and work in measuring human capital. They have identified the key drivers of committed employees. Employee satisfaction with these drivers is measured regularly in different business areas, which enables problems to be remedied.

The Genome Project has helped to focus activity on:

- recruitment and retention
- a greater understanding of employee commitment – ie what is the difference between the employees who want to be here, need to be here or feel they ought to be here?
- transparency and flexibility of reward
- first-line management development and coaching/mentoring to deliver the emotional as well as the task management aspects of the role
- the promotion of recognition and ad hoc/spontaneous rewards for employees – ie visible and tangible celebrations of success

- the development of an organisational culture where managers and employees are emotionally committed to, and demonstrate, the right behaviours.

Bissell concluded by saying that measuring human capital wasn't 'rocket science', and that, if you can identify the drivers of commitment, you can manage them. 'Don't get hung up on getting from A to Z quickly, just make a start,' he urged delegates.

Q&A: the uses of employee surveys and improving the effectiveness of line management

One questioner in the audience asked how Nationwide obtained a 90 per cent response rate to its employee surveys. Bissell commented that people will respond if they believe what they say will translate into something changing, and Nationwide has consistently acted on the findings of employee surveys and told staff that it's doing so. John Purcell added that the response rate is one of the most interesting findings from an employee survey and can be improved by investigating the causes of dissatisfaction and then acting on them.

Another delegate asked what Nationwide did about employee feedback that it couldn't act on. Bissell said that the way to respond to unpalatable feedback is to acknowledge it and to be open and honest about the reasons why action can't be taken. John Purcell commented that the most helpful result from an employee survey is high variances in scores between different departments or categories of employee, since this makes it easier to identify the reasons for dissatisfaction than if everyone is dissatisfied.

The third questioner in this session reported that he had noticed that HR responsibilities tend to be tacked on to the end of managers' job descriptions, sending a clear message that these are less important than other aspects of the job, and asked what Nationwide was doing to increase line managers' effectiveness. Bissell admitted that this was difficult in a large and diverse organisation, but that managers' behaviours were driven from the top. Managers are also assessed on their behaviours, and this clarified what was expected of them. Purcell mentioned that some of the 12 excellent organisations in his research programme had tried hard to change managers' behaviour. This had given rise to questions about how

managers are selected and what competencies they require. Making managers responsible for labour turnover, for example, also helped, as did treating them as special – by enabling them to get together to discuss common problems, and encouraging them to call for expert help.

Performance pay

Ian Kessler made the second keynote presentation of the day, which focused on pay for performance. He argued that, although performance pay is a significant part of the reward scene, the reasons why it is used are rarely rational.

Kessler pointed out that pay is one of the defining characteristics of the employment relationship. And, since it's so central, it's often used as a vehicle for a whole range of management objectives. But the power of pay to achieve managerial goals is 'counterposed by the disruption caused when things go wrong'. So Kessler reckons it is dangerous to change pay systems for the reasons that they are often changed – namely, ideology, fashion, as an act of faith, or as a symbol. He argued that the introduction of performance pay in the 1980s and 1990s was often done for these very reasons, even though academics at the time were coming forward with evidence that it didn't always work. Alfie Kohn, the American pay guru, for example, found that incentive pay just buys temporary compliance, while US management theorist Ed Lawler said that merit pay increases are generally too small to act as any kind of incentive.

CIPD survey evidence cited by Kessler shows that the incidence of performance pay is high, with individual performance-based pay – or what is commonly called merit pay – the most widespread form of pay progression, and team-based pay the least. Generally, the incidence of performance pay declines towards the bottom of the hierarchy. So, while 63 per cent of junior managers receive individual performance pay, only 44 per cent of manual workers do. But the 'trendier' forms of contingent pay, such as competence-based pay and team-based pay, are much less common.

For Kessler, one of the big questions about performance pay is whether it increases or decreases commitment. He said that the answer could be 'neither' or 'both', since a reward system can pursue a range of objectives at the same time, some of which may be achieved while others are not.

Kessler's final points underlined the fact that there is no such thing as a perfect pay system, and that procedural justice – whereby pay arrangements are seen as fair and transparent – seems to be viewed by employees as more important than actual pay.

Diverse engagement factors

Helen Murlis examined how this research information could be used by practitioners to 'improve what they do'. She warned that pay, and especially variable pay, is very hard to get right and requires care in both design and implementation. But our leaders in both the public and private sectors 'buy' and like the idea of 'pay at risk' and reward for performance, since it matches values and beliefs they have or aspire to. 'There are still people around who believe that pay systems can be used to manage people – from the shop floor to the boardroom,' she said. Her presentation was aimed at helping the practitioner who was instructed by senior management to introduce variable pay.

If everyone was only interested in wealth creation, variable pay would make more sense, but people go to work for a wide range of reasons that arise from their personalities, preferences and stage of life as well as their role in the organisation, Murlis said. This means that they have 'diverse engagement factors'. If you don't take account of these, you're unlikely to get high performance with any reward mechanism that you introduce. Total reward is therefore an important consideration, Murlis told delegates.

The experience of being at work is 'multi-faceted'. Hay Group's Engaged Performance® Model captures the most important of these:

- tangible rewards
- quality of work
- work–life balance
- inspiration and values
- enabling environment
- future growth opportunity.

All of these elements will be important to some staff, but they won't all be equally important. Hay's own research found that inspiration and values – especially quality of leadership – is most important to staff, followed by opportunities for career advancement and learning as well as development, with tangible rewards typically coming third.

According to Murlis, the lessons from this for practitioners is that a reward is only a reward if it's perceived as one, and procedural justice – 'how' rather than 'what' you distribute – is also very important. Too much 'at risk' pay can result in high labour turnover, whereas many people can't manage on what may be too low a base level (in other words, below the level they need to support what they perceive to be a reasonable lifestyle) long enough to achieve the 'on target' variable element promised when they perform at an acceptable level. Measures and outcomes that are not chosen with care can be manipulated, and there can be an adverse effect on teamworking. Too little 'at risk' pay can result in staff judging their variable pay as derisory, especially where the realities of what the market is doing and what can be afforded are not well communicated.

Getting variable pay right requires clarity – about why an organisation is introducing it and what high performance is – at various levels in the organisation, not just at the top. Murlis recommended that organisations should:

- Consult those involved.
- Design a scheme that combines what the business needs with what individuals or teams can control.
- Link variable pay to a small, balanced set of credible measures.
- Check the quality of performance management – what will be required and how will it be carried out?
- Assess the capability of line managers to work effectively with variable rewards and performance management.
- Provide development and coaching for managers and leaders who find these areas difficult.
- Communicate why you're introducing variable pay, what the benefits will be, how decisions will be made and how individuals will be told about their awards.
- Evaluate regularly against your objectives, fine-tune, and don't be afraid to scrap the scheme and start again if necessary.
- Provide ongoing support.

Q&A: how much variable pay and paying people twice to do a job

The first question raised by delegates was how much organisations have to give in variable pay to change behaviour. Murlis said that there was no standard, easy answer to this. It could be 5 per cent if that would make a difference to individuals, and if people are motivated by money. She's seen anything from £25 to £500,000 being used to motivate people, so how the award is made and the kinds of roles involved are very important. Kessler mentioned some research in local government which found that quite small amounts of money could be motivational, providing they were given out in a way that made people feel appreciated.

Another questioner asked how he could get managers away from their belief that you had to pay people twice, once to come to work and the second time to get them to do specific things – such as meeting objectives. Murlis suggested that managers should be asked what behaviours they think their current systems are encouraging, and whether these are appropriate for the organisation. This might encourage them to help come up with a better system if the current pay system is in trouble. Kessler said that getting people to do their jobs could be achieved by other HR techniques, such as recruiting higher-quality staff, or creating a high-trust environment.

Workshops

In the afternoon sessions, symposium participants were able to attend two workshops (of a total of nine available) during which they were presented with current academic research on a wide range of reward topics and asked to comment on its usefulness to reward practitioners.

1 Financial participation

Employee behaviour in share plans was analysed by Andrew Pendleton, Professor of Human Resource Management, University of York.

What makes employees subscribe to shares? How much do they subscribe and what do they do with their shares when options are exercised? Professor Pendleton's presentation drew on recent research into employee behaviour in share plans conducted by Halifax Employee Share Services, as well as by himself, WERS and ifsProShare.

He noted that key determinants of share plan participation – both save-as-you-earn schemes (SAYE) and share incentive plans (SIPs) – are employee age and salary. The higher the age and salary, the more likely you are to contribute, though the relationship with salary is 'tick-shaped'. Some of those at the bottom end of the income distribution contribute a disproportionate amount of salary to share plans, said Pendleton.

Other research findings include:

- Attitudes to risk are important.
- There is a strong correlation between commitment to the company and share-plan participation, but the direction of causality is not fully clear.
- Once employees join a share plan, they tend to subscribe to future offerings.
- The industrial sector of the company and how the economy and the company are performing are important in influencing employee behaviour.

- Good employee communication is associated with higher participation in employee share plans.

Workshop participants reported that, while younger employees may be reluctant to save for a pension, they could be more willing to contribute to a SAYE scheme and this could be a useful means of encouraging them to think about saving and investing for their eventual retirement. One organisation drew attention to the importance of 'getting to new employees as early as possible'. The company found that when it had been unable to communicate SIP details to the new starters within the first two weeks of joining, only 5 per cent joined the plan.

The workshop also considered the relationship between employee share ownership plans and company performance. It was noted that companies with share plans are relatively good performers but it's difficult to establish the direction of causality: do share plans lead to better performance or are better-performing firms more likely to use share ownership plans?

An important issue raised by workshop participants was the challenges faced by firms with share plans when share price deteriorates. It was concluded that further research is needed in this area.

Participants noted that most research on share schemes in the UK took place at one point in time and felt that it would be useful to carry out longitudinal research. Professor Pendleton also reported that, due to difficulties of getting access, most academic research focused on employees rather than on companies. Participants agreed that more companies should be encouraged to talk to academics about their experiences.

2 Employee engagement

Dilys Robinson, Principal Research Fellow, Institute for Employment Studies (IES), led the workshop on employee engagement.

She said that the term ‘engagement’ has an intuitive appeal. What’s more, the theory is simple – an engaged workforce is motivated, self-improving and productive, giving a competitive edge. The focus on engagement began life with products offered by consultancies and survey houses, but more recently some robust practitioner-led research has been carried out. Work has focused on defining engagement, devising a measure of engagement, and finding out what influences it most.

An in-depth study by IES, involving discussions with 46 organisations in the private and public sectors, led to a clear and consistent picture of the ‘engaged’ employee:

- They are positive about the job.
- They believe in, and identify with, the organisation.
- They work actively to make things better.
- They treat others with respect and help colleagues to perform more effectively.
- They can be relied on, and go beyond the requirements of the job.
- They see the bigger picture, even sometimes at personal cost.
- They keep up to date with developments in their field.
- They look for, and are given, opportunities to improve organisational performance.

However, the challenge for organisations is that ‘these paragons do not create and maintain themselves.’ An important point to note here is that engagement is two-way; organisations have to work to achieve it.

Robinson acknowledged that measuring a concept such as engagement is challenging, as it involves attempting to assess complex feelings and emotions. The IES engagement measure – developed within the NHS and ‘now being tested successfully’ in a wide variety of private and public sector settings – has been designed for use within an employee attitude survey. The indicators use 12 attitude statements that represent the different aspects of engagement contained within the definition. Engagement diagnostics add further value by identifying aspects

of organisational life that have the biggest impact on engagement levels.

IES research so far suggests that employers face particular engagement challenges with:

- longer-serving employees – engagement levels go down as length of service increases
- employees in their 40s and 50s – who are notably less engaged than their younger and older colleagues
- employees with a disability or medical condition that needs support in the workplace
- support staff – who feel less valued and involved than professionals or managers
- employees with little or no access to development opportunities, and with no personal development plan
- people who have had an accident or been harassed at work – especially if the harassment comes from their manager
- experts, who often feel less loyalty to their organisation than to their area of specialisation.

Many companies – notably the Royal Bank of Scotland (a leader in this field), and more recently O2 – are investing heavily in engagement diagnostics in the firmly held belief that high engagement levels lead to improved performance.

The role of pay and benefits in fostering engagement is somewhat ambiguous. So far, the IES research suggests that pay is important to employees, but that improvements in pay are rarely at the top of their ‘wish list’. However, getting pay wrong – for example, withdrawing benefits, failing to promote, allocating bonuses unfairly – has a huge impact and is very ‘disengaging’, as these aspects of working life are held as proxies of the extent to which the organisation values the individual. In this sense, pay remains a ‘hygiene’ factor.

The practitioners in the workshop were convinced of the need to respond to the different engagement challenges presented by different workers, but thought it would be difficult to do so in practice. And concern was expressed about the cost of establishing reliable HR metrics. One practitioner said that senior management in her firm wanted this, but at ‘no cost’.

The consensus among workshop participants was that dealing with employees in different ways also went against the idea of maintaining a consistent approach across the whole workforce. One HR manager countered with the view that flexible benefits are an ideal way of responding to a variety of employee choices, while another said that it was up to the line manager to stress different aspects of the employment package to different individuals.

3 Contingent pay in the public sector

Bruce Thompson, Senior Lecturer in HRM at Middlesex University Business School, described research into the use of contingent pay in the public sector.

He defined contingent pay as reward that is dependent on performance (individual, team or organisation), skill, competence or contribution (performance and competence) or length of service. The introduction of contingent pay was a key recommendation of the Makinson Report, published in 2000, on the performance of the Civil Service.

Thompson began by describing David Marsden's widely publicised research on individual performance-related pay (PRP) in the Inland Revenue. A more recent study on performance payments for school teachers found some evidence that school performance did improve with the introduction of PRP – not because teachers were more motivated, but because goal-setting and appraisal were better.

Another element examined in this workshop was the introduction of team-based pay. Thompson described a trial in Customs and Excise, Simon Burgess's work on Jobcentre Plus and recent NHS pilot schemes. These showed that the effectiveness of team reward has been varied and that there is no agreement as to the most effective team size.

Competence, skills and contribution pay are popular with public sector agencies determined to move away from service-related progression. Thompson outlined the experience of Wellingborough Council, and looked forward to the impact of key skills frameworks on NHS pay progression.

Thompson concluded by agreeing with Helen Murlis that one can't endorse or not endorse contingent pay

and that no type of contingent pay was universally acceptable. So much depends on the way it's introduced and the way it's run.

Workshop participants commented that in parts of the Civil Service some performance-related pay is no longer based on performance, and the pilots of team-based pay have yet to be properly evaluated. They also observed that all too often there's a tension between the Government's overly controlling and target-setting agenda and its move to devolve and decentralise pay arrangements.

Some practitioners wanted research into how managers' competencies in appraisal, making consistent decisions and interpersonal skills could be improved. They also spoke of the need for regular retraining in the purpose of evaluating staff. Others thought that it might be useful to undertake research looking at organisations that have moved away from performance-related pay.

4 Fair pay

Annette Cox, Lecturer in Human Resource Management at Manchester Business School, University of Manchester, looked at fair pay in the context of organisational change.

But what is fair pay? And is it the same as equal pay? Equal pay audits might help to answer that question, Cox said, but there is 'limited take-up' among employers. Some organisations claim, without investigation, that they have no gender pay gap. Others are well aware that there are problems, and won't carry out an audit since they know that, once they identify a pay gap between individuals doing work of equal value, they'll be required by law to remedy it. And even organisations at the forefront of best practice know that there are pockets of unfairness that they'd like to address but which are a low priority.

Cox has conducted research into the effect of organisational change on pay systems and has found that issues of fairness arose in all of her case studies:

- In a building society there was a perception that men were paid more than women at senior levels, and that the appraisal process wasn't consistent across the organisation, resulting in potentially unfair decisions on bonuses.

- The fairness of bonuses was an issue at another financial services organisation, while benchmarking salaries to market rates was also believed by some to result in unfair pay decisions.
- Meanwhile, at a telecoms company, an equal pay audit identified numerous local-level problems and perceptions of inequities.
- These same issues of the unfair distribution of bonuses, inconsistent appraisal decisions and the fairness of market rates were apparent in a business data network company.
- Conflicts between the job evaluation process and maintaining market parity were problematic in a large city council, and there were concerns about the fairness of reward for both lower-grade and senior women in another council.

Overall, the research undertaken by Cox found that:

- Maintaining perceptions of fairness is resource-intensive.
- Managing market pressures is a key challenge.
- Balancing flexibility and transparency in pay systems is difficult.
- Confusion exists as to whether equal pay issues should be managed centrally or locally.
- Employers struggled to 'afford to be fair'.
- Staff are more concerned about how pay decisions are made than who gets what, but across the case-study sites, more men than women were likely to perceive their pay level as unfair.

When it came to discussing the implications of the research, most practitioners focused on the difficulties of carrying out equal pay audits, and then what to do about any findings. There was also much debate about what level of pay gap is justifiable. Some HR managers said that they didn't see why pay levels or decisions should be transparent.

5 International reward

Dr Stephen J. Perkins, Course Leader, MA International HRM, London Metropolitan University, led the symposium workshop devoted to international reward.

Multinational enterprises are being exhorted to get 'the right people with the right capabilities deployed to the right spots in the organisation,' he said. And

pay researchers have been encouraged to turn their attention to more strategic managerial practice.

But Perkins reckoned that annexing 'global-scale employee capability' (expatriates and/or local nationals) doesn't guarantee desired outcomes. Multinationals face the problem of designing and applying policies aligned with business strategy, anticipated employee response and business systems.

Perkins analysed the problem using a model that had been informed by a critical appraisal of the literature. The model helps evaluate the ways multinationals approach their HRM system and reward subsystem, with strategic intent, to secure the talents of individuals and groups to meet corporate priorities. Measures are described to help investigate reward management practice in multinationals, given 'perceived contextual opportunities and restrictions'. Initial results from empirical research associated with the development of the new edition of the CIPD guide to international reward and recognition were outlined in the workshop.

Perhaps the most salient finding to emerge so far from this work-in-progress is that, while strategic consideration is taking place, considerable variation and experimentation is observable in different multinationals. Generalisation is currently limited by the size of the sample and descriptive character of the summary statistics reported. Further work is under way both to expand the sample of respondents – especially beyond Europe – and to analyse the resultant data set to test the relationships that may be postulated between different strategic priorities espoused by multinationals and the decision to make use of reward system practices to align workforces and other corporate stakeholders, on cost-effective terms.

A wide-ranging debate took place among the workshop participants on the diversity of pay and benefits practices across multinational organisations, typically influenced by the parent company's culture. For example, there was a leading retailer that operated consistent reward principles across international locations, informed by a philosophy of setting rather than following market practice. A large pharmaceutical company applied multi-regional reward practices in line with the geographies of the client market. And

a US-owned IT company sought to ‘internationalise’ benefits practices, while recognising the need to accommodate administrative, fiscal, regulatory and other consequences of such a strategic choice.

The practice of ‘levelling’, whereby roles are assigned according to their decision-making accountability level within an organisation, was evident among some of the organisations represented in the seminar groups. It may be concluded that experimentation and diversity in international reward management approaches and practices appear set to continue, the workshop facilitator, Sylvia Doyle, Director, Reward First People Consulting, said.

Participants debated the typical level at which managers begin to be accorded international (rather than being limited to a domestic) status, and what the implications might be in reward terms for the individual. While this varied across organisations represented in the workshops, there was some consensus that it typically started among senior executives located just below board level. However, in large multinational corporations with well-developed talent management programmes, the threshold may be at middle management levels.

Cost pressures have led some organisations to reduce the number of international assignments, which could bring about an increased emphasis on local recruitment. However, this was not cited in the workshop groups as a reason for shifting the boundaries for the application of ‘international cadre’ status. Arguably, more strategic leadership factors are in play, which may deserve further detailed investigation.

One of the challenges of deploying international reward practices may be the ‘disconnect’ between corporate reward policy-makers and local business units across the countries in which multinational enterprises operate. Concerns about equity and fairness were voiced in the workshop. Attempts by organisations to apply policies consistently may be compromised by attempts by business unit heads to negotiate special deals for their employees, potentially placing the local HR representative in conflict with head office colleagues.

A two-pronged response may be required:

- Corporate priorities may need to be more clearly spelled out by corporate management to discipline managerial action down the line.
- Local HR managers may be assisted in acquiring skills to facilitate robust and consistent reward management practice internationally.

This may help address issues of fairness and alleviate some of the resultant administrative complexity generated by such practice.

6 Executive reward

It is taken for granted, said Professor Sir Andrew Likierman, Professor of Management Practice, London Business School, who led the executive reward workshop, that senior executives should be remunerated largely, or even mainly, on the basis of PRP.

And two essential assumptions underpin PRP for senior executives. One is that it has an effect on behaviour, the second is that credible performance measures can be found and linked to a relevant time period.

Even if the first is true (and the evidence is weak), there are major problems in finding a credible measure and linking it to a relevant time period. The usual measures for senior executives are profit and total shareholder return (TSR). But profit has widely recognised problems as a measure of performance, while TSR is subject to hotly debated assumptions about market efficiency. It’s not generally possible to link TSR and profit to the annual cycle within which remuneration committees work because of the significant lags between action and results at this level, particularly for industries with long lead times. In Likierman’s view, if you can’t measure performance meaningfully, you shouldn’t link it to pay.

Remuneration committees need to recognise these constraints and focus on the other factors influencing executive pay, particularly recruitment and retention, he said. Since it’s not realistic to link performance and pay on an annual basis, the ‘least bad’ alternative is a higher base salary. However, Likierman’s research suggests that many organisations don’t know how much they need to offer to attract the right person, nor the amount they need in order to retain them.

There can also be a proportion of reward related to fulfilment of annual objectives. However, any performance-related element needs to recognise lags related to the company's activities – probably of one to five years, said Likierman. Additionally, remuneration committees will, of course, need to bear in mind the constraints of internal equity and external reputation and will need to rigorously scrutinise the assumptions behind annual targets, including retrospective checking. But it's worth noting that remuneration committees can't rely solely on a link to performance.

Participants discussed the implications of this research for remuneration committees. In their view, it put the onus on HR to ensure that the non-executive directors on the remuneration committee had the right skills, knowledge and attitudes. Some were of the opinion that, at present, some remuneration committees were the 'easy option committee' for non-executive directors.

Other issues discussed included whether start-up companies would be able to afford a high base salary for their directors and how financial analysts would react if they perceived a weakening of the link between rewards and performance.

7 New reward: what it is and does it matter?

Peter Reilly, Director HR Research and Consultancy, IES outlined the emerging themes in the latest research on 'new reward'.

He put forward the view that new reward is hardly a new concept, dating, as it does, back to the writings of US pay gurus Lawler and Schuster and Zingheim from the 1980s and 1990s.

For these writers, new reward is characterised by a number of features. Put simply, it is:

- strategic
- business-aligned
- flexible
- performance-driven
- distinctive
- integrative of the actions of employer and employee.

These characteristics are reflected in the following forms of reward:

- variable pay
- individual PRP
- skill- (competence-) based pay
- market-aligned reward
- team pay
- flexible benefits
- total reward.

To the twenty-first-century eye, these characteristics of new reward and the forms it takes look commonplace. They are what every self-respecting organisation ought to be able to report. All organisations should develop remuneration systems aligned with business needs that are adaptable to changing circumstances and offer competitive advantage in the marketplace, Reilly said.

What may have happened is that, although progressive organisations have long since espoused the principles of new reward, they've found that putting these principles into practice isn't so simple. Many types of reward are difficult to design (hence the poor take-up of, say, team-based pay) and often harder still to implement – which is where most systems seem to fail.

For Reilly, better attention needs to be paid to:

- understanding the link between business strategy and reward
- securing high-level understanding of the process of decision-making
- where possible, using a process of involving stakeholders in design
- design choice, following assessment of stakeholder needs, not preceding it
- leaving lots of time for implementation, including training, communication and guidance
- monitoring and evaluating the outcome and learning from the results.

A reward model for the twenty-first century would probably give more attention to how to support the engagement of staff so they are motivated and productive, said Reilly.

His main conclusion was that the problems experienced with using concepts within new reward

are associated with the process both in the design of reward schemes and in the execution. The starting point for the reward change is often chosen without regard to its alignment with the business and the HR strategies in place in the organisation.

Participants in the workshops talked of similar experiences:

- New reward is part of an attempt to get away from pay being the main motivator at work.
- Money doesn't provide a long-term competitive edge.
- Line manager capability is the real issue when trying to implement more sophisticated reward.
- Subordinates often lack trust in the line manager, which undermines the performance management process.
- It's difficult for line managers to differentiate objectively the performance of staff. The process is thought to be too time-consuming by line managers and is not helped by forced distributions.
- Using new pay could result in equal pay dilemmas, and bonuses, for example, might result in a feeling of 'divide and rule'.
- Reward systems need to be designed to balance the requirements to be simple, transparent, equitable, fair and consistent.
- The use of flexible benefits required a large number of items, especially pensions, to be flexed, otherwise it was less effective.
- There remains confusion about the definition of 'total reward' (which practitioners interpret as anything from total remuneration statements to the complete psychological contract).

Reward design must take into account the motives and wishes of the employees (who now have a greater voice, according to workshop participants) rather than just the requirements of the employer. The objectives of the reward offer and the underlying psychology of the reward model need to be better understood. It must become 'right for the business' and not an implementation of 'best practice', practitioners said.

Workshop participants felt that further research would be useful in the following areas:

- The impact of line managers on reward – what are the effects of improved capability on performance management and/or the complexity of reward design?
- How does the impact of new reward change with the size of the organisation?
- Is there some understanding required as to why different practices in different organisations produce similar results? Are they culture/context-specific?
- What are the effective motivational models? What makes you work harder/smarter?
- Is simplification of reward the only way forward?
- How are performance management systems maintained and sustained?
- What are the most effective communication mechanisms for the delivery of the reward message?
- Do employee surveys always help ('lousy' systems are often already known about anyway)?

8 Reward strategy

Speaking in the reward strategy workshop, Stephen Bevan, Director of Research, The Work Foundation, advanced the view that employee reward has been described as the field of HRM that can boast the widest gap between rhetoric and reality.

All too often, reward strategy underpins grand plans for business improvement or cultural transformation, only to collapse into underperformance or PR disaster.

So, to what can we attribute this spectacular and almost uniform record of under-delivery? Is it that the concept of reward strategy is too grand, or is it conceptually flawed? Is it that employers fail to make a sufficiently explicit link between business strategy and reward strategy? Or does effective reward strategy design tend to collapse once it comes to be implemented on the ground?

Bevan suggested that failure to link the aspects of HR policy and practice – such as reward, training and development, recruitment and leadership style – with each other and with the overall business strategy was partly to blame.

He examined two examples of how different competitive strategies – one innovation-led, and one cost-reduction-led – might bring about significantly different choices of reward structure and process. An innovation-led approach would, for example, focus on employee creativity, collaborative behaviour, a mix of individual and collective reward, broadly defined job roles and high investment in learning and development. A cost-reduction strategy, on the other hand, would have a short-term focus, narrowly defined jobs, a focus on individual reward and limited opportunities for progression and development.

He asked the workshop participants four important questions:

- How does your reward strategy inhibit or facilitate organisational effectiveness?
- How does your approach to reward reinforce or contradict other messages you send out about performance, values and behaviour?
- Were the line managers in the session advocates of their pay system or apologists for it?
- How much managerial 'band-width' is taken up with pay-related issues?

The round-table sessions examined many of the points raised by the questions and highlighted the following issues:

- Reward strategy needs to 'fit' with business strategy.
- Line managers are the key. The design and implementation of reward systems need to allow managers to be advocates of, rather than apologists for, the organisation's pay arrangements.
- Reward strategy shouldn't result in monolithic pay systems that are difficult to adjust in the light of changes in business direction – participants agreed that the conventional wisdom about how long it should take to redesign and embed a new pay system should be revisited in times of rapid change.
- A strongly results-focused pay or bonus structure wouldn't fit with a creative, idea-generating environment (such as television, or research and development) because, in order to achieve breakthrough success, many different attempts to get to a result have to be encouraged, or at least tolerated.

- The use of academic models in real life was explored. It seems that there is substantial room for improvement in practitioners taking time to use the models – but a major barrier is how can the information be made more easily accessible to busy HR and reward managers.

The group concluded that reward systems could make a significant strategic contribution to business success if organisations could move beyond using them as a vehicle for compromise, cost control and tactical adjustment.

9 Evaluating new pay systems

Geoff White, Professor of HRM at the University of Greenwich Business School, presented the latest academic evidence on evaluating the effectiveness of reward systems.

The CIPD 2005 reward survey showed that as many as two-thirds of respondents claim to assess the effectiveness of their reward systems, with the most common methods being staff surveys, HR benchmarking data and exit interviews. But work carried out by the University of Greenwich for the Department of Health challenges this view, according to White.

He said that the evaluation that has been undertaken has been carried out largely by academics or commercial research organisations, not by practitioners. The Greenwich research looked at seven large unionised UK organisations that had recently introduced new pay and grading systems, all of which had at least some stated, measurable objectives for their change. In practice, none of these organisations used quantitative measures, such as reduced recruitment costs, absence, employee turnover or employment tribunal cases, and only some used softer measures such as the impact on staff motivation.

The reason for this was that few HR managers saw a direct correlation between changes in pay systems and business performance, and most were sceptical about the value of hard measures, given problems with linkage and 'background noise'. Some HR managers took the view that no negative reaction indicated success. The University of Greenwich study explained these findings by suggesting that managers have such a psychological investment in the changes that they would have difficulty admitting that their objectives had not been met.

The HR practitioners present in the workshops were not surprised by these findings. They also concurred with the types of reasons given for the lack of evaluation activity suggested by the research – most notably:

- questioning the value of hard measures
- the difficulty of distinguishing between the impact of reward and background noise
- concern about whether there is a direct correlation between reward initiatives and business performance
- difficulty in admitting failure
- difficulty in assessing cause and effect.

On the other hand, some participants felt that HR/reward practitioners had their 'heads in the sand' on this issue. The general consensus was that practitioners could and should be better at adopting project management disciplines so that projects are evaluated.

Questions were raised about 'capability-building' in the profession. Does the CIPD education system effectively prepare HR practitioners to evaluate projects (rather than just providing statistical underpinning)? And, while organisations do have data, it seems that they either don't know how or don't want to use it effectively. It was suggested that HR was not dissimilar to other functions, such as sales and marketing, where there are also difficulties in establishing success measures.

The workshop participants wondered if further research would reveal whether measurement needs to be 'full-blown', as per the Nationwide example, or if it is possible to identify specific metrics for individual reward elements (for example, is there a correlation between business performance and appraisal ratings?). They also thought it would be useful to establish what objectives organisations use when evaluating the success of their reward systems, or indeed any other aspect of their activities, and how 'SMART' they are.

Another topic for further research, the workshop participants thought, was whether it's the way a reward system/approach is communicated that makes the difference or the actual reward? The final issue addressed was the impact of different elements of the pay system together rather than just one element, such as PRP.

Concluding remarks

Closing the day's proceedings, Duncan Brown drew attention to the common themes that had emerged during the course of the day. The three main themes are listed below:

The gap between evidence and practice

This was acknowledged by practitioners, although there was some nervousness about gathering comprehensive HR metrics, due to the cost involved and the analytical challenge presented by large amounts of data. And, while it was acknowledged that evaluation would be useful, HR specialists thought there was no obvious, easy or useful way to do this.

The importance of employee engagement

Policies and practices are now designed to capture hearts and minds in order to get discretionary effort from employees, and the rise of HR metrics should make it possible to find out which policies achieve this objective and which get in the way.

The importance of line management capability

Employees experience HR policies through the way their manager interprets them, and the skill he or she brings to the task. Problems with understanding, conviction, capability and consistency were raised throughout the day, and it was a more or less universal opinion that managers need more training and support if they are to carry out their HR responsibilities, such as appraisal or recognition, effectively.

Further research

Practitioners expressed interest in further academic research on the following:

- How much variable pay is needed to change behaviour?
- What is the impact of line managers on reward, and what are the effects of improving their capability on organisational performance?
- How could managers' competencies in appraisal, making consistent decisions and interpersonal skills be improved?
- What level of pay gap is justifiable in the context of equal pay?
- Why do different practices in different organisations produce the same results?
- How are performance management systems maintained and sustained?
- What are the most effective communication mechanisms for the delivery of the reward message?
- Do HR metrics have to be comprehensive, or can specific metrics be identified for individual elements of reward, such as appraisal?

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