



Annual survey report 2009

Reward management

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Summary of key findings

The eighth annual survey of UK reward management is based on responses received from 520 organisations, across all industrial sectors, employing around 1 million employees.

The research was carried out between August and October 2008. 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

- Just over a quarter of respondents report having a reward strategy. A further 24% plan to create one in 2009. A total rewards approach has been adopted by one-fifth of the sample, while a further 22% plan to take this approach up in 2009.
- The most important goals for a reward strategy are: support business goals, reward high-performers, and recruit and retain high-performers.
- Budget constraints are cited as the biggest inhibitor to the successful operation of a reward strategy, followed by line management skills and abilities, line management attitudes and staff attitudes.

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 (not using a job evaluation database), market rates (supported by a job evaluation database) and an ability to pay. For managing pay progression the most common approach is to use individual performance (either solely or, more typically, in combination with other factors, such as competency).
- The key factors influencing the size of this year's annual pay review are ability to pay, inflation and movement in market rates.
- Reward specialists will be busy in 2009 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 firms operating more than one scheme. The most common types are individual-based plans, followed by ones driven by business results, such as profit.
- Just over two-fifths of those organisations with bonus or incentive arrangements will be changing them this year, while one in ten will be introducing another bonus scheme. A further one in ten will be introducing a bonus scheme for the first time.
- Around one-third of all respondents use recognition, while just under one-fifth use non-cash incentive schemes. Private sector service employers are more likely to use both arrangements, while the public sector is more likely to opt for a recognition scheme.

Pensions and benefits

- Virtually all 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 growing proportion are closed to future accrual as well.
- Just under one-fifth of employers are planning changes to their pension arrangements in 2009, with the most popular options being to introduce salary-sacrifice arrangements, increase employer contributions and increase employee contributions.
- Other common benefits provided to all employees irrespective of grade include training and development, 25 days' or more paid leave (excluding statutory) and free tea, coffee and cold drinks.

Table 1: Summary of key findings

	Reward approaches	Percentage of respondents using
	Written reward strategy	26
	Adopted a total reward approach	20
Pay structures	Individual pay rates/ranges/spot salaries	35
	Broadbands	24
	Pay spines	19
	Job families/career grades	15
	Narrow-graded pay structures	13
	Factors used to determine salary levels	Linked to market rates (not using a job evaluation database)
Linked to market rates (using a job evaluation database)		32
Ability to pay		17
Collective agreement		14
Owner's/managing director's views		11
Factors used to manage pay progression	Combination/hybrid approach	66
	Individual performance only	13
	Length of service only	8
	Other	7
	Market rates only	5
Key factors used to determine size of overall pay review	Ability to pay	57
	Inflation	53
	Movement in market rates	35
	The going rate of pay awards elsewhere	27
	Recruitment and retention issues	23
	Union/staff pressures	16
	Level of government funding/pay guidelines	15
	Employers with cash-bonus or incentive plans	70
Types of bonus and incentive plans	Individual-based	61
	Scheme driven by business results	56
	Combination	41
	Team-based	23
	Ad hoc/project-based	14
	Department/site based	14
	Employers with recognition schemes	31
	Employers with non-cash incentive schemes	17
	Private sector long-term incentives	43

Table 1: Summary of key findings (continued)

	Reward approaches	Percentage of respondents using
Types of long-term incentives	Executive share option scheme	36
	Share incentive plan	29
	Company share option plan	26
	Save as you earn	26
	Executive restricted/performance share plan	22
Benefits provided to all employees	Pension plan	95
	Training and development	71
	25 days' or more paid leave	67
	Tea/coffee/cold drinks	62
	Christmas party/lunch	60
	On-site car parking	60
	Childcare vouchers	56
	Life assurance	51
	Eyecare vouchers	46
	Enhanced maternity and paternity leave	43
Reward management changes in 2009	Amend the existing bonus/incentive arrangements	42
	Pay progression	30
	Pay structure	29
	Introduce total rewards	24
	Way pay levels are determined	23
	Introducing a new job evaluation scheme	23
	Introduce a reward strategy	22
	Factors determining the annual pay review	19
	Change pension arrangements	17
	Change existing long-term incentives	15
	Change an existing job evaluation scheme	10
	Introduce another new bonus/incentive scheme	9
	Introduce a bonus/incentive scheme for the first time	9

Strategic reward

Economic turmoil could be causing some employers to abandon their reward strategies.

Table 2 shows that 26% of our sample have adopted a reward strategy, while a further 24% intend to adopt one in 2009. It also reveals that 20% of employers have adopted a total reward approach while another 22% plan to do so this year.

However, compared with last year, we appear to have gone back in time. In 2008, 33% of respondents claimed to have a reward strategy while 29% said that they had adopted a total reward approach (and that figure was down on 2007). Even the percentages of respondents planning to introduce a reward strategy and/or total reward are down on last year: 23% and 21% respectively.

So what's happening? This fall may be due to: sampling; that some respondents are now not confident that they had a total reward approach or a reward strategy in the first place; or that some employers have been forced to abandon them as they no longer meet the needs of the business in the current economic downturn. It is interesting to note that the largest drop in the proportion of employers with a reward strategy is among private sector services firms, which had borne the brunt of the downturn when our survey was conducted, down from 39% to 29%.

Table 2: Prevalence of reward strategies and total reward approaches (%)

	With a reward strategy	Adopting a reward strategy	With a total reward approach	Adopting a total reward approach
All	26	24	20	22
By sector				
Manufacturing and production	26	26	17	21
Private sector services	29	22	27	21
Voluntary sector	22	32	16	24
Public services	24	23	11	22
By size				
0-49	26	24	20	11
50-249	20	20	16	16
250-999	19	28	20	23
1,000-4,999	35	26	26	26
5,000+	48	30	23	38

Aims of reward strategies

Table 3 lists the overall top ten goals for those organisations with a reward strategy. Table 3 also breaks down these figures by sector. It finds, for instance, that public sector employers are more concerned with ensuring internal equity due to equal pay issues. Interestingly, half of public sector organisations report that an objective of their reward strategy is to defend against equal pay claims, while 43% of voluntary sector employers also use a reward strategy for such a purpose. By contrast, very few manufacturing and production firms (14%) or private sector service companies (15%) do likewise. However, these employers are more interested in using their reward strategy to facilitate a move to a total reward approach.

Other, less common, objectives include: segment the reward spend (3%); manage risk (7%); manage pension costs and risks (12%); corporate social responsibility (16%); encourage employee flexibility and responsiveness (21%); and promote good governance (24%).

By size, medium and very large employers are more concerned about pay costs; for instance, among organisations with between 50 and 249 staff, 63% cite managing pay costs as important, while 66% of employers with over 5,000 workers do likewise.

Since we asked these questions in 2006, we have seen an increase in the proportion of employers citing the top three factors as important. In 2006, 79% reported supporting the business goals was important compared with 88% now, 67% cited rewarding high-performers compared with 74% in 2008, and 62% said that recruiting and retaining high-performers was key, compared with 71% now.

Table 4 lists the top three reward strategy priorities between 2002 and 2009. It shows that recruiting and retaining high-performers has risen in importance in the past two years at the expense of managing pay costs, perhaps an indication that in these troubled times employers may be considering focusing their limited reward budgets on key talent rather than on all staff.

Table 3: Important reward strategy goals, by sector (%)

	Percentage of respondents by sector				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Support business goals	88	89	90	86	83
Reward high-performers	74	89	80	43	54
Recruit and retain high-performers	71	78	77	65	50
Link pay to the market	60	64	66	57	42
Support career development and career progression	60	56	48	43	54
Manage pay costs	53	44	66	71	58
Achieve/maintain market competitiveness	42	39	41	50	46
Ensure internal equity	42	31	38	71	54
Encourage productivity	39	39	44	29	29
Support skills/competency development	38	36	31	57	46

Table 4: Top three reward strategy priorities, 2002 to 2009

2002	2003	2004	2005	2006	2007	2008	2009
Support business goals	Support business goals	Support business goals	Support business goals	Support business goals	Support business goals	Support business goals	Support business goals
Recruit and retain high-performers	Recruit and retain high-performers	Manage pay costs	Recruit and retain high-performers	Manage pay costs	Manage pay costs	Recruit and retain high-performers	Recruit and retain high-performers
Reward high-performers	Manage pay costs	Reward high-performers	Reward high-performers	Recruit and retain high-performers	Reward high-performers	Reward high-performers	Reward high-performers

Figure 1 shows the difficulties that employers have experienced in implementing their reward strategy. Unlike our study in 2006, this year's survey does not reveal any one sector finding implementation any more arduous. Overall, it finds fewer employers reporting that the operation is extremely difficult (down from 13% to 5%) or almost impossible (down from 1% to nothing). It may be conceivable that part of the explanation for this is that some employers who found operation difficult in 2006 have subsequently abandoned their reward strategy, which would also tie in with the drop in the proportion of employers with a reward strategy reported earlier. Additionally, some employers may have simply got better at operating a reward strategy or made investments in key areas to improve the implementation.

Our survey also asks respondents for the main inhibitors to the effective operation of the reward strategy in their organisation; the results are shown in Table 5. It shows significant variations by sector, for instance budget constraints are key issues in both voluntary sector employers and manufacturing and production firms. Union attitudes are a problem in the public sector, while staff attitudes are a big issue in the voluntary sector.

Yet other issues don't hit the radar in some sectors. For instance, no manufacturing and production firms see unions as hindering the successful operation of their reward strategy, nor are employee attitudes a big concern. While top management attitudes are not a major issue in the public sector, and nor are insufficient communications.

Figure 1: The ease of implementing a reward strategy

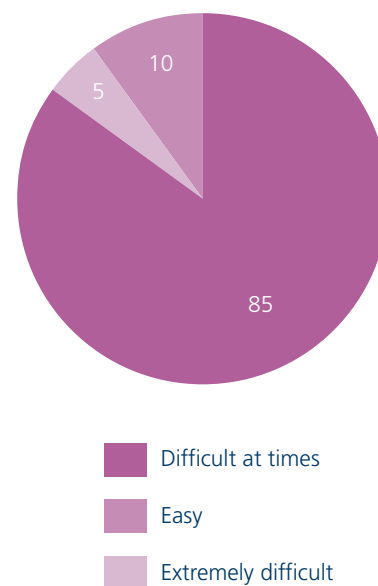


Table 5: Main inhibitors to a reward strategy, by sector

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Budget constraints/pressures	59	64	53	71	63
Line managers' skills and abilities	39	33	40	50	42
Line management attitudes	33	22	40	29	38
Staff attitudes	33	14	36	50	42
Organisation's capacity to change	24	33	17	21	29
Insufficient communication	24	28	19	50	13
Lack of support systems	20	19	19	29	17
Top management attitudes	19	19	22	21	8
Union attitudes	17	–	21	14	38
HR capability	10	14	7	–	13

Rewarding in challenging times: Alliance & Leicester

The Alliance & Leicester bank's main activities are retail (current accounts, mortgages, saving and loans) and commercial (business banking, corporate lending and money transmission). Retail accounts for around 3,500 staff, 73% of whom are female, while commercial accounts for 1,500 staff, 45% of whom are female. In addition, 2,500 staff work in support service roles (for example finance, marketing, legal, and so on), around 50% of which are female. Overall, the average length of service is ten years and the average age is 37, though this varies from call centre staff working in retail, where the length of service is typically seven years to those employed in giro operations at Bootle, where the length of service is 12 years. Pay and benefits represent around 25% of operating costs.

In January 2008, the bank introduced a new broadbanded grading structure, where 14 grades were replaced with five bands. It was felt that the new broadbands underpinned by no more than ten job families would better meet the needs of the organisation because they: are simpler in terms of benefit provision; facilitate greater career progression; and open up a wider range of opportunities across the organisation. People now progress along these grades via a performance-related pay matrix system until they reach the top of the pay band, which is determined by market rate. After that, contribution is recognised via a non-consolidated cash bonus. Salaries may change, but only to reflect market movement. While the pay structures are new, performance management culture and the link to pay is older and has been in place for the past five years.

As well as modernising its reward structure, the Alliance & Leicester also took the opportunity to harmonise and simplify its employee benefits offering. Instead of benefits being linked to 14 grades and location, they are now linked to the five broadbands. While harmonisation cost the firm money, it was seen as a worthwhile investment because employees would now know what benefits were on offer and what they needed to do to receive more. Also, simplicity is one of the organisation's core brand values and it wanted to reflect this internally in its employer brand.

Rewarding in challenging times: Alliance & Leicester (continued)

Pensions have also been reviewed. A couple of years ago a Retail Prices Index (RPI) cap was placed on salaries to reduce the future risk and cost of salary inflation on its now closed final salary pension scheme. And recently the company has increased its employer contribution to its trust-based defined contribution (DC) scheme from 7% to 9% so as to stand out in the labour market by offering a relatively high level of contribution (employees contribute 5% through salary sacrifice).

The company had also carried out the second of its equal pay reviews to ensure that pay reflects performance. It found differences between groups of staff who were on protected terms and conditions from when they were brought into the organisation, such as those at the Giro bank in Bootle. To deal with this, longer-serving staff have only seen a fraction of their pay increase consolidated; the rest is now paid as a non-consolidated lump sum. The aim is that newer staff will enjoy relatively faster pay progression than their longer-serving colleagues. This concern with equity is also reflected in its pension arrangements that all new staff, irrespective of grade, have the same pension arrangements.

Things change

In the last full financial year (2007/08) the Alliance & Leicester made a pre-tax profit of around £500 million. However, the subsequent turmoil in the financial sector has seen pre-tax profits decline in the first half of 2008/09 to £2 million.

In response, the organisation looked to cut its operating costs, looking to cut everything it could, from stationery to jobs. After negotiations with its trade union, a voluntary redundancy package was put together and 350 employees opted to take this opportunity to leave the company.

The 2008 pay review saw the organisation opting not to uplift salaries in response to movement in the market median. Instead, those senior managers who have performed saw their salaries rise by 2%. Other employees have received a performance-pay increase spread over two dates, 2% from 1 July 2008 and 1.6% from 1 January 2009. This compares with the 2007 pay review where staff saw pay increase by 4.3%.

In 2008, a bonus scheme for staff and managers in non-sales roles was introduced. However, payments from the scheme linked to profit-before-tax were modest. The bonus pool was 2% of payroll and those staff that performed were eligible for a 2% bonus. This contrasts with the 'On Target' bonus pool, which is 5%, with payments ranging from nil to 10%.

While the organisation is constrained by how much money it could give to employees in its pay review, Stephen Gambles, Senior Reward Manager, points out that the bank is still committed to maintaining the reward-performance link, rather than temporarily going back to across-the-board increases.

The bank had also been working with its union on a review of the pay ranges that would underpin the job family approach, but due to the liquidity famine this has been put on the backburner.

In September 2008, due to the turmoil in the financial economy, the bank decided that its long-term interests were best met through a merger with the Spanish-owned Santander Bank, a move that was agreed by shareholders in October 2008. Obviously this, and the credit crunch, was giving employees cause for concern.

Rewarding in challenging times: Alliance & Leicester (continued)

Richard Galletly, Head of HR Policy and Reward, believes that communication, either centrally or through line managers, is key to letting employees know during these troubled times what the bank's aims and objectives are, what it needs from staff and how, in return, it will reward them. This helps focus staff on the job in hand rather than being distracted by various rumours associated with the takeover.

Also important, says Stephen Gambles, is the company keeping true to its core values and ensuring that everything that it does with reward reflects and supports them. That is why it is committed to ensuring its reward approach is simple, performance-based and fair.

The organisation is not abandoning its recently developed talent management strategy and supporting reward approach, especially at senior level, with its focus on high-performers and high-potentials. It believes that by not abandoning strategic initiatives for short-term considerations it will retain and engage its existing employees so that it is in a good position to take advantage when the economy starts to improve.

So far the organisation has not witnessed an exodus of staff worried by their future, though the bank admits that this may also be in part to lack of current job opportunities in the financial sector. However, it points out that even among specialist financial staff, where the market is still relatively competitive, the bank has not seen an increase in employee turnover.

Despite the current economic climate, the bank is still recruiting staff for specialist roles, such as HR. It is important to get the best candidate, so that means ensuring that pay is market-competitive. However, it also now means trying to deal with any concerns those candidates may have working for the company in its current situation during the recruitment process. While recognising these challenges, Richard Galletly stresses to candidates the new opportunities of working for the organisation, such as the experience that they will gain from working on a huge change management initiative. Compared with previous years, applicants who are offered a position are more likely to ask for time to consider before they accept or not. However, to date, no one who has been offered a job has turned it down.

As Richard Galletly sums up: 'It can be tempting to focus on the short term and do what needs to be done just to survive, but that will only get you so far. You also need to keep an eye on the future and reflect on how you reward and recognise people's contribution and whether that will create loyalty for the organisation as the economy starts to improve.'

This information was supplied by Stephen Gambles, Senior Reward Manager, and Richard Galletly, Head of HR Policy and Reward, Alliance & Leicester.

Base pay

Employers are adopting a 'best fit' rather than a 'best practice' approach to pay progression. In 2009 the impact of falling inflation and organisational performance will result in lower pay review budgets.

Pay structures and levels

Tables 6 and 7 examine how our survey respondents manage their pay structures. The most common approach is still to use individual pay rates/ranges and spot salaries. However, there are variations by sector and occupation. For instance, in the public sector and, to a

lesser extent, in the voluntary 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 far more likely to be on individual pay rates/ranges/spot salaries.

Table 6: Pay structure management, by sector

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Individual pay rates/ranges/spot salaries	35	40	45	23	18
Broadband pay structures	24	30	26	19	14
Pay spines	19	3	4	34	63
Job family/career grade structures	15	15	18	9	11
Narrow-graded pay structures	13	14	11	19	12
Other	4	6	5	4	–

Table 7: Pay structure management, by occupation

	Percentage of respondents			
	Senior management	Middle/ first-line management	Technical/ professional	Clerical/ manual
Individual pay rates/ranges/spot salaries	50	34	30	28
Broadband pay structures	22	27	25	22
Job family/career grade structures	10	15	18	17
Pay spines	13	20	21	22
Narrow-graded pay structures	10	11	14	18
Other	5	4	4	4

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

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Market rates (not using a job evaluation database)	36	41	43	36	14
Market rates (using a job evaluation database)	32	31	30	41	32
Ability to pay	17	16	17	27	17
Collective bargaining	14	11	6	3	44
Owner's/managing director's views	11	14	16	10	2
Shareholders' views	2	2	3	–	–

Table 8 shows that the most important factors used by employers when attaching salary levels to these grades are market rates (not using a job evaluation database), followed by market rates (using a job evaluation database) and ability to pay. There are variations by sector, with market rates being more important among private sector firms, while collective bargaining is more important in the public sector employers. By occupation, clerical and manual staff are more likely to be covered by collective bargaining (23%) than senior managers (6%), while the views of the owner or managing director is more of an influence for senior staff (17%) than clerical and manual workers (8%).

By size, the views of the owners or managing director becomes less of a factor as the organisation grows (24% for firms with fewer than 50 staff compared with 2% for firms with more than 5,000), while the opposite is true for using a job evaluation database (21% for the smallest employer increasing to 49% for the largest).

Pay progression and awards

The most popular approach (66%) to progressing someone along their pay scale 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 (13%) or length of service (8%). Combination approaches are more common in both of the private sectors (73%) than the voluntary (53%) or public (49%) sectors.

Focusing on combination approaches, Table 9 indicates the factors used by sector. It shows individual performance is the most common across all sectors. Market rates are often used in the private sector, length of service is more common in the public sector, while competency is more typical in the voluntary sector.

Table 10 shows that individual performance is common for all occupational groups, but progression linked to organisational performance is more common among higher-graded staff, where there can be a better line of sight.

Overall, when it comes to the combination approach most employers use three factors per occupation, with the highest average number of factors being used for senior management (3.47), followed by middle/first-line management (3.43), technical and professional (3.3) and clerical and manual (3.15).

Table 11 shows the most common combinations of factors used in a combination approach by occupation, while Table 12 (page 16) shows the most common combination of factors by occupation and sector. Table 12 reveals that in the public services, individual performance and length of service is the most common combination of factors across all occupations. It also reveals less diversity between the not-for-profit sectors and the private sectors below senior managers and above clerical/manuals. For instance, while just 10% of manufacturing and production companies and 12% of private service sector firms use the same combination of factors for middle/first-line managers, 22% of voluntary sector employers and 19% of public sector employers do likewise. Overall, the large number of combinations suggests 'best fit' practice rather than a 'best practice' approach.

Table 9: Pay progression criteria used within a combination approach, by sector

Progression based on:	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Individual performance	88	87	92	89	79
Market rates	68	73	77	66	31
Competency	51	53	50	56	50
Organisational performance	45	50	56	22	15
Skills	40	45	37	37	42
Team profit/performance	17	18	20	8	9
Length of service	20	15	12	21	58

Table 10: Pay progression criteria used within a combination approach, by occupation

Progression based on:	Percentage of respondents			
	Senior management	Middle/first-line management	Technical/professional	Clerical/manual
Individual performance	92	89	88	83
Market rates	70	68	68	65
Competency	49	52	54	50
Organisational performance	55	46	44	41
Skills	37	38	40	38
Team profit/performance	21	22	21	22
Length of service	19	21	21	11

Table 11: The most common combinations of factors used in a combination approach, by occupation

Senior management	Middle/first-line management	Technical/professional	Clerical/manual
Individual performance and market rates (11%)	Individual performance and organisational performance (9%)	Individual performance, competency, skills and market rates (10%)	Individual performance and market rates (10%)
Individual performance, market rates and organisational performance (10%)	Individual performance and market rates (7%)	Individual performance and market rates (10%)	Individual performance, competency, skills and market rates (8%)
Individual performance, competency, skills and market rates (6%)	Individual performance, competency, skills and market rates (7%)	Individual performance, market rates and organisational performance (8%)	Individual performance, market rates and organisational performance (7%)
Individual performance, competency, market rates and organisational performance (5%)	Individual performance, competency, market rates and organisational performance (4%)	Individual performance, competency, skills, market rates and organisational performance (5%)	Individual performance and length of service (4%)

Percentage of respondents in brackets

Table 12: The most common combination of factors used in a combination approach, by sector and occupation

	Senior management	Middle/first-line management	Technical/professional	Clerical/manual
Manufacturing and production	Individual performance, market rates and organisational performance (12%)	Individual performance and market rates (10%)	Individual performance, competency, skills and market rates (13%)	Individual performance, competency, skills and market rates (11%)
Private sector services	Individual performance and market rates (12%)	Individual performance, market rates and organisational performance (12%)	Individual performance and market rates (13%)	Individual performance and market rates (14%)
Voluntary sector	Individual performance and market rates (13%)	Individual performance, competency, skills and market rates (22%)	Individual performance, competency, skills and market rates (23%)	Individual performance, competency, skills and market rates (16%)
Public services	Individual performance and length of service (12%)	Individual performance and length of service (19%)	Individual performance and length of service (19%)	Individual performance and length of service (16%)

Percentage of respondents in brackets

Table 13 shows which three factors were predicted in 2007 to be the most influential in 2008 in determining the size of the overall pay review budget (taking into account both individual base-pay progression and, if applicable, general or cost-of-living pay rises) compared with what respondents in 2008 said had been the most influential. The 2008 data is in italics.

The biggest difference is around the rate of inflation. For instance, in 2007 only 39% of private sector service firms predicted that the cost of living would be a key factor in 2008. However, in 2008, 54% admitted that it had been a major factor in determining the overall size of their salary review. The same is true of the public sector employers and, to a lesser extent, manufacturing and production companies. Interestingly, inflation turned out to be less of a factor for voluntary sector employers; instead organisational performance or ability to pay became far more of a factor in 2008 as did the amount of government funding.

Table 14 shows the predictions for 2009. It shows that many respondents, influenced by what happened in 2008, see inflation again as a potential key factor for this year. However, with falling inflation predicted for 2009 (and the possibility of deflation), coupled with a weaker economy, we would expect next year's pay increases to be lower than in 2008. However, whether pay increases track inflation all the way down is open to debate. The last time the UK was in the grip of a recession, pay awards fell until they hit a floor of around 2.3%, so it will be interesting to see whether pay falls far below this level this time.

With employers having smaller amounts to use at the annual salary review, we could see some employers abandoning their performance-based pay systems for across-the-board pay increases or pay freezes (as their budgets will be too small to allow for significant performance differentiation), while others may be tempted to differentiate more by only focusing the pay review budget on those roles and talent that add value

Table 13: The most important factors for employers when determining their annual pay review, by sector, 2008 (predicted versus actual)

Manufacturing and production	Private sector services	Voluntary sector	Public services
Ability to pay (61%; 52%)	Ability to pay (68%; 65%)	Inflation (60%; 48%)	Level of government funding/pay guidelines (68%; 61%)
Inflation (55%; 60%)	Movement in market rates (43%; 46%)	The 'going rate' of pay awards elsewhere (38%; 25%)	Union/staff pressures (40%; 40%)
Movement in market rates (35%; 40%)	Inflation (39%; 54%)	Ability to pay (34%; 63%)	Inflation (33%; 42%)
The 'going rate' of pay awards elsewhere (26%; 29%)	Recruitment and retention issues (34%; 23%)	Recruitment and retention issues (27%; 25%)	The 'going rate' of pay awards elsewhere (18%; 22%)
Recruitment and retention issues (24%; 28%)	The 'going rate' of pay awards elsewhere (28%; 31%)	Movement in market rates (24%; 18%)	Ability to pay (18%; 33%)

Percentage of respondents in brackets; 2008 actual data in italics

to the organisation. One possible option could be a shift in how employers reward performance, away from consolidated to unconsolidated awards. People would only receive a salary increase if the market rate had increased.

The level of government funding has risen as an issue among voluntary sector employers – either because funding from the public sector has fallen in real terms or because charities are starting to look to government as a possible source of income if donations start to decline.

Table 14: The most important factors for employers when determining their annual pay review, by sector, 2009

Manufacturing and production	Private sector services	Voluntary sector	Public services
Inflation (63%)	Ability to pay (67%)	Ability to pay (67%)	Level of government funding/pay guidelines (62%)
Ability to pay (52%)	Inflation (55%)	Inflation (46%)	Inflation (41%)
Movement in market rates (37%)	Movement in market rates (46%)	The 'going rate' of pay awards elsewhere (27%)	Union/staff pressures (38%)
Recruitment and retention issues (29%)	The 'going rate' of pay awards elsewhere (29%)	Recruitment and retention issues (23%)	Organisation's performance (37%)
The 'going rate' of pay awards elsewhere (28%)	Recruitment and retention issues (22%)	Level of government funding/pay guidelines (22%)	The 'going rate' of pay awards elsewhere (23%)

Percentage of respondents in brackets

Changes planned

Despite, or possibly because of, the economic gloom, many reward professionals could be busy in 2009 with employers planning to change how they manage their existing base-pay arrangements. Table 15 shows that the most common change being planned by employers is to amend the way that individuals progress through a pay structure, followed by changing the existing pay structure and the way that salaries are attached to it. However, the overall proportion of employers planning changes in 2009 is down on the number planning changes in 2008. For instance in 2008, 37% planned to change the way the

pay structure is organised; this year the figure has dropped to 29%. One explanation for this decline could be because employers are reluctant to make significant changes to their pay systems in these uncertain times, another is that some more employers are satisfied with their existing approach and don't see the need for change.

According to those who are making changes this year, 23% are introducing them with the aim of introducing more flexibility in pay between employee groups, while 30% are making changes aimed at introducing flexibility within employee groups.

Table 15: Organisations planning to change their pay arrangements, by sector

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Changing the way that employees progress within their pay ranges	30	28	27	27	25
Changing the way the pay structure is organised	29	27	28	28	27
Changing the way that pay rates/ranges/mid-points are attached to the pay structure	23	20	22	22	21
Introducing a new job evaluation scheme	23	28	19	19	15
Changing the factors that determine the size of the pay review	19	21	20	20	7
Changing the existing job evaluation scheme	10	10	6	6	9

Variable pay

While the survey finds widespread use of cash bonus plans it finds less use of non-financial forms of recognition and motivation schemes.

Bonuses and incentives

The use of variable pay is a popular method of reward, with 70% of our respondents using it. Table 16 shows the variations by sector and size, with these arrangements being far more common in the private sector.

Table 17 shows that most employers operate more than one scheme, with the median at 2 schemes and the mean at 3.38, indicating that a number of employers operate a large number of cash-based bonus and incentive schemes.

Table 16: Use of cash-based bonus/incentive plans, recognition schemes and non-cash incentive plans, by sector and size

	Percentage of respondents		
	Cash-based bonus or incentive plan	Recognition scheme	Non-cash incentive plan
All employers	70	31	17
By sector			
Manufacturing and production	85	26	21
Private sector services	89	38	24
Voluntary sector	30	14	8
Public services	33	35	17
By size			
0-49	65	16	9
50-249	71	20	17
250-999	71	27	16
1,000-4,999	70	48	27
5,000+	69	56	33

Table 17: Number of cash-based bonus or incentive schemes, by sector and size

Main sector worked in	Lower quartile	Median	Upper quartile	Mean
All	1	2	3	3.38
By sector				
Manufacturing and production	1	2	3	3.44
Private sector services	1	2	3	3.72
Voluntary sector	1	2	2	1.71
Public services	1	1	2	1.77
By size				
0–49	1	1	2	1.59
50–249	1	2	2	2.21
250–999	1	2	3	2.58
1,000–4,999	1	2	3	3.09
5,000+	1	3	10	11.52

Table 18: Types of cash-based bonus or incentive plans on offer, by sector

Type of plan	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Individual-based	61	55	64	67	61
Schemes driven by business results	56	54	64	39	30
Combination	41	47	43	17	24
Team-based	23	12	30	17	27
Ad hoc/project-based	14	9	16	11	21
Departmental/site-based	14	14	15	6	3
Gainsharing	3	3	3	–	–

The most popular arrangement for those using a bonus scheme is an individually based plan (such as commission), followed by a plan driven by business results. Of those employers using a scheme driven by business results, 24% use a profit-share plan. Table 18 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.

The survey asked respondents for the approximate percentage of each occupational group covered by a bonus scheme. Table 19 shows that broadly, coverage increases by grade in the private services sectors while it declines markedly by grade in the public services sector.

The survey also asked the approximate target and maximum bonus/incentive potential available as a

proportion of base salary by broad occupational grouping. Table 20 shows the mean on target potential bonus (where bonus is payable). Unsurprisingly, it shows that at senior grade levels the pay at risk is larger in the private sectors. At the lower grade levels there is not such a big variation in the pay at risk between the sectors. When comparing data from Table 20 with Table 21 (which shows the mean maximum bonus/incentives on offer), we find a wide variation between targets and maxima in the private services sector at all levels. In manufacturing and production there is less of a variation in the pay at risk, especially at the lower grades. In both of the not-for-profit sectors, at all levels there is little variation between target and maxima, reflecting cultural issues, the relative lack of money to distribute and the difficulties around defining and measuring employee contribution.

Table 19: Percentage of employees covered by bonus schemes, by sector

	Percentage of respondents				
	Executives/ board members	Senior managers	Middle/ first-line management	Technical/ professional	Clerical/ technical
Manufacturing and production	79	78	70	78	79
Private sector services	83	79	73	74	78
Voluntary sector	69	74	75	63	78
Public services	58	68	72	74	85

Table 20: Target bonus/incentive potential, by sector

	Mean				
	Executives/ board members	Senior managers	Middle/ first-line management	Technical/ professional	Clerical/ technical
All	35	23	16	12	8
By sector					
Manufacturing and production	36	21	15	11	8
Private sector services	41	27	18	14	9
Voluntary sector	9	7	7	8	5
Public services	12	11	10	11	9

Table 21: Maximum bonus/incentive potential, by sector

	Mean				
	Executives/ board members	Senior managers	Middle/ first-line management	Technical/ professional	Clerical/ technical
All	76	56	50	23	23
By sector					
Manufacturing and production	52	29	20	15	11
Private sector services	109	83	80	31	34
Voluntary sector	12	9	9	9	6
Public services	14	12	10	11	14

Table 22: Reviews and changes planned in 2009, by sector

	Percentage of respondents			
	Manufacturing and production	Private sector services	Voluntary sector	Public services
Examine existing arrangements	61	69	36	53
Examine the case for introducing a bonus for the first time	15	4	32	8
Amend existing bonus plans	47	47	21	26
Introduce a bonus for the first time	5	4	21	24
Introduce another new scheme	10	10	18	–

Table 22 shows that a large proportion of those employers already operating bonus schemes plan to review them in 2009 to ensure that they still support the needs of the business. It also shows that many respondents with existing plans will be amending them this year, such as changing the measures, coverage or targets. Due to the low coverage of bonus plans in the not-for-profit sector, a significant proportion of public and voluntary sector employers are looking to introduce a bonus scheme for the first time, or examine the case for introducing a scheme for the first time.

Recognition and non-cash incentive schemes

This year, we differentiated between recognition schemes (such as employee of the month) and non-cash incentive arrangements (such as sales incentives where the award has a monetary value, such as retail vouchers, but is not paid in cash). Around three in ten employers operate a recognition scheme, while just under two in ten have a non-cash incentive plan.

Table 16 (page 19) shows that private sector service employers are more likely to use both arrangements, while the public sector is more likely to opt for a recognition scheme. By size, larger employers are more likely to operate such plans. Table 23 shows that the average number of recognition schemes per employer is 1.64, while the figure for non-cash incentives per employer is slightly higher at 1.77.

Table 23: Number of recognition and non-cash incentive schemes, by sector

Main sector worked in	Lower quartile	Median	Upper quartile	Mean
<i>Recognition</i>	1	1	2	1.64
Manufacturing and production	1	1	2	1.71
Private sector services	1	1	2	1.8
Voluntary sector	1	1	2	1.22
Public services	1	1	1	1.32
<i>Non-cash incentives</i>	1	1	2	1.77
Manufacturing and production	1	1	2	1.41
Private sector services	1	1	3	2.16
Voluntary sector	1	1	1	1
Public services	1	1	1	1.45

Long-term incentives

An employee share arrangement or other long-term incentive arrangement exists in 43% of private sector respondent organisations. Table 24 shows the most common arrangements. On the all-employee share front, save as you earn (SAYE) plans are more common in private sector service firms than share incentive plans (SIPs), while the opposite is true for manufacturing and production companies. By size, enterprise management incentives (EMIs) are the most common form of employee share plan for firms with fewer than 50 staff, while executive share options and SAYE are more common in companies with more than 5,000 workers.

Overall, the proportion of employers offering a share plan has dipped from 47% to 43%. However, the number of employers offering various schemes for senior employees has dropped significantly. For instance, the proportion with executive share options has fallen from 50% to 36%, company share option plans from

33% to 26% and executive restricted/performance share plans from 28% to 22%, while SAYE and SIP schemes have remained fairly steady. The drop in senior share plans could in part reflect the current economic turbulence and may also be a response to the growth in popularity of executive restricted annual cash-based bonus plans.

Of those employers with an unapproved share scheme, 35% charge back to themselves the National Insurance due. There is little variation between the sectors, but there is by size, with smaller employers (100% for employers with fewer than 50 staff) far more likely to do this than larger employers (25% of firms with more than 5,000 staff). However, the figures should be treated with caution as the base is quite small.

Looking forward to 2009, 15% of firms with employee share schemes plan to amend their existing arrangements.

Table 24: Common types of long-term incentives, by sector

Scheme	Percentage of respondents	
	Manufacturing and production	Private sector services
Executive share option schemes	31	41
Share incentive plans (SIPs)	37	25
Company share option plans (CSOPs)	32	24
Save as you earn (SAYE)	17	33
Executive restricted/performance share plan	25	22
Executive restricted annual cash-based bonus	12	17
Other	9	10
Executive deferred/co-investment share plan	5	7
'Phantom' share scheme	9	5
SARS/equity-settled SARS	3	1
Enterprise management incentives (EMIs)	2	5

Managing reward risks Moog

Moog is an engineering firm that designs and manufactures motion control products. Its products are used in aircraft controls, flight stimulators, space launch vehicles, the Universal Studios Spiderman ride, Wimbledon's main tennis court roof, Formula 1 motor racing, plus a wide range of industrial machinery.

Moog is headquartered in the USA, has operations in 26 countries around the world, and employs over 8,500 staff. The focus of this case study is on the UK-based Tewkesbury operation, where Moog has a manufacturing plant that services their aircraft and industrial divisions. Around 400 workers in various technical and professional roles are employed at the manufacturing site; of these, 80% are men, the average age is 45 and the average length of service is ten years. The UK office employs around 20 staff, who have an international remit in various professional and support roles. Pay and benefits represent 30% of operating costs, while employee turnover is at 4%.

The challenges

Moog is a knowledge and innovation-based company. It has been highly successful since its foundation in 1951 by being able to solve difficult motion control problems that companies aren't able to solve in-house. This success is built on Moog being able to recruit and retain highly knowledgeable and skilled individuals and motivating them to solve its clients' problems.

The problem faced by Moog is that its experienced workforce is ageing and that they are employed in specific locations. This is compounded by the rapid growth that Moog is currently enjoying and is expected to enjoy in the future. So the challenge, according to Alan Measures, International Compensation and Benefits Manager, is to find ways of replacing people with a very particular knowledge and skill-set to ensure that the firm can meet its customer needs.

However, Moog also has a strong culture and this makes it important to find new recruits who will be comfortable with the Moog way of working. For a start, Moog has a no-blame culture. If it fails to deliver a product on time it does not punish its employees. Instead, it seeks to find out what caused the delay and to minimise the risk of it happening again.

It is also high-trust. For instance, none of the workers on the production site have to clock in or out. Similarly, this case study did not require the approval of the Moog PR department. Moog is also happy to rotate people in and out of roles; for instance, the current chief financial officer is an engineer. Moog expects employees to help colleagues in their new roles, even if it means colleagues sitting with them until they're up to speed; as a consequence, people are generally happy to move. It is non-bureaucratic with the minimum of management levels.

The firm invests heavily in training and development, especially in leadership training. Most employees go through the leadership training course so that at the end, Alan Measures believes, 'staff have the same construct and speak the same language and they don't focus on short term and the political but on working with one another and the long term. When we're looking for new staff they have to get over two hurdles: they must have the skills and knowledge that we need and the right attitudes and behaviours for our culture.'

Managing reward risks Moog (continued)

The role of reward

To date, Moog has never had a written reward strategy and it has few explicit reward policies. Rather, reward has grown up around implicit thinking and custom and practice. Alan Measures explains that the company believes that its employees are grown up and know what to do and it doesn't need to tell them how to behave. He says that 'the organisation sees reward as a "hygiene factor", a risk to be managed, rather than a lever to drive individual performance, as championed by the "new pay" pundits. We want employees to focus on the job in hand and what they do best; we don't want them diverted by a merit award or a bonus payment. Not only is much of what we make critical from a safety perspective, but equipment performance is vital to our customers, and the closer we get to 100% uptime the more profitable it is for us and for them.'

However, Measures believes that there are opportunities for reward to be more useful in supporting the business and culture. Instead of relying on implicit thinking, he is developing a reward strategy that will bring into the open the intent behind their reward practices and create a framework that guides pay thinking in the organisation, especially as some of the people who have built up the business and embody the culture may be retiring in the near future and won't be around to ask. 'If nothing else, it would mean that HR or line managers don't have to keep explaining to individuals every time they ask why the firm doesn't offer a particular reward, or reinventing the wheel every time we have a particular reward issue,' he explains.

Unsurprisingly, compensation focuses on base pay. Staff involved in production progress through salary ranges according to levels of skill and competence attained. The rest of the UK workers have their pay underpinned by Hay Group job evaluation and the company matching the market median.

There is no individual bonus opportunity for employees. Instead Moog operates a worldwide profit-share scheme based on profits at the corporate level. However, the gearing is low for the vast majority of staff and the profit-share payout is typically worth around one week's salary. Even at senior level, the gearing is not particularly high. Additionally, there is a long-term incentive scheme in the form of a share incentive plan.

This reward approach can prove a problem when recruiting staff. However, if people are more focused on the money and what the company can do for them than the products and working as part of a team, then they probably wouldn't like working for Moog.

When it comes to benefits, again the firm is non-hierarchical. All workers receive their benefits after the same probationary period. Staff have 25 days' holiday and can buy three more (though, again, there is no rationale for why staff can buy or sell three as opposed to four or five). There is a stakeholder-based DC arrangement where the employer contributes 6%, increasing to 10% after five years. It also provides access to an independent financial adviser every quarter, which is a popular benefit. Another benefit is the private medical plan, which covers all staff.

However, Alan Measures notes that while the company has become very successful at coming up with bespoke solutions for its clients, this flexibility is not always reflected in the benefits offering – although Moog operate flexible benefits in the UK, which will be a good platform for providing more choice.

Managing reward risks Moog (continued)

Looking at the non-financial rewards, Measures believes that the intellectual challenge posed by their clients is a big reason why most people join the firm and stay with it, as well as the opportunity to work with cutting-edge technology, the supportive working environment and the opportunities for learning, training and development. When people leave it is rarely because of the money, but because they want to change technical specialism. Measures believes that if the firm is going to be able to recruit the staff it needs for the future then it needs to get better at communicating the total reward picture – not just the pay and benefits, but the non-financial rewards too.

To conclude, Alan Measures believes that when it comes to its total reward offering, Moog has got a lot right – treating reward as a hygiene factor and a risk to be managed. However, there is room for improvement, such as being explicit about what the reward options are and why they have been selected, and that there are tensions that need to be recognised and managed. However, Measures believes that while Moog's reward approach isn't unique, it wouldn't work for all organisations. Instead, others should recognise that there are a range of options and should be realistic and pragmatic when creating their own.

This information was supplied by Alan Measures, International Compensation and Benefits Manager, Moog.

Local pay

The survey finds a variety of approaches to varying pay between different geographical labour markets.

This year, supporting research being conducted by the Office for Manpower Economics, we have asked about the systems that employers use to vary pay for the same jobs between different geographical labour markets. The survey found that around one-third of employers using local pay. Private sector service firms and large employers are more likely to use local pay.

Table 25 shows which kinds of systems are used to vary pay in different geographical locations. The most common approaches are to determine pay locally and to use London allowances and supplements. However, there are variations by sector, with the private sectors far more willing to devolve pay decision-making to the locality, while the not-for profit sectors are more likely to use London and area allowances.

Most organisations (56%) express local pay variations in cash terms, 20% express it in percentage terms and 25% express it in both cash and percentage terms. The level at which the final decision on local pay is made typically rests with head office (69%), while 8% leave it up to local management, 7% leave it to regional management and 18% have 'other arrangements', such as leaving it to HR or using a combination of head office and regional management.

Table 26 reveals the evidence used in making decisions on the level and coverage of location pay, by sector. Cost of living is more of a factor for manufacturing and production firms, while recruitment difficulties is more of an issue for voluntary sector employers. Local pay data is more of a factor among private service sector companies, while staff turnover and retention is more of an issue among public sector organisations.

Table 25: Common approaches to varying pay by geographical location, by sector

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Pay determined locally	26	48	53	7	9
London allowances/supplements only	25	30	21	50	65
Flexibility around where an individual is placed on their pay range	15	37	13	7	30
Area allowances/supplements	11	7	13	29	22
Specified pay bands	8	4	21	7	9
Grading structures	7	7	13	7	4
Zonal pay	5	4	9	7	9
Varies by individual client contract	3	7	4	0	0

Table 26: Evidence used on making decision on the level and coverage of local pay, by sector

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Recruitment difficulties	60	47	65	71	54
Local pay/earnings data	52	44	61	47	35
Staff turnover/retention	47	41	48	47	50
Cost of living locally	37	47	34	35	31
Local labour market indicators	32	29	34	29	31
Travel-to-work distances/cost	16	12	20	12	12
Housing costs	15	15	13	18	15
Use of agency/temporary staff	14	21	11	12	15
Responses to staff attitude surveys	11	12	10	18	8
Other	9	3	7	6	23

The majority of employers (61%) have location payments that are pensionable. In the voluntary sector, 68% of such payments are pensionable, followed by 64% in the public sector and 59% in both of the private sectors. Most local pay arrangements (72%) are reviewed annually, while a further 22% are looked at every two and five years, with the rest being reviewed more infrequently. The public and private service employers are slightly more likely to review their arrangements annually (73%) than manufacturing and

production firms (68%) and voluntary sector employers (67%). Smaller employers are more likely to carry out an annual review. In the next 12 months the vast majority (84%) plan to retain their current system, with only 2% abandoning local pay, and a further 14% plan to change their approach, such as shift from area allowances to pay zones.

Equal pay reviews

While most employers have already carried out a review or plan to do so, few communicate the results to all employees.

Overall, 52% of respondents have already carried out, or plan, an equal pay review (EPR). The remaining 48% have not and nor do they have plans to undertake an EPR. There are variations by sector, with manufacturing and production firms more (60%) resistant to EPRs, followed by voluntary sector employers (52%), private services sector companies (51%) and public sector organisations (20%).

When it comes to communicating the findings from the EPR within the organisation, the most common approach (54%) is to release the information just to senior managers, while a further one in ten share the information with all managers. Just over one-third (35%) share the findings of the EPR with all employees. By sector, public service employers are more likely to share the EPR results with all staff (43%), while only 30% of the private services sector do this.

Table 27: Percentage of respondents that have either carried out an EPR or are planning to do so, by sector and size

	Percentage of respondents		
	Completed EPR between 2005 and 2007	Completed EPR in 2008	Planning an EPR in 2009
By sector			
Manufacturing and production	16	14	26
Private sector services	29	21	34
Voluntary, community and not-for-profit	19	20	30
Public services	53	49	53
By size			
0–49	26	23	23
50–249	26	19	32
250–999	24	21	37
1,000–4,999	34	29	33
5,000+	38	40	51

Pensions and benefits

This year's survey indicates a shift among firms with DB schemes towards closing them to all employees. The survey also finds many employee benefits on offer to staff.

Virtually all of our sample (95%) provide their employees with access to a pension scheme. Table 28 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 stakeholder) more common among smaller private sector employers, and final salary and career average arrangements more common in large, public sector employers.

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 29).

Since last year, in the private sector we have seen a decline in the proportion of employers with schemes closed to new employees but not future accrual and a rise in the proportion of firms who have closed their schemes to both new employees and future accruals.

In manufacturing and production, the proportion of final salary schemes closed to new employees has dropped from 68% to 52%, while the percentage of schemes closed to all employees has increased from 15% to 22%. For the private services sector, the proportion closed to just new employees has fallen from 64% to 59%, while the figure for schemes closed to all staff has risen from 14% to 24%. The voluntary sector has seen the biggest increase in the proportion of final salary schemes closed to new

Table 28: Main pension provision, by sector

Type of arrangement	Percentage of respondents				
	Total	Manufacturing and production	Private sector services	Voluntary sector	Public services
Final salary scheme	52	50	36	47	91
Group personal pension (GPP)	34	38	45	36	3
Stakeholder pension (with employer contribution)	31	33	35	28	20
Defined-contribution (DC) plan	26	41	27	22	6
Stakeholder pension (no employer contribution)	16	16	24	14	2
Contribution to personal pension	9	5	10	12	10
Career-average scheme	5	3	3	5	11
Group self-invested personal pension (SIPP)	1	–	3	2	–
Hybrid	2	1	3	3	–

members: last year 60% of schemes were open to all; this year only 33% are still open.

Changes planned for 2009

Around one-fifth of employers (17%) will be amending their existing pension arrangements this year. By sector, private sector service firms (24%) are more likely to be making changes, followed by manufacturing and production firms (15%), public sector employers (12%) and voluntary sector organisations (9%). Among those changing their existing arrangements, the most common amendment is to introduce salary sacrifice (33%), followed by increasing employer contributions (25%), amending the existing final salary pension scheme (21%) and increasing employee contributions (18%).

Benefits

By sector, Table 30 shows which benefits are the most common employer-provided benefits. This year we have analysed provision by whether particular benefits are offered to all or some employees or through a flexible benefits scheme only. Table 31 examines those benefits that are provided to all employees by sector.

At the other end of the spectrum, less commonly provided benefits provided to all employees include: first home deposit assistance (1% of all employers); all-employee car ownership schemes (1%); mortgage assistance (2%); concierge benefits (2%); paid leave to train or compete in a sports event (4%); on-site crèche (4%); paid sabbaticals (4%); theatre/concert trips (5%); welfare loans for financial hardship (7%); and company sports day (8%).

Table 29: Final salary pension arrangements, by sector

	Percentage of respondents				
	All	Manufacturing and production	Private sector services	Voluntary sector	Public services
Open to all	40	21	11	33	79
Closed to new employees but not future accruals	42	52	59	52	17
Closed to new employees and future accruals	15	22	24	15	4
Wind up	3	5	6	–	–

Table 30: Top ten employer-provided benefits by provision

Provided to all employees	Provision dependent on grade/ seniority	Part of a flexible benefits scheme only
Training and career development (71%)	Mobile phones (business use) (58%)	Dental insurance (9%)
25 days' or more paid leave (67%)*	Car allowance (50%)	Childcare vouchers (6%)
Tea/coffee/cold drinks – free (62%)	Company car (49%)	Critical illness insurance (5%)
Christmas party/lunch (60%)	Private medical insurance (32%)	Cycle-to-work scheme loan (5%)
On-site car parking (60%)	Relocation assistance (25%)	Health screening (5%)
Childcare vouchers (56%)	Fuel allowance (21%)	Private medical insurance (5%)
Life assurance (51%)	25 days' or more paid leave (20%)*	Healthcare cash plans (4%)
Eyecare vouchers (46%)	On-site car parking (14%)	Permanent health insurance (3%)
Enhanced maternity/paternity leave (43%)	Permanent health insurance (13%)	Life assurance (3%)
Employee assistance programmes (42%)	Health screening (12%)	Gym (on site or membership) (2%)

Percentage of respondents in brackets. *Excludes statutory leave

Table 31: Top ten benefits provided to all employees by sector, 2008

Manufacturing and production	Private sector services	Voluntary sector	Public services
On-site car parking (84%)	Christmas party/lunch (77%)	Training and career development (83%)	25 days' or more paid leave (75%)*
25 days' or more paid leave (77%)*	Tea/coffee/cold drinks – free (75%)	25 days' or more paid leave (73%)*	Training and career development (73%)
Training and career development (69%)	Training and career development (68%)	Tea/coffee/cold drinks – free (78%)	Enhanced maternity/paternity leave (63%)
Christmas party/lunch (67%)	Life assurance (62%)	Christmas party/lunch (50%)	Childcare vouchers (63%)
Life assurance (62%)	25 days' or more paid leave (56%)*	On-site car parking (51%)	On-site car parking (63%)
Tea/coffee/cold drinks – free (61%)	Childcare vouchers (55%)	Employee assistance programmes (46%)	Employee assistance programmes (44%)
Childcare vouchers (49%)	Eyecare vouchers (55%)	Eyecare vouchers (44%)	Eyecare vouchers (43%)
Dress-down days (48%)	On-site car parking (46%)	Enhanced maternity/paternity leave (43%)	Unpaid sabbaticals (43%)
Eyecare vouchers (47%)	Employee assistance programmes (43%)	Life assurance (41%)	Cycle-to-work scheme (40%)
Employee assistance programmes (37%)	Dress-down days (39%)	Travel season ticket loan (37%)	Relocation assistance (33%)

Percentage of respondents in brackets. *Excludes statutory leave

Metrics, measurement and evaluation

Just 54% of employers know how much they're spending on pay and benefits, and even fewer look at the impact of the paybill spend on the organisation.

Just over 54% of respondents claim that they calculate the size of their total remuneration spend (that is pay, benefits and other financial rewards, plus National Insurance Contributions). By sector, private sector service firms (60%) are more likely to calculate this, followed by public service employers (53%), manufacturing and production firms (52%), and voluntary sector organisations (44%). As one would expect, smaller employers are more likely to, or be able to, calculate their total remuneration expenditure than larger organisations. While 65% of firms with fewer than 50 staff calculate their total remuneration spend, only 56% of firms with more than 5,000 staff do likewise.

However, while many employers know the size of their total remuneration spend, most of them are unable to break it down into its constituent parts. When we asked for these employers to break down their total remuneration expenditure into salaries, variable pay and benefits, around four-fifths were unable to.

Of the small number that were able to give a breakdown, we find a difference between the private and not-for-profit sectors. In the public sector, base pay (71%) is the biggest element of the total remuneration spend, followed by benefits (24%) and variable pay (5%). By contrast, in the private services sector the biggest areas of spend are: base pay (68%), variable pay (19%), benefits (13%), long-term incentives (5%) and recognition (3%). In the voluntary sector, base pay accounts for 73% of the total spend followed by benefits (14%), variable pay (8%), long-term incentives (4%) and recognition (1%). However, we must stress that these findings are all based on a small number of respondents. Hopefully more employers will be able to supply this information next year.

Around a third of respondents (32%) assess the impact of their reward practices. By sector, private sector service firms are more likely to do this (40%), followed by manufacturing and production companies (30%), public service organisations (25%) and voluntary sector employers (19%). In contrast to the calculation of total remuneration spend, larger firms are more likely to carry out an assessment of their reward practices than smaller employers. For instance, while 50% of employers with more than 5,000 staff carry out such a study, just 29% of organisations with fewer than 50 staff do likewise.

Of those employers who do assess the impact of their reward practices, Table 32 shows those measures that are more common. It also reveals that the not-for-profit sector is more likely to use more measures in their assessment of their reward practices. For instance, while 50% of public service employers use at least eight measures, 50% of private service sector firms use four.

Table 32 also reveals that, overwhelmingly, HR use people measures to assess the impact of their reward practices. The business measure most used is profit followed by productivity per employee. Other business measures used by those who assess their reward practices include: customer satisfaction (32%), sales growth (25%), sales per employee (20%), return on capital employed (17%) and economic value added (14%). If we focus on the private sectors then the proportion using these measures increases: sales growth (44%), customer satisfaction (40%), sales per employee (36%), return on capital employed (31%) and economic value added (23%).

Table 32: Common measures used to assess reward practices, by sector

Manufacturing and production	Private sector services	Voluntary sector	Public services
Employee resignation rates (83%)	Employee resignation rates (74%)	Staff surveys (75%)	Staff surveys (88%)
Staff surveys (71%)	Staff surveys (70%)	Employee resignation rates (67%)	Employee resignation rates (83%)
Performance management and appraisal data (64%)	Performance management and appraisal data (58%)	Performance management and appraisal data (67%)	Vacancy rate (71%)
Employee absence/well-being (61%)	Percentage of staff participating in staff benefits (51%)	Percentage of staff participating in staff benefits (58%)	Employee absence/well-being (71%)
Time taken to fill vacancies (55%)	Employee absence/well-being (41%)	Length of service distribution (50%)	Performance management and appraisal data (54%)
Profit (50%)	Time taken to fill vacancies (40%)	Workforce demographics (50%)	Customer satisfaction (54%)
Job offer refusal rate (36%)	Profit (39%)	Employee absence/well-being (50%)	Time taken to fill vacancies (50%)
Length of service distribution (36%)	Vacancy rate (37%)	Vacancy rate (42%)	Workforce demographics (50%)
Percentage of staff participating in staff benefits (33%)	Reward budget costs (33%)	Time taken to fill vacancies (42%)	Length of service distribution (46%)
Productivity per employee (33%)	Productivity per employee (33%)	Competency/staff skill level (42%)	Competency/staff skill level (38%)

Percentage of respondents in brackets.

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.

The economic turmoil will have led many organisations to review their existing business strategy. Some employers, in sectors such as finance and retail, will have found their business strategy has been overwhelmed by recent events. Given this, it is unsurprising that our reward management survey has shown a drop in the proportion of employers with a reward strategy. What is the point of having a reward strategy if the business strategy it is supposed to support has had to be filed in the dustbin and the focus is now simply on surviving the next 12 months?

However, I believe that during these difficult times it becomes even more important for practitioners to determine whether their reward practices support the objectives of the business, even if those objectives are now survival. You need a reward strategy to help you validate your existing, or proposed, reward policies. In other words, to answer the following question: do our reward practices support the organisation?

And this reward strategy needs to be a total reward strategy combining the financial and the non-financial elements (especially performance management and development) of the reward package in a way that engages all employees.

Some employers may think that they do not need to bother with a balanced, total-reward approach when the dire state of the economy should be enough to help them attract, retain and motivate their staff. However, such an approach may help them in the short term, but this attitude will not build employee engagement and can lead to problems when the economy recovers and their employees have a choice and leave. Even in the short term, such an approach could damage high-performance working as workers start to withdraw their goodwill.

As well as adopting a strategic, total-reward approach that ensures resources are invested in the right areas and that no area of the reward offering is underused and undervalued, employers need to use measures to evaluate their reward practices. In other words, are they actually delivering what they are supposed to deliver? In the first instance, practitioners need to get an idea of how much their organisation spends on employees in terms of pay and benefits. Then they need to assess the impact of this expenditure on both HR and business objectives. This should involve those working in reward examining a variety of HR and business measures and then selecting those that are the most meaningful.

Reward practice

But at the operational level, what reward practices should employers be adopting in these tough times? Should employers segment their workforce even more, focusing their scarce reward resources only on vital roles and those individuals that add most value to the organisation?

Or could such an approach lead to new dangers? Even if employers were able to robustly differentiate reward according to employee performance, could it become so atomised that individuals regard work as transactional and that they will only go the 'extra mile' for more cash and not from a sense of not wanting to let their clients, colleagues or managers down? Instead, should employers go back to the future and move towards collective forms of reward, emphasising that employees are part of a collective endeavour? But if employers abandon merit awards in favour of across-the-board pay rises, how will they be able to recognise individual contribution? And as our employee attitude survey shows, workers want to be rewarded according to their performance.

It's difficult to say what the answer should be for a particular organisation, but I doubt that for most it will be a straightforward choice between either collective or individual rewards; rather, it will be a bit of both. Reward practitioners will need to examine the whole range of financial and non-financial rewards that will recognise both individual and collective achievement. This could prove to be a balancing act as trying to achieve both of these objectives could push the organisation in opposite directions. So, for instance, we could see some employers recognising individual achievement through pay and career progression and non-cash incentives, and collective achievement through short- and long-term incentives, benefits and recognition schemes.

It may be that in these troubled times that practitioners come to regard what can be achieved by financial reward in terms of attraction, retention and engagement with some caution. Rather than focusing solely on what can go right they will also start to look at what can go wrong and adopt more of a risk-based approach when evaluating an existing, or proposed, reward initiative. For instance, if an organisation is considering introducing a bonus scheme, practitioners should consider where the fault lines exist that could lead to the scheme destroying rather than creating value.

And what is going to happen to pay awards in 2009? As our research shows, inflation is one of the key determinants in the size of the overall annual salary review. But with inflation predicted to hit -2.7% in the second half of the year, according to Incomes Data Services, will pay awards follow suit? It is probable that pay awards will fall on the back of falling inflation and organisational profitability, but how low will they go?

In the last recession, according to Industrial Relations Services, pay awards were running at 9.2% in the 12 months ending January 1991, while RPI was at 9% . By January 1994, RPI had fallen to 2.4% and pay settlements were down to 2.3% ; of course, the government pay policies played a part with public sector pay increases capped at 1.5% . Pay settlements subsequently drifted up to 3% by January 1996, as the economy came out of recession and unemployment levels began to fall, and they have been around this level, on and off, for the past ten years. This does

suggest that there may be a floor below which pay rises will not fall, once the decline in inflation and the increase in unemployment have both bottomed out.

Will we see pay cuts? Probably in a few cases, but on the whole employers don't cut wages in a recession because of the adverse impact that this could have on staff morale, as shown by Truman Bewley.

What about the employees?

Whatever reward practices employers adopt in these tough times, what comes out from our employee pay attitude survey is the importance of communicating to employees what attitudes, values, behaviours and performances you are rewarding, why and how. The survey finds that employees whose employers explain the rationale behind their pay decisions are more likely to be satisfied with their pay rise than those who do not receive any explanation. Similarly, employees whose employers explain the rationale behind their bonus decisions are more likely to be satisfied with their bonus award than those who do not receive any explanation.

Yet this research does throw up a few surprises. While most employees report that their employer had explained the reason behind the 2008 pay increase, most employees said that their employer did not take the opportunity to explain what they needed to do in 2009 to get a pay rise. While I accept that it may be hard for employers to predict the impact of external factors, such as market conditions and cost of living, will have on the size of the overall pay budget, it doesn't stop them from telling employees what attitudes, values, behaviours and performances are required and how they will be rewarded and recognised. It doesn't stop them from being able to manage expectations.

While 47% of employees reported that their employer explained what determined salary levels (such as job evaluation or market rates), 51% said that their organisation hadn't informed them. When asked about whether their employer explained the rationale behind why others in the organisation got paid what they did, 71% said no. Just over half of our sample (53%) reported that they would like to find out how their salary increase compared with others in the

organisation, and many would be happy to let their employer tell their colleagues what they earned if that meant they would know what they earned. This is against a backdrop of the Single Equality Bill and the proposal to ban pay gagging clauses at the workplace.

So, why don't employers communicate to the employees about what is being rewarded, why and how? Possible explanations include: not wanting to raise, or create, false expectations; that there are legacy issues that make it difficult to communicate; that knowledge is power; that the organisation is not good at communicating; it is not seen as a priority; and that some elements of the package are commercially sensitive.

Yet if reward practitioners are going to create sustainable high-performing workplaces then they need to look at the messages they're sending the workforce, explicitly or implicitly, through the rewards on offer and how they are applied and communicated. This takes us back to the importance of having a total reward strategy, which allows you to validate what you're doing and evaluate how well you're doing it. It also stresses the importance of implementation and the involvement of line managers, who are often responsible for making reward decisions and communicating them, and the need to support them with coaching, mentoring and development. It also underlines the importance of communicating to manage employee expectations of what the organisation expects from them as well as what they can expect from the organisation.

Background to the survey

This is the eighth 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 between August and early October 2008 and questionnaires were sent to reward specialists and people managers in the public, private and voluntary sectors. Replies were received from 520 organisations employing over 1 million employees. In

2007, we had 603 respondents employing 2 million employees.

It is unlikely that many respondents completed the questionnaire against the backdrop of the economic problems faced by many employers from the middle of last September. That said, very few would have been able to amend their reward practices that quickly. We would expect that changes to reward practices due to autumn's and winter's economic slump will be picked up by next year's survey.

The following figures give breakdowns of the respondents in 2008 by organisational size and by sector.

Table 33: Participants by sector

Sector	Percentage of respondents
Manufacturing and production	27
Private sector services	41
Voluntary sector	12
Public services	20

Table 34: Participant breakdown, by sector and size

Number of staff	Percentage of respondents			
	Manufacturing and production	Private sector services	Voluntary sector	Public services
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 35: Numbers employed by participants, broad occupational sector

Sector	Median employment	Mean employment
Manufacturing and production	343	1,104
Private sector services	255	2,207
Voluntary sector	175	628
Public services	1,375	4,187
All	358	2,106

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

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.

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