THE PROFESSIONAL'S FIRST CHOICE

Croner
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Rethinking rewards; pay and benefits driving results in tough times

A Croner white paper

Executive summary

The way in which an organisation rewards employees has seen significant changes and challenges over the past few years. Moving from simple inflation-matching pay rises, standard benefits, and straight-forward reward schemes to more complex, but flexible, and performance related packages.

Tough economic times have led to a tighter integration between business and individual performance. Yet, with less in the rewards pot, organisations need to do more than ever before to get their pay and benefits right.

Very few in HR look forward to pay reviews, but more time, thought and consideration needs to be applied to create competitive packages. There is now a need to carry out a comprehensive review and then refinement of pay, benefit and rewards packages. Benchmarking should no longer be considered an optional exercise, but a necessity. Above all, communicating the value of a benefit's package is critical moving forward to attract, retain and reward employees.

With no sign of any significant improvement in our economic outlook anytime soon, getting employee remuneration and rewards right could make all the difference between an organisation's success and failure.

This white paper looks at the highs and lows of the past decade and identifies what is needed to motivate employees moving forward.

Introduction

There are a number of key drivers that impact pay and benefit packages, but most will recognise that inflation has by far the greatest influence. The economic downturn has led to fewer pay rises and in many cases pay cuts have been an accepted practice. A stark choice for so many in the last few years has been between reduced income or losing their job.

With steady predictable inflation a thing of the past, HR now needs to dig deep to create the right reward packages. The challenge, as reward pots are running dry, is for organisations to do more to motivate employees, but with less. As individual and company performance become more closely aligned, softer benefits also need to be measured and the total rewards statement is increasingly important.

However, the economy continues to show slow but painstaking recovery, employment is rising, and the job market is seeing signs of improvement. A recent survey revealed that over two thirds of those currently seeking to move job were confident that they would be successful.

Yet, with our current economic state set to be the norm for the next few years, it's time to rethink rewards and create more innovative pay and benefits to drive results.

A time of prosperity

In the early 'noughties' solid growth and a steady economy meant that there was always a reasonable amount in the annual pay review 'pot'. Generally this covered basic pay increases, typically in line with inflation, and meant that everybody was happy.

At the same time, performance-related pay for high performers such as those in sales or senior executives, delivered higher than average rewards, particularly in financial services and banking sectors.

Across this period, managing the annual pay review was relatively straight-forward with a steady upward movement that kept in line with inflation. However, although these were impressive highs, we have more recently experienced some devastating lows.

An era of economic austerity

The banking failure, followed by the worst recession we have ever experienced brought with it many unexpected changes. Pay and benefits, to some extent, took a back seat as companies fought to survive and employees accepted unprecedented pay cuts in order to save jobs. High unemployment and so much uncertainty also led many to accept changes in their roles often picking up more work or responsibility for the same pay.

However, moving into the latter part of the 'noughties' and having cut as much as they could it was clear for most organisations that the tough economic climate was here to stay. Pay, benefits and rewards have had to change with average pay rises closer to 2% rather than the standard 3% rate experienced for so many years.

As a result of lower pay awards, more short-term or lifestyle incentives have been introduced such as holiday trading, where days could be sold back to the company, flexi-time and allowing more people to work from home. As organisations looked to cut costs across the board, training and development has also increasingly been counted as a benefit.

In the last couple of years, we have also experienced continued evolution in job restructuring and assessment. There has been a renewed emphasis for employers to ensure job descriptions remain accurate and in step with any internal appraisal processes, objective setting and performance evaluation. Meanwhile, employees have been encouraged to make innovative suggestions on job sharing that might otherwise have remained untapped due to fear of job losses.

New job descriptions have also needed to be checked against market benchmarks and any adjustments made (or at least identified) so that a more robust structure could be put in place for retention, transparency and future growth. As we look to the long road of recovery this element has become more essential as attracting or retaining the right people in the right jobs has grown in importance.

Shared values, shared vision, shared bonuses

As employment starts to rise and the economy stabilises, employers need to work harder than ever before to get pay and benefits right if they are to keep their most valuable employees. The number of pay cuts continues to fall, but as workers have made sacrifices, they now pay more attention to company performance and executive pay. Employers can no longer hide behind performance and if companies do well then people expect to receive a share in rewards.

More and more individual performance affects what an employee gains out of a pay review. And in a world where linking pay to performance has become something of a fashion, there are plenty of employers who don't give an across-the-board settlement any more, preferring to take the money available and distributing it along performance-driven lines.

So, what does HR need to do to retain the best?

Retention of key staff is becoming more critical as redundancies and pay freezes have helped to highlight the value of those that remain. Regularly benchmarking is now increasingly important for organisations to understand what competition they are up against.

After all, no business would go about setting its product prices or sales targets without checking out what their competitors are doing. They wouldn't develop products and offerings without benchmarking against the competition. So why embark on a pay review or set the pay of their staff without similar benchmarking? Surely this is best practice, especially with salaries and benefits typically being such an important expenditure.

Benchmarking in smaller companies helps to identify key people and introduce the right pay structure to support continued growth, as well as retain top performers. For larger companies where salaries are the highest cost, particularly in the service sector, benchmarking can help to identify the accepted market pay range to ensure they attract and retain the right talent. It can also help to save money, particularly if they have previously increased pay to be more competitive, but with salaries dropping in recent years they may now be overpaying.

Benchmarking also ensures that the right information is in place to be properly prepared for planning staffing levels and the annual pay review.

Tailored benefits

Setting the right pay scales is important, but there similarly is an increased need for innovation in pay and benefits that keeps costs low, but adds value to the overall package. Negotiating with benefit's suppliers can go a long way to help with some of the more tangible benefits. Yet there are many other things to consider and in many cases the true value of pay and benefits packages simply needs to be better communicated.

Benefit schemes in the past have perhaps been geared to motivate the highly motivated top achievers, the can-do people in the company, but now they need to motivate everybody and not just the top performers.
Packages today need to be more aligned to staff expectations of what they want from their working environment. Tailoring benefits to age profiles can add greater value for the individual, but without necessarily raising the costs for the organisation.

For example, the retirement age rising to 68 has led to older people being more interested in flexible working as they stay in work longer. Whilst younger single employees are more likely to be interested in gym membership, staff development and talent management programmes.

Likewise there is greater value in some of the softer lifestyle benefits such as flexible working, or giving somebody their birthday as an additional holiday each year. Yet for so many others, perhaps at an expensive stage in their life, and with the cost of food and fuel still rising - hard cash is still a significant motivator.

Communication is critical

Better communicating pay, benefits, and rewards is not only a key motivator, but is also an effective way of developing or reinforcing an organisation's brand. Organisations need to make more effective use of the total rewards statement (TRS) to highlight the full value of the rewards package.

Transparency of pay and rewards is becoming ever more acute, with executive pay once again coming under the spotlight. The recent government reforms give more powers to shareholders with binding votes on pay policy and exit payments to prevent rewards for failure and boost transparency of pay versus performance. These are the most far-reaching changes of the framework for directors' remuneration in over a decade.

Regardless of what organisations do to improve their reward packages, ensuring that employees understand all the components and are understand their true value is critical.

Conclusion

With the economic slowdown showing little sign of abating, getting rewards right is fast becoming a significant element of the HR role.

Pay and benefits today need to motivate the masses and not just the few. They need to be tailored to better suit individual needs, but also more aligned to and support the company's needs, goals and aspirations.

Regularly reviewing, refining and communicating rewards will help organisations to maintain a competitive edge when attracting and retaining employees. Continued innovation is important, but now is the time to start rethinking rewards to help make a significant difference and drive your organisation's results.

About Croner

Croner is the UK's leading provider of workplace advice, information and software with an extensive suite of products and services designed to help owner-managed businesses and large corporations manage risk and compliance more efficiently and effectively.

Our services include practical advice and consultancy, pay and benefits, online tools, support for employment tribunal representation and other specialist areas

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