

After the storm: the new reward management landscape



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As the economy emerges from recession the HR focus needs to switch from crisis management to securing the future. Mike Curtis of QCG discusses the role of reward in this context, identifying motivation, engagement, retaining key staff and performance alignment as the key issues.

What a year it has been. A financial storm, media and public outrage over top salaries and bonuses, widespread private sector pay freezes and higher taxes for high earners. It all makes pretty scary reading and yet redundancies and pay cuts have not been as severe or as common in the UK as first feared, thanks in no small part to HR and reward leaders finding creative cost-saving alternatives during the recession. Hindsight seems to have helped organisations avoid many of the mistakes of the last downturn, leaving businesses in a better position to compete and benefit in the upturn. In the same spirit we are generally seeing a carefully considered, measured and long-term approach to reward agendas for 2010 and beyond.

So what does the new reward management landscape look like? After so much heat and noise for so many months, much is changing and will continue to change over time, but many of the changes are subtle not seismic, and yet their impact is likely to be quite profound. If there is one phrase to sum it all up it is 'holistic alignment'. It is nothing new to say that elements like incentives, performance management, engagement practices, benefits and total reward provision should be joined up – but the last year's events and tax and pension changes in 2010 and 2011 have put an accent and accelerator on alignment, focusing the minds of many reward leaders. In our assignments and research we have found a particularly strong focus on the 'people' and 'performance' dimensions of reward in 2010, with optimising the impact and value of benefits provision also high on agendas.

Engagement into action

Last summer we ran a cross-industry engagement survey exploring levels of motivation and loyalty in the challenging economic climate. What was really interesting was it showed that despite the recession, employee engagement was reasonably high in many industries. But what were people engaged with? Loyalty to their profession and customers fared much better than engagement with managers or employer organisations. In fact, like many similar surveys, we found that the greatest areas of staff dissatisfaction were the management of poor performers, the frequency and quality of feedback and recognition for a job well done, an insufficiently clear sense of organisational direction and weak communication by management. Of course, we have also seen plenty of examples of really positive dialogue over the last year between business leaders, managers and employees, such as finding alternatives to redundancies with many creative compromises achieved. Fast forward to the present, and it seems engagement is very much on reward leaders' 2010 agendas.

In meetings with many FTSE company reward directors over the last few weeks, I have found they are keen to talk about engagement and joined up with their HR colleagues in ensuring that top talent remains motivated and that the 'average employee' is kept feeling involved with the business. This certainly isn't the traditional focus for heads of comp & bens and it has been fascinating to observe the energy and interest that many are investing in the links between engagement

Table 1: Proportion of staff receiving bonus in 2009 compared to 2008 by sector

	Private sector services %	Industrial/ engineering/ manufacturing %	Public/ voluntary %
Fewer staff than 2008	41.0	15.0	32.0
Similar number to 2008	45.0	69.0	58.0
More staff than 2008	14.0	15.0	11.0

Source: QCG 2010

Table 2: Reward agendas – expected practices in 2010

	Private sector services %	Industrial/engineering/manufacturing %	Public/voluntary %
Changes to bonus scheme	52.0	59.0	39.0
Redundancies	45.0	59.0	35.0
Reducing cost of pension	31.0	35.0	17.0
Re-designed pay structures	10.0	53.0	26.0
Increase headcount	38.0	6.0	9.0
Reducing cost of benefits	17.0	41.0	9.0
Changes to long-term incentive arrangements	14.0	29.0	4.0
Offer of staff sabbaticals	17.0	6.0	9.0
Other	3.0	6.0	13.0
Pay cuts (with no reduction in working time)	7.0	6.0	4.0
Reduced working hours	7.0	6.0	4.0

Source: QCG 2010

and reward. Themes they are addressing include understanding what employees are currently engaged with (perhaps a bygone era of the company, or a ‘tribe’ rather than the whole company vision?) and how to use reward to support engagement in a more complex landscape of multiple pension schemes and new dynamics such as tax and other legislative changes. The need for stronger alignment and communication of reward has been at the heart of many of these discussions – which brings us to the performance dimension.

Performance alignment and management

With increasing pressure on HR departments to demonstrate the return on investment to the business of reward and incentive schemes, getting performance alignment right is vital – and even more so in sectors where external scrutiny of payouts has become increasingly vigorous. Perhaps the most significant recent development in the reward management arena is around the theme of ‘risk and reward’ – not just in the sense of ‘pay at risk’ – but appropriate incentive plan measures, mechanics and governance arrangements to minimise the risk of unintended consequences from such schemes. We have certainly seen very little in the way of bonus scheme structures being scaled back, although some companies have substituted at least some cash with stock. Rather, we have found reviews of bonus plan mechanics and measures at the top of organisations’ intended practices in 2010. Margin table 1 illustrates that far from being shelved, bonuses were still very much used in 2009, albeit generally paid at ‘lower than target’ amounts, while margin table 2 shows the expected prevalence of bonus scheme reviews in 2010.

What has been the nature of bonus scheme reviews so far this year? Our ongoing research in March and early April has found quite a wide range of drivers behind incentive scheme reviews. These include global changes to company structures, shifts in business strategy, a desire for more robust and transparent frameworks to underpin consistent application of performance pay within constrained budgets, the need to ensure that schemes are risk-adjusted, revised individual performance requirements, a desire for stronger performance incentivisation, and a wish to prepare for and pre-empt external scrutiny.

But underlying all these imperatives it has become apparent in many of our assignments that the key issue is performance management in the broadest sense. Although line managers’ skill and will is frequently cited as a prime reason for weaknesses in performance-related reward, actually there are several critical dimensions to the issue which even some of the most successful global organisations manage with varying degrees of success. These include:

- how to integrate performance management with broader business management – and break the perception that it is something ‘HR imposes on the business’;
- how to use performance management to support workforce and capability planning or restructuring – this opportunity is often missed;
- how to capture managers’ hearts and minds to ‘do performance management better’ – we have seen some pretty striking examples of making this work!;
- how to gain commitment and leadership on performance management from the top team – the influence of leadership is key here;
- so performance alignment and management is a key area of focus in 2010. A third is aligning strategies for managing key staff with reward.

Table 3: Does your organisation do anything different in reward specifically for HiPos or top talent?

Yes	52.0%
No	40.0%
Not yet but looking to do so	8.0%

Source: QCG 2010

Top talent, HiPos and reward

We are seeing a lot of interest in high potential employees (HiPos) and top talent in the current climate – how to secure their motivation and engagement to support business recovery and reduce vulnerability to poaching in the upturn. Research conducted by Boston Consulting Group in early 2009 indicated that hiring key staff from competitors was the most successful action taken in strengthening employee commitment in the previous recession. Obviously, companies do not want to be on the receiving end of this and many are looking closely at their strategies for managing top talent, HiPos and other key staff in the current climate.

As part of this, some are looking at ways in which reward should be aligned with the typically non-financial, developmental emphasis of talent management approaches. We carried out a straw poll in March of 25 leading, mostly FTSE 100 or comparable New York and Tokyo listed firms, testing the extent to which they use different reward tools specifically for HiPos and top talent. Interestingly, as margin table 3 shows, more than half use some form of reward approach specifically for this group typically along with other business critical skills. A further two firms are looking at the options they might introduce, although one expects to limit this to emerging markets where the talent war and job hopping is especially fierce.

Margin table 4 sets out the range and prevalence of the tools used by organisations with specific reward strategies supporting talent management. These approaches are over and above normal performance-related pay and promotions from which HiPos generally benefit more than the average employee anyway. Additionally, HiPos tend to be the first choice for international assignments which often come with a generous reward package.

Getting the best out of benefits

A further thread in alignment strategies is how to maximise benefits effectiveness. Our research shows that a majority of organisations believe that non-pay benefits are more important in a challenging economic climate. And when we correlated sick leave rates, a very simple barometer of the people management health of an organisation, with views on benefits, something interesting emerged. Those with the lowest sick leave rates are much less likely to regard pension, the biggest ticket item, as the most strategically important or cost-effective benefit, or the benefit most valuable to staff. Other benefits were as likely to top the lists for them. In these healthier organisations, reward managers were also significantly more likely to know how much money they spend on each benefit, to use sophisticated benefits communication tools and to regard non-pay benefits as on a par, strategically speaking, with cash reward. The inference is that proper attention to benefits helps create a happier and healthier business.

As part of the trend, many organisations have been looking at more cost-effective ways of delivering value through salary sacrifice, for example. With the higher tax burden on high earners this is taking on a particular resonance now. In our work we have picked up a general trend so far of 'educate but don't compensate' in company responses to the tax impact on high earners, however we do believe that employers should and will look at maximising benefits flexibility and choice (e.g. by expanding the scope of salary sacrifice) to help affected employees optimise the tax efficiency of their package. Benefits effectiveness then, appears to have a role to play in securing top talent as well as engendering a more engaged and happy workforce overall.

Table 4: What special reward tools does your organisation deploy specifically for HiPos or top talent?

	Companies %
Inclusion in LTI awards/ programmes	53.0
Higher total cash positioning against market	13.0
Structured out-of-cycle salary reviews / bonuses for up to two years	13.0
Higher level of default benefits (e.g. executive pension enrolment)	7.0
Inclusion in deferred annual bonus scheme	7.0
'Potential' formally used as a criterion in merit increases	7.0

Source: QCG 2010