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Reward Strategy:

Defining, Researching and Practicing the Concept of Reward Strategy in the UK

By Duncan Brown

This thesis is being submitted in fulfillment of the requirements for the degree of Doctor of Philosophy by Publication

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Acronyms Used

CIPD: Chartered Institute of Personnel and Development.

HR: Human Resources.

IES: Institute for Employment Studies.

IPM: Institute of Personnel Management.

WERS: Workplace Employment Relations Survey

Abstract

This submission provides more than 25 years of historical context to the concept of reward strategy and its evolution in the UK context, isolating and describing my own part in it, supported by my 16 publications referenced on this subject. As well as researching and re-conceptualising ideas of reward strategy and their importance in the UK context, three other key dimensions which my research has highlighted, have been about: focusing more on reward strategy application and securing line manager and employee engagement; the importance of researching and assessing the effectiveness of reward policies and how this can be done; and the need to adopt an organisation-specific, total rewards perspective on reward strategy.

I have adapted the concept and my research in response to economic, social and political developments over that period and, uniquely, integrated academic and practitioner perspectives on this area to promote both the creation and application of new knowledge and evidence-based practice. As I have worked on the cusp of academic enquiry and professional practice, a PhD by Publication is a particularly relevant format in which to submit my work.

I have in the process created new knowledge at the forefront of the discipline, for example in redefining the concepts of reward strategy and total rewards in an innovative and more effective manner; demonstrated the acquisition and understanding of knowledge in the field, for example in summarising and relating research literature in the formerly relatively distinct areas of reward management and employee engagement; conceptualised and run major research projects, for example investigating reward effectiveness; and displayed a full range of research methods in my work, including quantitative, qualitative, cross-sectional and longitudinal studies.

Collectively, my work through the publications listed has offered a detailed exploration of the concept and application of reward strategy in the UK context, bringing together academic and practitioner perspectives and informed by and influencing leading academics and practitioners in the field. This sustained and coherent body of work makes a significant and original contribution to the present state of knowledge on reward thinking and practice and in related HR and management areas.

List of Works Submitted

Brown, D. (2000) 'The Third Way: The future of pay and reward strategies in Europe', *WorldatWork Journal*, Vol. 9 (2), second quarter, pp 15 – 29.

Brown, D. (2001a) 'Reward Strategies for Real: Moving from intent to impact', *WorldatWork Journal*, Vol. 10 (3), third quarter, pp 42 – 49.

Brown, D. (2001b) *Reward Strategies: From intent to impact*. CIPD, London.

Armstrong, M. and Brown, D. (2005) 'Reward Strategies and Trends in the UK: the land of diverse and pragmatic dreams', *Compensation and Benefits Review*, Vol. 37 (4), July/August, pp 41-53.

Brown, D. and West M. (2005) 'Rewarding Service? Using reward policies to deliver your customer service strategy', *WorldatWork Journal*, Vol. 14 (4), second quarter, pp 22-31.

Armstrong, M. and Brown, D. (2006) *Strategic Reward: Making it Happen*. Kogan Page, London.

Brown, D. and Purcell, J. (2007) 'Reward Management: On the line', *Compensation and Benefits Review*, Vol. 39 (3), May/June, pp 28-34.

Brown, D. and Perkins, S. J. (2007) 'Reward Strategy: The reality of making it happen', *WorldatWork Journal*, Vol. 16 (2), second quarter, pp 82-93.

Brown, D. (2008) 'Measuring the Effectiveness of Pay and Rewards: the Achilles heel of contemporary reward professionals?' *Compensation and Benefits Review*, Vol. 40 (5), September/October, pp 23-41.

Reilly, P., Brown, D. (2008) 'Employee Engagement: What is the relationship with Reward Management?' *HR Network Paper* MP 83, January, Institute for Employment Studies, Brighton, Sussex.

Cox, A., Brown, D., Reilly, P. (2010). 'Reward Strategy: Time for a more realistic reconceptualization and reinterpretation?' *Thunderbird International Business Review*, Wiley InterScience, Vol. 52 (3), April, pp 249-260.

Armstrong, M., Brown D., Reilly, P. (2010). *Evidence-based Reward Management: Creating measurable business impact from your pay and reward practices.* Kogan Page, London.

Armstrong, M., Brown, D. and Reilly, P. (2011). 'Increasing the Effectiveness of Reward Management: an evidence-based approach', *Employee Relations*. Emerald, Vol. 33 (2), March, pp 106-120.

Brown, D. (2012) 'European Rewards in an Era of Austerity: Shifting the balance from the past to the future', *Compensation and Benefits Review,* Vol. 44 (3), pp 131-144.

Brown D. and Reilly P. (2013) 'Reward and Engagement: the new realities', *Compensation and Benefits Review*, Vol 45 (3), May/June, pp 145-157.

Brown, D. (2014) 'The Future of Reward Management: From total reward strategies to smart rewards', *Compensation and Benefits Review*, May/June, Vol. 46 (3), pp 147-55.

A summary description of each piece, its contribution to the reward strategy field and my personal role in its authorship is provided in Appendix 1.

Appendix 2 provides more details of these journals and publications, summarised here.

Compensation and Benefits Review (CBR) is a journal produced by Sage Publications. Published bi-monthly, CBR is the leading North American journal for compensation and benefits professionals, providing them and academic experts with analyses on salary trends, labour markets, pay, incentives, legal compliance and benefits. Many articles are authored by academics. CBR is available to over 8,000 academic libraries worldwide and recorded just over 103,000 PDF downloads in 2014.

WorldatWork provides thought leadership in total rewards disciplines from the world's most respected experts through the *WorldatWork Journal*. The readership consists of their 21,000 members around the world. The journal is published quarterly and all articles go through a blind peer review process. Reviewers consist of more than 250 academics, practitioners and consultants in the field who review and score each article based on technical accuracy, quality of research, and relevance of the topic. They have a 51% rejection rate.

Employee Relations is a leading international academic journal produced by Emerald. It is rated as a two star journal in the ABS Academic Journal Guide. Content is selected for original contribution to the subject, as well as practical relevance to policy making and future inquiry. A stringent double-blind review of each paper is undertaken to ensure its relevance and validity. The journal is ranked by: Association of Business Schools, Academic Journal Quality Guide, AERES (France), Australian Business Deans Council Quality Journal List, Australian Research Council (ERA Journal List), CNRS (France), ESSEC (France), FNEGE (France), JourQUAL 2.1 (Germany), NSD (Norway), QUALIS, Scopus.

Thunderbird International Business Review is a peer-reviewed journal that is published six times a year in cooperation with the Thunderbird School of Global Business Management. It is rated as a two star journal in the ABS Academic Journal Guide. The journal's aim is to advance and disseminate research in the field of international business. Its main target audience includes academics and executives in business and government who have an interest in international business.

Kogan Page, my books' publisher, is Europe's leading independent business book publisher focusing on specialist practitioner and academic titles. It publishes 100 new titles pa, five to ten of which are in the HR field. Their list of 700 titles derives from the authorship of a wide range of industry experts, academics and professional firms and bodies. Commissioning Editors use their deep sector knowledge to develop the highest quality publications, signing the most credible and qualified authors. They send out sample chapters to a variety of academic contacts and practitioners to ensure products are in line with market need. Each work is reviewed by approximately five external readers and the production process takes between four and six months.

1. Introduction

Despite often being under-specified and under-researched (Rose, 2014; Perkins and White, 2011)), the field of reward strategy has been much debated in the UK in academic and practitioner circles. There are four questions that had not been specifically addressed in the UK context over the period of my research and where my contribution has focused:

- What does reward strategy mean and what is its value?
- How can reward strategies be applied and implemented in practice?
- How can you measure the effectiveness and improve the impact of a reward strategy?
- What is the relationship in concept and practice between reward strategy and total rewards?

This PhD submission provides more than 25 years of historical context to that debate and its evolution, as well as isolating and describing my own part in it, supported by the 16 publications referenced.

The sequence of my research and publications has progressed through these four areas and reflects my career and roles on the boundaries between research and practice. I have produced a coherent stream of research and publications on the topic over this period, but also innovated and adapted the concept and the focus of my research in response to economic, social and political developments and integrated academic and practitioner perspectives in addressing it. As I have worked on the cusp of academic enquiry and professional practice, a PhD by Publication is a particularly relevant format in which to submit my work.

Initially as a remuneration consultant, I researched and wrote case studies and personally undertook major national and international reward practice surveys (e.g. Towers Perrin, 1999, Brown 2001a) in this emerging research field, as well as providing consultancy advice to organisations on aligning their reward practices with their business strategies. For more than a decade, I also published articles based on my work and reading in academic and practitioner journals (e.g. Brown, 1993; Brown and Armstrong, 1997) and promoted my ideas in lectures and conferences, culminating in a book, *Reward Strategies: From intent to impact* (Brown, 2001b). This focused on the first research question, the meaning and value of taking a strategic rewards approach.

As my review of existing research in the field in Section 2 describes, reward strategy has its theoretical underpinning in the work of the Harvard School researchers on strategic human resource management and the desire for newly-christened "HR" functions to demonstrate their impact, (Ulrich, 1997), supported by changes in the UK economy towards a more market-oriented philosophy and individualised social and employee relations context. Lawler's (1990) original "new pay" and reward strategy ideas achieved widespread popularity in practitioner circles from the early 1990's, as my early surveys demonstrated (Brown, 2000, 2001a).

Research does lend some support to the contention that typologies of business strategy are likely to be associated with particular pay and reward policies (Schuler and Jackson, 1997), and that certain reward practices are more likely to be used by higher performing organisations (Guest, 2003). But despite limited research in some areas, particularly on reward evaluation and total rewards, and despite reported difficulties in being able to test the concept, studies since then have cast serious doubts as to the applicability and validity of the original concept, centring on four issues.

First are the doubts as to whether reward strategies exist in practice and if organisations, as many of them claim, really are designing tailored reward policies to suit their strategy, rather than simply copying general market and sector practice (Arrowsmith and Sissons, 1999). Second are the problems of implementation, based on a common lack of employee understanding and engagement, and the widespread failure of line managers to implement reward practices in the intended manner (Hutchinson and Purcell, 2007). Third are the absence and difficulties of evaluation of the effectiveness of reward management practices and their impact (Corby et al., 2005). This lack of theory, methods and tools for evaluation helps to explain the continuing controversy over the reward strategy concept. Fourth are the challenges presented by total reward approaches, both in terms of challenging the original pay focus of reward strategy theory, but also because of the paucity of evidence as to the positive impact of reward management on employee behaviour. The total rewards concept itself had been challenged on the basis of theoretical and methodological research failings (Torre and Sarti, 2013).

Moving to become Assistant Director General for the Chartered Institute of Personnel and Development (hereafter, CIPD), from 2002 to 2007 allowed me to direct and directly participate in major research projects, the findings of which led to my re-interpretation of the concept and its more effective application. These multi-method studies have differentiated my research and publications from that of many other researchers in the field. The combination of large-scale survey activity and practical case study work in a varied range of organisations and settings, combined with input from research steering groups and panels, has allowed me to produce valid and robust academic research findings, yet also to draw out the practical implications in ways that even the more positive reward strategy researchers have not been able to do (Balkin and Gomez Mejia, 1987). It has also allowed me to address the void created by researchers who hold that the reward strategy concept is impractical, yet offer practitioners little in the way of tested alternatives to replace it (Trevor, 2009; Trevor and Brown, W. 2011).

Reward strategy through my research and re-definition of the concept is characterised by three dimensions: a clear and shared vision and direction; a flexible and adaptable, (total rewards) approach; and reward communications and management processes that meet employee needs (Brown, 2001, Armstrong and Brown, 2006). The need for a less unitarist, multi-stakeholder, more employee-engaging and evidence-based approach to reward strategy, with a strong emphasis on employee communication and line manager buy-in, has been the most original and consistent theme running through my publications. I developed it in detail with survey and case study support in my second book, *Strategic Reward: Making it Happen* (Armstrong and Brown, 2006), which focused on the second research area, how to apply a reward strategy in practice.

With academic research into evidence-based management starting to occur (e.g. Pfeffer and Sutton, 2006), my subsequent move to the Institute for Employment Studies enabled me to research and apply methods for evaluating the effectiveness of reward management amongst UK employers, my third research question in this paper. I wrote up my survey research and case work findings in my third book on reward strategy, *Evidence-based Reward Management*, (Armstrong, Brown and Reilly, 2010, 2011) and related publications, helping to address the research gap in this area. I was able then to apply my thinking and further develop my research tools on employer projects after 2011 in my role as Principal, Performance and Rewards at Aon Hewitt. Working with specialists in all aspects of HR management, with access to large global databases of employer reward practices and employee attitudes, provided a strong platform to investigate ideas of total rewards and its links to reward strategy, my fourth area of research focus in this submission and also an area where I innovated and re-conceptualised the term so as to better align academic theory and employer practice (Brown, 2012; and 2014).

Working across these four reward strategy areas and with all my varied research studies has enabled me to contribute to this discipline in terms of the general requirements for a PhD as follows. I have:

- Created new knowledge and extended the forefront of the discipline by:
  - Researching, defining and testing a new model of reward strategy in the UK context, (Brown, 2000; Brown, 2001b; Armstrong and Brown, 2006) as well as for the first time demonstrating the simultaneous use by employers of strategic and tactical reward management approaches (Brown and Perkins, 2007);
  - Addressing the common lack of focus in the existing reward strategy literature on non-pay rewards (Brown and West, 2005) and initially developing a widely used framework for researching and practicing a total rewards approach (Brown, 2001b);
  - Critiquing the generic usage of the framework by employers (Brown, 2012), leading to me re-conceptualising and re-defining this framework as more of an ongoing process (Brown, 2014);
  - Developing new technical reward concepts and approaches which have since achieved widespread popularity, such as paying for contribution (Brown and Armstrong, 1999).
- Demonstrated the acquisition and understanding of a substantial body of knowledge in:
  - Initially summarising existing, mostly North American research, and producing my own evidence of the potential performance benefits of adopting a reward strategy approach (Towers Perrin, 1999; Brown, 2001a, 2001b);
  - Integrating and presenting a detailed summation and critique of reward strategy research globally (Cox, Reilly and Brown, 2010);
  - Summarising and relating research in the formerly quite distinct subject areas of reward management and employee engagement, in terms of content and academic and practitioner communities (Reilly and Brown, 2008); then producing an evidence-based model and process to encourage more academic and practitioner work to investigate their associations (Brown and Reilly, 2013);
- Personally conceptualised, designed, managed and implemented research projects that have generated this new knowledge and furthered its dissemination and application, through:
  - Leading and carrying out personally and directly a significant portion of a major research project into reward effectiveness, resulting in the production of new measurement frameworks and process tools to facilitate more research into reward evaluation and practitioner assessment work (Brown, 2008; Armstrong, Brown and Reilly, 2010; 2011);
  - Running and directly undertaking major reward practice surveys which have demonstrated both the application of reward strategy approaches and the trends and problems in their usage (Towers Perrin, 1999 and 2000; Brown, 2001a; CIPD, 2007; Brown, 2012)

- Displayed the understanding and application of a variety of techniques and methods of advanced academic enquiry, by:
  - Directing and participating directly in major multi-method research projects, including quantitative and qualitative, cross-sectional and longitudinal studies, (for example, Brown and West, 2005);
  - Attempting to address gaps in methods and findings from previous research, such as the lack of involvement of line managers and employees (Brown and Purcell, 2007, and Brown and West, 2005); and the investigation of reward process development and change (Brown, 2001c and Brown and Purcell, 2007);
  - Producing robust research of relevance and use to practicing managers (Brown and Purcell, 2007; Armstrong, Brown and Reilly, 2010; Brown and Reilly, 2013.

The remainder of this submission is organised as follows:

- Section 2 reviews the context of relevant literature on reward strategy organised into the four main thematic areas; and highlights key areas of dispute arising from research to date, as well as areas of significant gaps and outstanding questions in research and evidence, which I subsequently have attempted to fill;
- Section 3 describes my contribution in the reward strategy field through my submitted publications; the first part covers my research methods and how these have developed over my career in order to address the four questions on reward strategy; followed by a review of my findings and the conclusions drawn in these areas
- Section 4 provides a summary of my contribution in the field of reward strategy and highlights areas for future research;
- A list of references;
- Appendices, including a sequential summary description of each of my selected published works, including details of my personal contribution where joint research and authorship has been involved; details of citations and other evidence of influence; statements by co-authors and further supporting evidence of my contribution to the subject; and finally the text of the submitted works.

2. The Context: A Literature Review of Reward Strategy

Reward strategy is a broad, often ill-specified and under-researched concept, which helps to explain some of the controversy it has occasioned. Rose (2014, p 9 - 11) notes at least half a dozen different definitions of the term. As Pfeffer (1998, p 213) observes, there is surprisingly little evidence on how and how well rewards work in reinforcing business strategy, although there is much evidence that pay and pay plan designs loom large in management attention.

In this section I consider the origins and evolution of the concept of reward strategy, with reference to relevant literature in this field, and the academic and practitioner debate it has occasioned, before in subsequent sections describing the contribution of my research to this subject. My three books in particular provided as part of this submission (Brown, 2001b; Armstrong and Brown, 2006; Armstrong, Brown and Reilly, 2010) have played an important role in summarising and popularising this literature, in support of the requirement for me to exhibit a systematic acquisition and understanding of a substantial body of knowledge in this field.

The review is organised into the four key aspects and themes regarding reward strategy raised in the literature:

- The definition, meaning and value of reward strategy;
- The application and implementation of reward strategy;
- Measuring the effectiveness and impact of reward strategy;
- The total reward dimensions of reward strategy.

2.1 The Definition, Meaning and Value of Reward Strategy

2.1.1 The Origins of the Concept

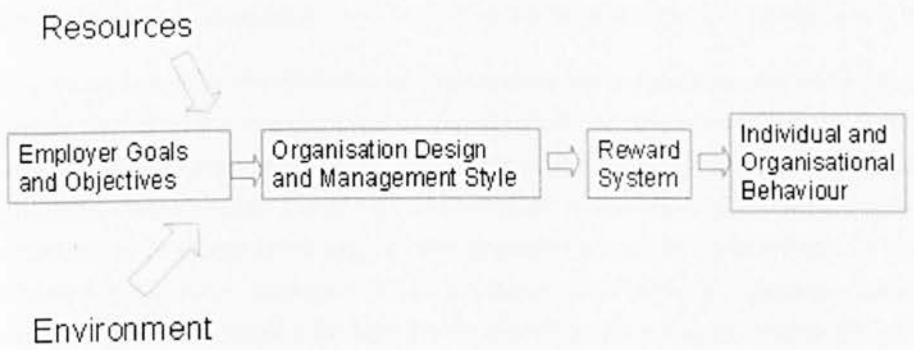
As I describe in my first book on this subject, *Reward Strategies: From intent to impact* (Brown, 2001b, Chapters 1 and 2), the term reward strategy has its origins in a number of strands of thinking, most notably American research in the emerging field of strategic human resource management in the early 1980s (Beer et al., 1984; Fombrun et al., 1984). The so-called "Harvard School" posited that HR and reward management policies should be more unilaterally and proactively used by management to incentivise and drive the achievement of business goals. A related strand of thinking, resource dependency theory, emerged, emphasising the importance of employers acquiring control over the key "talent" and human resources that minimize their dependence on other organisations, in which reward practices were held to play an important part (Ulrich and Barney, 1984; Pfeffer, 1982).

This contrasted with a more pluralistic role for traditional personnel departments, as essentially the mediators between management and workers and pay and rewards-wise, as the interpreters and administrators of internal procedures and external legislation (Heery, 1996; Guest and Bryson, 2009). Strategic HRM researchers advocated the re-christening and restructuring of personnel departments to enable them to fulfil this business-driving, activist, more boardroom-influential HR management function, with the creation of strategic business partner roles and high-level technical experts in areas such as compensation, replacing the traditional personnel generalists and employee relations "fire-fighters'(Ulrich, 1997; Becker and Gerhart, 1996).

In the UK, a series of environmental changes were seen to give employers much greater freedom in determining the levels and composition of remuneration in the 1980s and 1990s (Brown and Walsh, 1994) following the more prescriptive and regulated era of the 1970's (Brown and Sissons, 1975). These included: the shift to a more service-based economy (Porter and Ketels, 2003); the decline of trade union membership and collective bargaining (Kessler and Bayliss, 1998; Wood and Bryson, 2009); globalisation, the growth of multinational firms and intensified domestic competition and pressures to perform (Roberts, 2001); and government promotion and incentives for particular initiatives, such as employee share plans and profit-related pay (White, 1996).

A more forward-looking, change-oriented approach seeking improved business alignment is therefore usually referred to in most definitions of reward strategy (Perkins and White, 2011, p414 - 415). Early ideas of strategic HRM were taken up and applied more explicitly to the pay and rewards field (Lawler 1986, 1990, 1995). Lawler (1990) defined reward strategy as an integrated approach linking company strategy, pay systems and employee behaviours, describing it as a simple linear model in his influential book, *Strategic Pay* (Lawler, 1990), illustrated below:

Figure 1: Lawler's Model of Strategic Reward



As Lawler (1995, p1) explains, "the new pay is about strategic thinking, designing pay systems to fit business strategies...particular practices are neither good nor bad in abstract, they must be evaluated in the context of the business strategy and the other systems in an organisation...the challenge is to correctly identify those features of a reward system which will produce the behaviour that is needed to make the strategy come alive".

With the ideas promoted by consultancies and influence-seeking HR functions, research studies demonstrated increasing numbers of employers claiming to adopt written reward strategies and a strategic approach, involving higher levels of pay change to support business alignment (Vernon, 2006; Watson Wyatt, 2007). Major employer practice surveys, such as the UK's Workplace Employee Relations Survey, showed the spread of pay practices such as broadbanding and performance-related pay that are often associated with the adoption and implementation of the strategic reward concept (Cully et al., 1999; Kersley et al, 2006; Wood and Bryson, 2009).

One strand of strategic HRM research describes the positive associations found in the private sector between the use of a "bundle" of HRM practices, including performance-related pay and employee shareholding, and the financial performance of these employers (Huselid, 1995; Guest, 2003). Studies also have found evidence of macro-correlations in particular sectors between generic business strategy typologies and the patterns of use of particular pay and reward practices by employers, supporting claims that employers actively tailor their rewards to fit with their strategy (Balkin and Gomez-Mejia, 1987; Shuler and Jackson, 1987).

Perkins for example, using Miles and Snow's business strategy typology, found that employers pursuing a Prospector strategy of innovation and change were more likely to set pay levels in the top 10% of the market and use competencies and skills as pay progression criteria than Defender firms with a cost and low price-driven strategy (CIPD, 2012).

Such findings led some writers to strongly promote the idea of reward business alignment displaying what I referred to as "strategic determinism", with Rhodes even arguing that "non-strategic" reward considerations and administration should be ignored (quoted in Armstrong and Brown, 2006, p 3). Zingheim and Schuster, leading exponents of this aggressive, activist, "new pay" philosophy, wrote of the "sweeping and dramatic pay transitions" occurring, with "road kill" being the fate for organisations not changing their reward practices (Zingheim and Schuster, 2000, preface p xv).

2.1.2 Criticisms of the Original Concept

Other research studies have cast doubts on and made criticisms of these strategic reward ideas.

First, critics point to the definitional imprecision and confusion with the original theoretical concept, leading to the doubt as expressed by Guest (2001) as to whether reward strategy theory is sufficiently precise to point to the kind of empirical testing that results in convincing support or refutation. In particular, Guest (2001) and other researchers (Chadwick, 2015) highlight the confusion as to whether HR and reward practices should be tailored to suit the characteristics, culture and business strategy of an organisation; or if there is a common basket of HR and reward plans that are associated with high performance in all contexts - the so-called "best fit versus best practice" debate (Purcell, 1999).

White (1996) notes the theoretical confusion as to the degree to which employers do or can use market comparisons when setting pay levels, with Lawler (1990) for example emphasising the value of a market-based pay approach, yet also recommending the active internal tailoring and alignment of reward policies with business strategy. And summarising the literature on the links between reward practices and performance, Gerhart and Rynes (2003) note that "it is difficult to identify characteristics of either pay design or context that contribute to performance variance".

Second was the growing evidence that written reward strategies were not actually very common and more importantly, these were not being applied in practice by employers (CIPD, 2007). This created what Bevan (2006, pp 13 - 14) refers to as a rhetoric/reality gap in rewards management, which led to him questioning the validity and practical existence of the concept. According to Henderson and Risher (1987), pay decisions in most organisations are short-term, messy and political; reward strategies only exist in boardrooms and textbooks. Reviewing 25 years of the Workplace Employment Relations Survey, WERS, research in the UK workplace, Guest and Bryson's

(2009) conclusion is that far from being Ulrich's (1998) leading-edge, human resource champions implementing radical, change-oriented reward and HR practice innovations, personnel specialists are in the main "traditionalists, bringing up the rear, their time engaged in a variety of operational activities". Bach et al. (2009) similarly conclude from 25 years of WERS data that "these uneven patterns of change signal transition rather than transformation in the process of pay determination".

Research studies highlight some of the difficulties in applying the reward strategy concept, leading some researchers to deny the existence and the value of the concept entirely. For example, Trevor (2009) argues on the basis of his research in seven multinational employers that, because of institutional pressures for conformity, the risks involved and difficulties of change, such as staff and line manager resistance, pay cannot in reality provide competitive advantage. Reward strategy is therefore "a largely unattainable ideal in practice" (in Corby et al. eds. 2009, p 36). Pay and rewards should therefore largely be passively and reactively managed to limit risk (Chapman and Cotton, 2010).

Trevor and Brown, W. (2014) note the difficulties of translating strategic intent into operating reality and that HR practices "often may be implemented in ways that differ from the initial intention", replicating findings on the limitations of rationalist accounts of strategic management (Pfeffer and Sutton, 2006). They also found that the "sharing and imitation of best practice" is especially prevalent employer behaviour.

Kessler (2001) points to the relevance of new institutional theory in explaining real-life pay and reward setting decisions, with its emphasis on institutional pressures encouraging conformity, and isomorphism of practice between organisations, supported for example through the extensive use of pay surveys and benchmarking (Meyer and Rowan 1991; Oliver 1997). Wage competition encourages conformity, but so do institutional pressures in an organisation's environment, for example through legislation such as the National Minimum Wage and influential stakeholders, such as shareholders (DiMaggio and Powell, 1983; Kessler, 2001). Oliver points to the influence of unwritten but powerful industry norms of practice, encouraging what Arrowsmith and Sissons (1999) termed "sectoral convoys".

Guest (2011) similarly cites evidence that employers like to pursue a common "best practice" model, even though research on organisation performance tends to support the superiority of a "best fit" approach (Combs et al., 2006).

In the next three sections, I consider the three aspects of the criticisms of Lawler's original reward strategy concept in the literature in more detail, as these are central to my own re-definition of the concept, creation of new knowledge and overall contribution in this field, described in subsequent sections.

2.2 The Application and Implementation of Reward Strategy

The literature in this field is summarised in more detail in my publications accompanying this submission, particularly Armstrong and Brown (2006, Chapters 10, 11 and 13), Reilly and Brown (2008) and Cox, Brown and Reilly (2010).

In studies on the links between reward practices, business strategy and performance outcomes, researchers continue to note the twin difficulties of employee understanding and support; and line management competence and commitment to delivering strategic reward policies as intended (Becker and Huselid, 2006; Banks and Kepes, 2015, p363). More generally across all HR policies (McGovern et al, 1997) and in other European countries (Larsen and Brewster, 2003) similar enactment and implementation issues appear to be commonly evident in reward and HR strategy delivery.

The researched reward strategy implementation issues seem to be heavily focused in these two areas, with Poole and Jenkins (1998) for example, finding employee and line manager issues to be at the core of the "slippage" between espoused pay policies and actual pay practices, under-pinning the reward strategy rhetoric/reality gap. Rather than fulfilling Lawler's ambition of bringing written reward strategy intentions to life, these line manager and employee dimensions appear to be commonly rendering them still-born.

2.2.1 Communicating with and Engaging Employees through Rewards

Despite the long history of research that shows that even limited employee consultation and communications on reward system designs and implementation makes a major difference to the success of outcomes (Bowey and Thorpe, 1983; Cox, 2005); and the emphasis on motivating key employees in the resource dependency and talent management literature (Ulrich and Barney, 1984; Michaels et al, 2001), as Cox argues, employee views generally seem to be neglected by employers in making pay and reward decisions, in favour of external market and business strategy considerations.

Research studies also confirm the generally poor perceptions of reward communications and resulting low levels of employee understanding of pay and reward processes (Scott et al., 2008; EHRC, 2010). Wright (2009) ,for example, found that the majority of HR managers thought that their scheme was badly communicated and most employees surveyed in the research rated scheme communications as average or poor.

Gerhart and Rynes (2003) believe that the dominance of economics in the management and business field helps to explain this neglect in research and practice, with a limited range of acceptable research methods in economics and employee preferences and views being regarded as "too difficult to measure" (p55). Managers meanwhile, they believe, tend to regard pay as in classical economics as "the only incentive". Hence Werner and Ward (2004) note the problems of discipline specificity in studying reward processes and argue for more inter-disciplinary collaboration, particularly between psychology and economics.

Psychology and motivational theories on the other hand have tended to downplay the influence of formal pay and reward systems. Content theorists of motivation such as Alderfer (1972) and McClelland (1987) do not even address pay in their categorisations of motivating factors, while cognitive evaluation theorists (Deci and Ryan, 1985) note problems with all external motivational tools that do not support intrinsic needs such as autonomy.

More recently, organisation justice theory has placed greater emphasis on both the value of employee involvement in reward package design (Folger and Konovsky, 1989) and the importance of a mixed approach to financial and non-financial rewards in motivating employees (Cox, 2005). Furthermore, psychological contract theory (Rousseau, 1995; Herriot and Pemberton, 1995) and employee engagement theories (Macleod and Clarke, 2009) emphasise the importance of the mutual expectations and perceived rewards/returns that organisations and employees hold about each other and value. Truss et al (2006, Foreword, p ix) define employee engagement as feeling positive about your job, as well as being prepared to "go the extra mile" for the employer.

Yet despite the common presence of pay and reward practices in the "bundle" of high performance work practices which a number of studies find to be associated with employee engagement and organisation performance (Combs et al., 2006; Rayton, 2012), most theories of engagement still downplay the role of rewards, particularly pay, as an influence on employee engagement and performance. For example, it is not one of the four "levers" which Macleod and Clarke (2009) identify as key for employers to raise levels of engagement, although non-financial recognition is one. Nor is it highlighted by Truss et al. (2006) in their conclusions on overall engagement levels in the UK– although dissatisfaction with pay was the second most important factor associated with low engagement in their research, behind front-line manager behaviour. Guest (2003) is critical of the concept of employee engagement and lack of specificity of how it links to performance, arguing that the concept "needs to be more clearly defined or abandoned". This is especially evident in employer engagement survey tools, which generally gather very little information on employee views on pay and rewards.

Thus in practice managers may have a lack of knowledge and guidance in terms of how best to use reward processes to deliver the behavioural outcomes from employees which will support high performance and the delivery of the business strategy (Gerhart and Milkovich, 1992). There remains a "black box" (Guest, 2011) from existing research in terms of just how reward and HR practices deliver improved employee engagement, business performance and delivery of the business strategy goals.

There is also considerable debate on the impact of the adoption of strategic and new pay techniques on employee motivation, engagement and the experience of work. Green and Whitfield (2009) note the intensification of work and decline of employee autonomy since the first WERS study; and Wood and Bryson (2009) observe the relatively limited adoption of alternative, informal and individual communication and involvement mechanisms from the same WERS data, despite the decline in levels of unionisation and collective pay bargaining.

2.2.2 Line Managers and Reward Strategy

There is an equally long history of research into the challenges which line managers present to HR departments in the implementation of their reward and HR policies and intentions (Thurley and Wirdenius, 1973; Child and Partridge, 1982). Ever since Drucker's (1954, p 277) allegation that personnel departments talk about educating operating managers in managing people, yet focus on their own programmes, how HR departments and line managers partner to deliver reward and HR policies has been a regular area of debate.

A key aspect of the more strategic and activist use of reward practices by HR specialists was the devolvement of day-to-day reward management decisions and activities to line managers (McBeath and Rands, 1989; Harris, 2001), putting even more emphasis on the reward management skills of these managers. Becker and Gerhart (1996) found strong support for the traditional adage that employees join an organisation but leave their line manager, with employee engagement to their line manager often greater than that to the wider organisation as a whole. There is little research evidence that the situation has improved, with a steady stream of studies continuing to show gaps between espoused and enacted HR policies in areas such as performance appraisal and employee involvement (Grint, 1993; McGovern et al, 1997; Harris, 2001; Whittaker and Marchington, 2003).

Guest and Conway's national attitude survey for CIPD (2004) for example, found that only 37% of UK employees reported that their first-line manager motivated them to improve their performance, as well as low levels of reward process understanding; while another UK survey found that 88% of HR managers believed that the line were insufficiently trained and competent in performance and pay management (E-reward, 2005). Chadwick et al. (2015) in their research study of 190 Korean firms note the importance of middle managers to firm performance and to operationalising strategic intentions.

This literature therefore challenges the original concept of reward strategy in terms of its theoretical basis and practical effectiveness as to just how these common issues of employee understanding and engagement and line manager support and delivery can be overcome. But this literature is generally weak on the details of pay and reward policies, the specific implementation challenges they present, and how pay and rewards can leverage on employee engagement and performance. The research is also much stronger on detailing the problems arising and disproving existing reward strategy concepts than on addressing the questions employers want answered (Davis, 2015), which is how these problems can be overcome and the presentation and testing of possible solutions (Gas and Gilles,1995).

2.3 Measuring the Effectiveness and Impact of Reward Strategy

The literature in this field is more extensively reviewed in my submitted publications, particularly Armstrong, Brown and Reilly (2010 Chapters 1 – 4; 2011).

2.3.1 Existing Research Findings

Given the research evidence on the challenges of reward strategy enactment and implementation, one might think that the literature on the measurement of effectiveness and demonstration of business impact of reward practices would be extensive. As we have seen, there are studies showing quantitative correlations between higher performing companies and the use of particular reward practices. Thompson (2000) researching in aerospace companies, for example, discerned higher profit per employee levels in companies with various pay practices such as performance pay and flatter pay structures. Guest et al. (2003) found performance-related pay, share ownership and profit sharing amongst a group of 18 high-performance work practices associated with higher added value per employee. While there are definitional and research issues with some of these studies, such as the varied contents of the HR "bundle" of practices, and problems identifying the direction of causation, nonetheless there are a compelling number now in existence, from different parts of the world and different sectors. Combs et al (2006) in their meta-analysis report on over 90 studies of this type finding positive associations.

Other studies show links between particular pay plans and performance outcomes – Kling (in Bosworth, 2005) for example, concluding that compensation linked to worker or firm performance is associated with improved productivity. Bullock and Lawler (1984) came to a similar conclusion in their meta-analysis of 33 studies into gain-sharing plans. But there are also studies (Lewis, 1998; Cox, 2005) documenting the difficulties in implementing specific reward practices generally associated with strategic and new pay approaches, particularly performance-related pay (Marsden and Richardson, 1994; Suff and Reilly, 2004); and the general disappointment of managers with pay outcomes (Brown and Nolan, 1988). Werner and Ward (2004), Burgess and Metcalf (1999) and Jenkins et al (1998) all conclude from extensive literature reviews that pay incentives can influence employee behaviour and performance, but that this impact is often exaggerated, and the effects can be damaging as well as potentially beneficial to the organisation.

2.3.2 The Lack of Evidence-based Reward Management and Research

These research findings emphasise the need for individual employers to be able to accurately measure the effects of their reward practices in order to achieve a "best fit" impact. Yet in initially researching this area, despite the growing interest in evidence-based management (Pfeffer and Sutton, 2006) and human capital management (Kearns, 1995),the spread of more sophisticated HR information systems and presence of much quantitative data in the pay and rewards field; and despite the use of well-conceptualised and tested frameworks in the related area of training and development evaluation (Kirkpatrick, 1994; Warr et al, 1999; Sloman, 2007), I have found a remarkable lack of theory and evidence to apply to evaluating the effectiveness of reward practices.

Rousseau (2006) defines evidence-based management as translating principles based on research into organisational practice, so managers make decisions informed by research. But despite Opsahl and Dunnette (1966) expressing the hope that the future would see compensation policies based on empirical evidence, rather than untested assumptions and time-worn "rules-of-thumb", as Gerhart and Rynes (2003, p 1) described almost 40 years later, most managers are still not sure of the likely consequences of spending more or less on employees, or paying employees in different ways.

Researchers point to this lack of evaluation of the effectiveness of reward strategies as a key reason for what Pfeffer and Sutton (2006) call the knowing-doing gap in reward. They found rules-of-thumb and untested beliefs to be very much alive and well, for example in the use of executive stock options. Milsome (2006) similarly concludes that merit pay became popular for reasons of ideology and fashion, with the evidence that it may not work, she claims, largely ignored.

The *CIPD Annual Reward Management survey* (2009) confirmed few systematic attempts to evaluate the impact and effectiveness of reward practices. Market benchmarking was the most prevalent evaluation method, used by over 80% of respondents. Yet as Pfeffer and Sutton (2006) describe, this is often a process used to copy market practice rather than to strategically differentiate an employer. Less than a quarter of the almost 500 participants used any sort of business data to assess reward practices, and while three-quarters claimed to reference staff turnover data, only 10% could put a financial cost on that and under a fifth carried out financial cost-benefit analyses.

Even when assessments of the effectiveness of reward strategies have been made, the results are often disappointing. When the National Audit Office (2009) attempted to evaluate the Agenda for Change (AfC) pay reforms in the NHS, three years after the implementation of one of the largest restructurings of this type ever attempted, intended to deliver savings of £1.3 billion, their assessment was that the benefits from this new simpler system had not been achieved, with no reduction in paybill evident. Equally concerning was their conclusion that no clear criteria or process had been put in place to assess success.

One of the few research studies found was the pioneering work for the Department of Health by Corby, White and Stanworth (2005) amongst 15 large employers. They found that only 2 of the 15 employers made any real attempt to assess the effects of the pay structure changes implemented and most managers they spoke to were cynical about the value of attempting to do so.

Thus the existing literature highlights a further dilemma for the concept of reward strategy. Pay and rewards may have the potential to impact on employee behaviour and performance in order to deliver the business strategy, in certain situations. Yet as well as the practical implementation challenges, there appears to be a lack of conceptual frameworks, research methods and studies to draw valid and consistent conclusions and to provide practical support and guidance to managers as to which reward policies and practices are more effective in which specific situations (Gerhart and Rynes, 2003; Pfeffer and Sutton, 2006). This is a major research gap that I have attempted to address in my research.

2.4 The Total Reward Dimensions of Reward Strategy

The literature in this field is more extensively reviewed in my submitted publications, particularly Brown (2012; 2014) and Armstrong and Brown (2006).

2.4.1 The Meaning of Total Reward

From their origins, ideas of rewards and HRM strategy have incorporated the dimension of "lateral integration" of reward and HR policies with each other, in order to create a consistency in people management, as well as vertical integration with the business strategy (Beer et al, 1984). As Armstrong and Murlis (2007, p 12) explain, "the total reward concept emphasises the importance of all aspects of the rewards package as a coherent whole...account is taken of all the ways in which people can be rewarded and obtain satisfaction through their work, linking financial and non-financial aspects".

The concept is not new – Adam Smith in *The Wealth of Nations* in 1776 refers to the "total utility" of work and how employers could offer less pay if they provided interesting jobs. Edward Cadbury, explained his firm's insistence on worker housing and benefits by describing profitability and employee welfare as different sides of the same coin (Priestley, 1934, p 94 - 95).

Manas and Graham (2003) emphasise it includes all aspects of reward – indirect as well as direct, intrinsic as well as extrinsic, and as a client, Land's End clothing company told me while researching a case study with them, reward policies need to "be concerned with the entire workplace" (cited in Armstrong and Brown, 2006, p27 - 29). Benkhoff (1997) applies social identity theory to explain that employee engagement requires an integrated strategy congruent with the employee's own values, with varied rewards to suit the different needs of employees.

Total reward also can be linked to motivational and engagement theories as this thinking, as described earlier, has generally involved an assertion particularly of the non-financial aspects of rewards, with Pfeffer (1998, p 112) for example arguing that "people do work for money – but they work even more for meaning". The total rewards literature, like that on employee engagement, generally emphasises non-financial methods of motivating staff, harking back to Herzberg's two-factor theory of motivation, which posits that money is essentially a *hygiene* factor and true motivation derives from non-financial aspects of work, such as job interest (Herzberg, 1966).

As Bloom and Milkovich (1995, p 5,6) point out, in a more knowledge and service-based, human-capital-driven economy, financial rewards alone cannot extract the behaviours that distinguish outstanding from ordinary performance, so "a broad bundle of valued rewards" needs to be offered in return for the "valuable cluster of employee contributions" to the business. In addition, as O'Neal (1998) describes, with an increasingly diverse workforce this also gives the opportunity to individualise packages to suit the differing needs of employees.

Some studies do suggest that employees like to be offered a choice in their package. Barber et al. (1992) for example, found that in a financial services company flexible benefits choices increased employee satisfaction with their rewards. Another study indicated that the pay premium required to recruit was halved if an employer possessed an attractive total rewards package (Conference Board, 2001). And some studies have used quantitative techniques to demonstrate associations between the use of particular employee benefits and positive outcomes, such as improved employee retention and engagement and higher organisational productivity (Baughman et al, 2003; Tsai and Wang, 2005).

As documented in my research in the next section, the total rewards idea has grown considerably in popularity over my career, linking in with concepts such as employee engagement and "Best Places to Work" initiatives in this century, and with strong promotion by consultancies as the rationale for their sale of flexible benefits packages. Wright (2009) interprets this trend as being associated with the decline of collective bargaining and increased individualisation of pay determination in the UK. It also fits well with trends in management research towards more inter-disciplinary approaches to investigating complex issues (O'Neal, 1998).

2.4.2 The Challenges of Total Reward

The concept of 'Total reward' represents a number of challenges however, to the original concept of reward strategy. First, as indicated by its early "New Pay" nomenclature (Lawler, 1995), there has been a historical focus on pay and incentives as the strongest means of influencing employee behaviour and performance rather than non-pay motivations. Indeed some of the early reward strategy proponents are strongly critical of total rewards approaches for encouraging the spread of expensive benefits packages with no relationship to organisation or individual performance (Zingheim and Shuster, 2012). A second area of criticism has been this market-copying rather than strategy-driven approach to total reward and a lack of business impact. As Torre and Sarti (2013) note, the risk is that this additional benefits provision and "ratcheting" increases labour costs without impacting on employee engagement and performance, which is the key goal of strategic HRM.

Two-thirds of employers in one CIPD recruitment study claimed to have acted to improve the attractiveness of their total rewards package and employer brand in the prior 12 months (CIPD, 2007b). Flexible benefits packages appear to have become the norm in large UK employers (Aon

Hewitt, 2014), again illustrating the tendency for "sectoral convoys" (Arrowsmith and Sissons, 1999) and institutional pressures and market practice to drive the adoption of reward practices (Trevor and Brown, W., 2014).

According to Zingheim and Schuster (2012), authors of a well-used practitioner model of total rewards, this benefits "arms race" has served simply to increase employment costs, with no business or performance payback. The outsourcing of the delivery of all aspects of these packages to the large HR consultancies, from benefits sourcing and supply, to communications, has also encouraged this homogeneity and "plain vanilla" provision of flexible benefits and reward packages (Aon Hewitt 2014). Wright (2009) finds little impact on recruitment and retention and believes that the high transaction costs will restrict the further spread of total rewards approaches in the UK.

Holbeche (2014) goes further and notes that it could be argued that the balance of power and benefit in the employment relationship has shifted to the advantage of employers at the expense of employees since the financial crash of 2008/9, with some employers regarding employee engagement however achieved as a "luxury for the good times". Tahmincioglu (2004) contends that total reward approaches risk demotivating many employees and being interpreted as a cynical attempt to appease them in times of low or no pay increases, restructuring and downsizing.

2.4.3 The Research and Researcher/Practitioner Gaps

But here again, Wright's (2009, p210) conclusion as to the drivers, benefits and risks of flexible and total reward approaches is that "there is little systematic research in this area" to address these questions as to causation, applicability and effectiveness in practice. Torre and Sarti (2013) are critical of the main components of the construct and the lack of validated measures and tools, seeing management practice as leading research in this area. Is total rewards, as Armstrong et al (2008) ask, primarily about non-pay rewards; or personal choice of rewards in an increasingly diverse workforce (Kaufman and Fetters, 1981; Lawler, 2011)); or creating a strong employment brand with everything available in the employment relationship (O'Neal, 1998); a global philosophy or a specific reward management technique? As described in the next section, this is another of the research gaps and questions that I have attempted to highlight, challenge and address through my research and practical consultancy in the rewards field.

More widely the divorce of academic researchers and practicing managers in the rewards field has been criticised and regarded as a cause of the continuing controversy over reward strategy and the lack of strategic impact of reward systems. Criticising the lack of an evidence base for much reward management practice, Milsome (2006) argues that research may seem like a lot of work, but if people are the organisation's greatest asset then surely more solid evidence of which reward practices add value and which do not is vital. Correspondingly, form an academic perspective in the business management field, Eckhardt and Wetherbe (2014, p 1) believe business schools have become increasingly disconnected from practice, "operating in a closed system" which they attribute partly to performance management and reward methods, which focus on research publications and citation counts.

Bloom and Milkovich (1995, p 18,19) believe therefore that given the lack of research evidence for much reward management practice, "a better blend of theory, research and practice holds the promise of expanding knowledge about the forces and processes that shape compensation systems". This is the research-into-practice gap I have attempted to close with much of my own research and publications, as described in the next section.

2.5 Section Summary

With its theoretical underpinning in the work of the Harvard School researchers on strategic human resource management and the desire for newly-christened HR functions to demonstrate their impact, supported by changes in the UK economy towards a more market-oriented philosophy and individualised social and employee relations context, Lawler's original "new" pay and reward strategy ideas have achieved widespread popularity in practitioner circles since the early 1990's.

The three key dimensions of his thinking were that pay and reward policies should be aligned with and driven by the business strategy; that they should be tailored to suit that strategy and the other systems and culture in the organisation; and that reward practices should be designed to influence employees to behave in ways that made the business strategy "come alive".

Existing research does lend some support to the contention that typologies of business strategy are likely to be associated with particular pay and reward policies, and that certain reward practices are more likely to be used by higher performing organisations. But despite limited research in some areas, particularly reward evaluation and total rewards, and despite reported difficulties in being able to test the concept, studies since then have cast serious doubts as to the applicability and validity of the original reward strategy concept, centring on four key issues.

First are the doubts as to whether reward strategies exist in practice and if organisations, as many of them claim, really are designing tailored reward policies to suit their strategy, rather than simply copying general market and sector practice and responding to external legislation.

Second are the problems of reward strategy implementation, based on a common lack of employee understanding and engagement, and the widespread failure of line managers to implement pay and reward practices in the intended manner, both sources of the referenced policy/practice, rhetoric/reality gap in strategic reward management.

Third are the absence and difficulties of evaluation of the effectiveness of reward management practices and their impact at both national/macro, and individual organisation/micro levels. This lack of theory, frameworks and methods and tools for evaluation helps to explain the continuing controversy over the reward strategy concept.

Fourth are the challenges presented by total reward approaches, both in terms of challenging the original focus of reward strategy theory, research and practice on pay and incentives; but also because of the relative paucity of evidence as to the positive impact of reward management on employee engagement and behaviour.

A divorce between reward practitioners unwilling to support research into and produce evidence as to the effectiveness of their methods; and business academics "failing to answer the questions that managers need answering" (Davis, 2015), has led to continuing controversy and debate in these areas. Existing research has also tended to focus negatively on the problems of reward strategy enactment and measurement, rather than the possible solutions and means of overcoming these, which Gas and Gillis (1995) argue would enhance the contribution of much academic research in the social sciences.

These are the main four areas of my contribution to thinking, research and practice in the reward strategy field over my career and in the following sections, I describe that contribution in more detail and how I have attempted to address these research controversies and gaps.

3. Reward Strategy Contribution

In this section I describe my own contribution in the reward strategy field, organised using the four themes already described and highlighting four associated sets of questions which my research work has been focused on addressing:

- What does reward strategy mean and what is its value?
- How can reward strategies be applied and implemented in practice?
- How can you measure the effectiveness and improve the impact of a reward strategy?
- What is the relationship in concept and practice between reward strategy and total rewards?

I highlight my contribution initially by describing the research methods I have employed in the studies which form the basis of the submitted publications; and then consider the content, findings and conclusions of my submitted work in addressing the four sets of questions above.

3.1 Research Methods

In the following sections, I describe and illustrate the three main categories of research methods that I have employed to investigate reward strategy, highlighting their relative strengths and weaknesses, before moving on to consider my findings obtained through these methods and this research in addressing each of my four reward strategy questions above.

These methods are:

- Personally researching case studies;
- Conducting national and international questionnaire surveys;
- Managing multi-method academic research projects.

Eckhardt and Wetherbe (2014, p 1) advocate what medical academics refer to as "translational research"; that is "taking scientific research conducted in the lab and making it useful to people" and regard its use as unfortunately unusual in management research. This is the type of research I have generally focused on, in order to both create and disseminate new knowledge on strategic reward.

3.1.1 Case Study Research

Throughout my career I have researched and written up case studies and included them in my publications, initially from my consultancy client work, and later as part of generally multi-method research projects. I have used them to investigate all four areas of reward strategy in this submission, although they have been particularly useful in illustrating the tailoring of approaches to suit each employer in the second area of reward strategy application, and third area, evaluating reward effectiveness.

In some cases this method has involved reflecting with a client company on reward consulting work I have carried out, holding discussions with the participants involved and referring to data gathered during the assignment, for example on external market competitiveness or employee attitudes (Brown, 2001c). In other cases it involved interviewing reward managers on specific issues, for example identifying research case study participants by questions in research surveys. To illustrate, in my first reward strategy book (Brown, 2001b) each of the eight main chapters concludes with an original six or seven page case study, researched and written by me, and examples from my clients are included throughout to illustrate points. My submitted articles all generally include a shorter case vignette, helping to draw out the practical implications of my findings, for example: from a FTSE 250 company on its initiatives on reward communications (Brown 2012, p 11); and from a major UK bank on their internal research into the links between their employees' rewards and levels of engagement (Brown and Reilly, 2013). In some cases this also led onto specific, more detailed articles about individual client companies, such as Standard Life (Brown, 2001b). The ability through my relationships to name the employers in many of these cases has also helped in developing credibility in my teaching and training work, and helps to differentiate my research in comparison to the anonymous case studies in many academic management journals. This case work has contributed to my influence in the academic sphere as well as with practitioners, given that much of the academic debate on reward strategy focuses on the difficulties of implementation.

My case studies are in the main brief summaries, typically involving no more than one day's on site investigation and may be limited by consultant/researcher bias. Generally they were neither investigated nor written up to the depth that I was able to achieve with more academic research studies. Where I was involved on a paid-for consultancy basis, my research independence might be open to question. But although the participants were self-selecting, they were motivated by a genuine interest in my investigation and the subject, and often served to illustrate leading-edge rather than typical market practice (Armstrong, Brown and Reilly, 2010, for example)

Although not by any means a new technique for advanced academic enquiry, the combination of independent case studies as part of my research investigation and those based on my detailed knowledge of the employer from having been a consultant to them has helped me to derive new concepts and thinking. For example, I used this mixture of case study methods while investigating the problems of performance-related pay (Marsden and Richardson, 1994). They were the basis for me coming up with the original concept of "paying for contribution" which is now a widely adopted term in the UK research literature and by practitioners (Brown and Armstrong, 1999)

I have also combined case studies with other research methods in my work and writing and dissemination activity. The format of book chapters including theory, trends and case study illustration is one I have repeated in my publications (Armstrong and Brown, 2006; Armstrong, Brown and Reilly, 2010). Practitioners and students appear to find this approach useful as a means of understanding and the points made (Dunne and Brooks, 2004) and bringing research and practice together.

The Director of the Kingston International HR Masters Programme commented on the Reward Management Module in Moscow in October 2014 which I taught that "the students spoke highly of your lectures, your teaching styles and a good balance between theory and practical applications" (see Appendix 4). The end of programme assessment utilised one of my personal client case studies on Standard Chartered Bank (Armstrong, Brown and Reilly, 2010, p 118 - 128). As reviewed in the previous section, the divorce between academic research and practitioner methods has been seen to be a factor restricting the progress of knowledge in the rewards field (Milkovich and Bloom, 1995). So this again illustrates the distinctiveness of my research methods and contribution.

3.1.2 Questionnaire Surveys

While my case study research has supported me in the drawing out of the practical implications of key tenets of my reward strategy concepts and ideas, as well as in addressing academic critiques of their impracticality, I have also been able regularly to undertake large scale, national and international, questionnaire-based surveys from a more positivist research perspective to test theories, discern emerging trends and generalise from individual examples. The *Reward Challenges and Changes* study which I led and carried out for example, (Towers Perrin, 1999) covered 464 employers in 13 countries. My role in this research included: initially scoping and securing internal funding for the project; designing the questionnaire; targeting and securing participants; analysing the resulting data with one analyst; drafting the survey report; and personally drafting articles based on the survey findings (Brown, 2000; 2001a).

I have continued to use this method periodically throughout my career to provide information on trends and practices for my books and articles (e.g. Brown, 2000; and Brown, 2012). To illustrate, the *Rewards Fundamentals* study (Aon Hewitt, 2012a) I led involved an in-depth, 60 item questionnaire survey which was pretested with a number of employers. Data was gathered from 252 organisations from different sectors across 25 countries in Europe and the initial findings were tested in discussions with groups of employers who took part. The response rate was just over 10%, with questionnaires sent to the firm's client and contacts database.

Response rates of between 10% and 20% have been evident throughout my consulting career, though they have declined over time. The Pew Research Centre (2015) suggest that these response rates are reasonably high, reflecting probably the relationship of my consultancy with many of the participants and the personal nature of the invitations.

Data was analysed by country and sector, as well as characteristics of the employer (size) and our respondents themselves (position and length of service). I was also able to interpret the findings in the context of other research findings available within my firm, such as Aon Hewitt's global database of employee engagement levels, covering more than 3,000 employers and over four million employees worldwide (Aon Hewitt, 2013; Brown and Reilly, 2013).

I managed the European team who co-ordinated this research to secure the participants across Europe. Three of us developed and tested the questionnaire. The results were tabulated by our pay survey team based in India and analysed in the UK by myself and a colleague analyst. I wrote up and made numerous presentations on the findings around Europe and wrote the submitted articles (Brown, 2012; Brown and Reilly, 2013) using the results personally.

My most cited and on-line accessed reward research survey, which I was able to establish and extend and then recruit a reward research adviser to run, was the CIPD's annual reward management survey – (CIPD, 2007 for example). This is one of the largest and longest-running surveys of reward management practice and trends available in the UK, typically with 400 to 500 employers participating. Although completed by a sample of CIPD members, the member base is diverse in terms of sector and size of organisation and we were able to analyse cumulative trends amongst repeat participants. I also regularly commissioned follow up data analysis to investigate emerging findings – for example a study on multinational reward strategies which I managed, carried out data analysis and interpretation for and wrote up in a subsequent article (Brown and Perkins, 2007).

The data obtained from these surveys has been useful in investigating all four areas of my reward strategy contribution and particularly, even on a self-report basis, for illustrating the expressed desire by practitioners in the first and fourth areas to be more strategic and adopt a total rewards approach; yet fail to apply this effectively in practice, with generally low ratings evident in the findings in the second and third areas, reward strategy implementation and effectiveness. In regard to the reward and line managers research project I led for example (Brown and Purcell, 2006), we added an additional section to the survey in 2006, when 535 employers participated, soliciting views on the relationships between HR and line managers in reward, providing quantitative data to input into what was large a case-based methodology for that project.

The participants have typically been consultancy clients and contacts and not selected on a stratified sample basis. Therefore, the final samples could have been skewed towards particular types of often larger, multinational organisations with more sophisticated HR and reward functions than is typical in the UK economy as a whole, which might be better represented in national surveys such as WERS and ASHE. However, these lack the level of detail on reward practices I have generally been able to achieve. While questionnaires were developed by trained researchers, pre-tested and the initial findings discussed with employers, the standards of rigour in study design may not have been as high as in an academic institution. Partnering with an academic institution to undertake the surveys might have been beneficial in this regard, and Bloom and Milkovich (1995, p 18) also advocate "a new partnership between managers and scholars to advance the field". In the repeat of the Reward Fundamentals study currently underway which I am involved with, Aon Hewitt is partnering with Vlerick Business School, Ghent University which has its own Strategic Reward Research Centre.

However, the major HR management consultancies do have the access to a large international base of clients and many academic institutions would struggle to get such high levels of reach and participation as I have been able to achieve in my survey research. The CIPD Annual Reward Management Survey is widely cited and referred to for supporting evidence in the majority of my publications submitted here.

3.1.3 Multi-Method Academic Research Studies

In working as a research director at both CIPD and IES, I benefitted from significant research resources to investigate the HR phenomena of most interest to their membership, helping me to achieve this distinctive focus on translational "research into practice" and to personally and directly set and participate in the reward aspects of my research agenda.

At CIPD, I was able to conceptualise, design, organise, manage and implement reward studies involving some of the UK's leading HR academics and top HR and reward practitioners. This allowed me to investigate and generate new knowledge on detailed aspects of the reward strategy concept, particularly of how the link between a particular business strategy and reward practices operate in the first theme in this submission (Brown and West, 2005); and the difficulties commonly experienced in reward strategy application (Brown and Perkins, 2007) and how these might overcome, in the second theme, through more attention to employee communications and line managers (Brown and Purcell, 2007).

For each of these major projects, I would develop a research specification, agree it with the CIPD board's research panel, which included senior practitioners and academics and then competitively tender the project. As well as working closely with the successful institution in carrying out the research and supervising it, I would normally establish a steering group of practitioners and independent academics working collaboratively across several institutions, who would meet at key stages to review the project progress and interrogate the findings.

Finally, I would publish the findings in a CIPD research report and discuss their practical implications at events, such as the CIPD's annual National and Reward Management conferences, and disseminate them both through academic journals, such as *HRM Journal*, and practitioner journals, such as *People Management*. I would also produce evidence-based toolkits to foster application of the learning, such as the one I personally developed on reward strategy (CIPD, 2005), again distinguishing myself from much of the academic research in the field by ensuring wide dissemination and fully drawing out the practical implications.

3.1.3.1 Example 1: Customer-Service Strategies and Reward Practices

To provide an example of a major project, the study investigating the linkages between customer service strategies and reward management practices was carried out over a 12 month period (West et al., 2005; Brown and West, 2005). The research involved 15 employers in public, private and voluntary sectors across 22 locations and encompassing a deliberately wide range of customer service settings and roles, ranging from retail stores and leisure centres to telebanking and public libraries. The numbers of service staff employed ranged from 37 to more than 1,000.

Managers were interviewed in each company and information also gathered via questionnaires, with sections on business goals and performance, organisation design, reward practices and related HR policies. An aggregated measure of customer service performance was constructed, supplemented by researcher observations of customer/employee interactions in "mystery shopper" style. 580 staff completed questionnaires on their work and rewards (Appendix 2 of West et al, 2005, p 37 - 51). The researchers also carried out a review of relevant literature. We disseminated the findings widely, with my personal contribution ranging from articles in US journals (Brown and West, 2005) and *People Management* (Brown and West, 2006) to presentations at the CIPD Annual Reward conference, the equivalent events in Oslo and Brussels and numerous local CIPD branch events.

As detailed later in this section, the findings from this study illuminated the links between customer service and reward practice, illustrating deliberate and strategic patterns of reward practice design and linkages with customer service performance on my first strategic reward theme, as well as the use and effectiveness of a total rewards approach, my fourth theme.

I was personally accountable for these projects, closely involved in the work at all stages, and drafted articles with the academics involved (Brown and West, 2005; and Brown and Purcell, 2007 for example). The survey and case study samples were biased towards larger organisations and HR and reward participants, although the research methodologies employed in the customer service research and line manager studies (Hutchinson and Purcell, 2007) were deliberately selected to minimise this bias, interviewing line managers and questionnaire surveying samples of employees.

This latter study involved twelve case study organisations, focusing on a single unit/location in each employer, in which we interviewed the management team individually and completed structured questionnaires in individual interviews with a randomly selected minimum sample of 40 employees in each location. Five items taken from WERS98 were used to assess leadership behaviour and satisfaction with reward policies was assessed using a Likert scale against nine items. Control variables covered gender, age, length of service, job status and union membership. This process was repeated a year after the first set of interviews, with a 90% response rate, to assess the impact of changes employers had made during that time to improve front-line management of rewards.

3.1.3.2 Example 2: The Effectiveness of Reward Strategies

At the Institute for Employment Studies my responsibilities covered both reward research and advisory work and in a smaller organisation, I personally and directly carried out significant parts of the reward research, as well as conceptualising, designing and managing it. The multi-method approach I used on a project to investigate my third reward strategy theme, the effectiveness of reward strategies (Armstrong, Brown and Reilly, 2010 and 2011; Brown, 2008) is the best example in this submission of advanced academic enquiry which led to the generation of new knowledge at the forefront of the discipline. The research was organised and run as part of IES's HR Network, a group of some 70 senior HR and reward professionals who meet regularly to share experiences and conduct research.

With my colleague Peter Reilly, we initially carried out a literature review prior to formulating our research questions (summarised in Armstrong, Brown and Reilly, 2011, p 109 - 111). As highlighted in the previous section, the academic literature on reward evaluation remains surprisingly sparse, helping to explain Pfeffer's (2006) knowing/doing and Bevan's (2006) rhetoric/reality gaps and contradictions in the field.

Our aims were both to develop an evidence-based model of how reward effectiveness could be conceptualised and to stimulate practical improvements in employers through its use. This reflected the inductive, more phenomenological research approach I had used through my career. In this more structured project format it could be validly described as a grounded theory approach, defined by Glaser (1978) as the systematic generating of theory from data. We were particularly keen given our sponsors that the process should, as Glaser advocates, generate theory that fits the real world.

We used a multi-method approach involving an initial questionnaire survey, followed by two phases of case study investigation, with triangulation between them to identify common themes and patterns from the data. The findings were published in a series of articles (for example, Armstrong, Brown and Reilly, 2011) and are now regularly cited (see Appendix 2). The HR Network gave input in meetings and by email on the research questions and the draft findings.

The survey of 173 HR and rewards practitioners was carried out by email in 2009 (see Appendix 3 for a copy of the questionnaire). Participants were identified using IES and E-rewards' contact databases and the response rate was marginally below 10%. The detailed results are contained in the research report published by E-reward which I jointly authored (2010a). Illustrating the benefits of using multiple methods, we used the survey to identify willing case study participants and selected a varied sample of employers on this voluntary basis.

The initial seven cases covered in the book involved face-to-face interviews on site visits, all of which I personally carried out and wrote up. This meant that some interviews could extend for as long as three hours and involve other relevant members of the HR team. This also allowed me to gather supporting material such as HR performance scorecards, details of reward plan designs and attitude survey findings. Telephone interviews took place in the additional six cases which followed.

Following Mintzberg's (1978) case study advice to go into organisations with a well-defined focus, I interviewed those identified by the survey on a semi-structured basis with a brief interview questionnaire. This focussed on the four areas covered by the survey: the extent to which evaluation takes place, why it did or did not occur, the methods used and their assessment of effectiveness.

Pettigrew's case research guidance (1990) is to select organisations where the phenomena are transparently observable and we timed the research just after the recession took hold in late 2008. So I witnessed some fairly unusual, observable and extreme changes in reward practices, for example: the voluntary pay cuts approach at Ernst & Young; and the immediate response to the post-financial crash FSA investigation at Standard Chartered Bank.

The findings were analysed and written up by myself and Michael Armstrong for our book (2010), with my IES colleague Peter Reilly playing an editing and oversight role. I researched and wrote four of the nine chapters plus the introduction, including supporting literature searches. I designed and carried out the survey jointly with one of Michael's colleagues at E-reward, and I analysed and wrote up chapter 3 which covers the results in detail. I also personally visited and wrote up all of the seven case studies which are detailed in the book, two of which have been used as HR Masters' student assignments by Kingston University. As on the other projects referenced, I also developed research-based tools from the findings to encourage practitioners to become more research and evidence-oriented in their selection of reward policies and practices (E-reward, 2010b).

This study perhaps best illustrates my attempts to follow Bloom and Milkovich's (1995) wish to integrate theory, research and practice in building knowledge in the field of reward strategy. Methodological weaknesses included that our research did not involve in-depth evaluation of the techniques being used to measure effectiveness, nor in this study did I involve multiple stakeholders and obtain their experiences of these assessment practices, focusing on HR and reward managers. Further research could include gathering the perceptions of different stakeholders and also testing our process and measurement models in a wider range of employers (see Section 4).

These multi-method studies have differentiated my research and publications from that of many other researchers in the field. The combination of large-scale survey activity and practical case study work in a varied range of organisations and settings, especially with consultancy clients, combined with input from research steering groups and advisory panels, has allowed me to produce valid and robust academic research findings, yet also to draw out the practical implications of my findings in way that even the more positive and optimistic reward strategy researchers have not been able to do (Balkin and Gomez Mejia, 1987). It has also allowed me to address the void created by researchers who hold that the reward strategy concept is impractical in reality and associated techniques such as performance-related pay ineffective, yet offer practitioners little in the way of alternatives to replace them (Trevor, 2009; Trevor and Brown, W. 2011). What limited research has been carried out in this field generally employs, according to Rousseau, complex research methods and metrics with no clear business benefit and this has undoubtedly contributed to the lack of progress towards more evidence-based reward management in employers prior to my research, (Briner, Denyer and Rousseau, 2009).

3.2 The Definition, Meaning and Value of Reward Strategy

I now move on to consider in this subsection my research findings and contribution in the first area highlighted, the concept of reward strategy and its meaning and value, with particular reference to the research written up in my submitted publications: Brown (2000; 2001a and b; 2012), Armstrong and Brown (2005; 2006), Brown and Perkins (2007) and Cox, Brown and Reilly (2010).

3.2.1 Research Findings: the Growing Popularity of the Reward Strategy Concept

As noted in the Section 2.1.1, the strategic HRM literature and specifically Lawler's ideas on reward strategy transformed the normative literature on how pay and rewards should be managed and the work of HR and reward professionals organised. To illustrate the shift, the student textbook for the reward area when I studied for my IPM exams in the 1980s was called a *Handbook of Salary Administration* (Armstrong and Murlis, 1988). Twenty years later, when I wrote the preface to the 2007 equivalent, it was re-titled *Reward Management: A Handbook of Remuneration Strategy and Practice* (Armstrong and Murlis, 2007).

The reward strategy concept was actively promoted and put into practice by consultants such as myself in the 1990s in our client work (Brown, 2001b, p 24 – 51). The professional institute for HR managers where I went on to work, (then IPM, now renamed CIPD), also embraced these strategic ideas in its drive for greater membership and professional standing. Its then President, Barry Curnow, described the profession as being at a cross-roads, with a choice between being forward-looking, change-oriented, board-influential reward strategists; or backward-facing and back-room compensation technicians and administrators (quoted in Brown, 2001b, p2). Much of the controversy over reward strategy reviewed in Section 2 concerns the extent to which HR professionals since then have been and should pursue an active, strategic, change-oriented and business-driven agenda. As Perkins and White (2011, p 402) point out, at the CIPD conference in 2007, a plenary session posited exactly the same duality for HR as Curnow had done 20 years earlier, bemoaning too many still taking the "lower road" of administrative-focus, technical obsession and lack of strategic influence. As also noted in the previous Section 2.3, the surprising lack of research evidence in the area (Pfeffer, 1998; Peffer and Sutton, 2006) has meant that the controversy has continued right up to the present.

My submitted research publications have informed, summarised and illustrated this controversy and the contradictions with the reward strategy concept as originally defined, demonstrating the acquisition and understanding of a substantial body of knowledge. My early survey research suggested that the reward strategy concept achieved widespread acceptance in the HR community. The *Reward Challenges and Changes* study which I carried out (Towers Perrin, 1999; Brown, 2000) found that 78% of employers had an articulated reward strategy; 94% reported significant changes in their reward practices in seeking improved business alignment in the prior three years. Other studies confirmed this growing influence in the UK (CIPD, 2003).

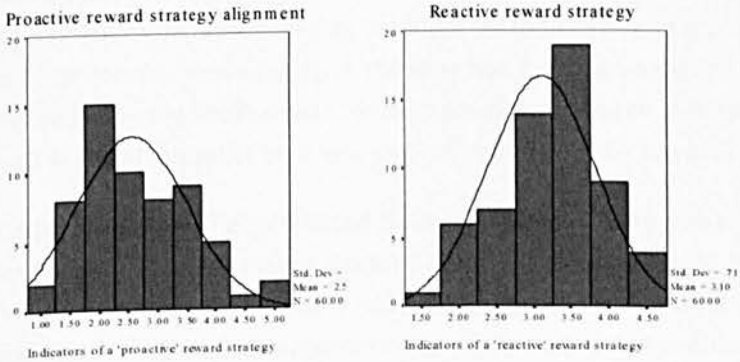
3.2.2 Research Findings: Weaknesses with the Concept: the Rhetoric/reality Gap

But my research also documented the difficulties in applying the reward strategy concept in practice, despite its obvious appeal to influence-seeking HR functions. Although business alignment and performance reinforcement were the predominant goals of their reward policies, only 35% of the 466 respondents in our *CIPD Annual Reward Management Survey* (2007) which I managed actually possessed explicit, written reward strategies, a slight decline from two years previously. The survey's conclusion was of a still tactically-focused, piecemeal scene (p 33). Brown and Purcell's (2007) summary of the CIPD's major line manager research project also found that a majority of employers reported difficulties in implementing their strategic reward goals.

Larger employers (62% of those with over 5,000 employees) in the CIPD survey did claim to have an articulated rewards strategy. However, our follow-up investigation (Brown and Perkins, 2007) involving a survey of 63 large multinationals and qualitative interviews with their reward functions in 16 of them, contrasted a short-term, externally-driven, reactive approach with the claimed longer-term, business-driven and strategic approach to reward management. We asked participants in the questionnaire to rate the level of influence which traditional components of the business strategy, such as total shareholder returns and customer service, exerted on their reward policies using a Likert scale. We then did the same for a list of more immediate factors, such as external price inflation and competitor activity. We aggregated the responses into two overall indices of a proactive and strategic compared with a tactical and reactive reward approach. The more reactive approach, we found, was being applied more strongly (on the X axis) by more of the organisations (on the Y axis) than the strategic one, but interestingly, both were being applied simultaneously in all of these employers – see Figure 2. My role in this work was proposing and specifying and then directly participating in the research and analysis with my co-author, before writing the first draft of our findings, which he then amended and edited.

Figure 2: Results from a Study of Reward Strategy in Multinational Companies (Brown and Perkins, 2007; n = 63)

Is reward management strategic? Data from a study by Brown and Perkins



This mixed pattern was found in a similar US study (Bloom, Milkovich and Mitra, 2003) but had not been described in the UK context. Borrowing from Aldous Huxley, I referred to the UK reward landscape at that time as "the land of diverse and pragmatic dreams" based on data from the CIPD Annual Reward Management Survey (Armstrong and Brown, 2005, p 41). Earlier I had referred to the UK as a pragmatically blended "third way" between American and Continental practice based on data from the *Reward Challenges and Changes Study* (Towers Perrin, 1999) which I carried out directly and using my personally researched case studies (Brown, 2000).

This finding was therefore original in a UK context. My research was also at the leading-edge of the discipline in being the first to suggest that strategic and non-strategic approaches might be parallel and complementary, rather than competing and conflicting, approaches to reward management. Prior and many subsequent reward research studies have assumed the latter, be they proponents (Zingheim and Schuster, 2000) or critics (Trevor, 2009) of the concept (see Section 2).

3.2.3 Research Conclusions and Implications: The Need to Re-define Reward Strategy

Rather therefore than deny the existence of reward strategies in view of the practical difficulties of implementation, my conclusion from this research was to arrive at an original, expanded and integrated conceptual definition of reward strategy, which attempts to reconcile these different perspectives and produce a more realistic and implementable approach in the UK context (Armstrong and Brown, 2006, p 1 - 4).

As well as drawing from my research findings, my ideas were influenced by the changes occurring at that time in business strategy research, in response to a faster-moving, more knowledge and human capital-driven economy, summarised by Ghoshal and Bartlett (1998) as moving from concerns with strategy, structure and systems to purpose, process and people. Mintzberg (1987) perhaps most radically defines this shift, writing of the reality of emergent as well as planned strategies, describing strategy as a pattern in a stream of decision, sometimes only discernible after the event. Martin (2015) regards strategic execution, "doing", as an integral component of business strategy. For Bower and Doz (1979, p 152) strategy is a "social and political process".

These ideas were later applied to HRM strategies, termed "living (HR) strategy" (Grattan, 2000) and "new HRM" (Bach, 2005). Rather than implementing top-down, supposedly rational, "best practice" HR policies derived directly from the business strategy in a unitarist way, HR strategy is presented as a social construction, influenced by multiple stakeholders and the wider context, inside and outside of the organisation. However, such thinking had not been applied to the rewards aspects of HRM and my original contribution was to conceptualise, research and apply this more emergent and multi-directional model of business and HR strategy in the rewards field.

In my consulting work I experienced the need for, and in my research produced the evidence of, an equivalent shift in what reward strategy is and how it is practiced (Brown and Perkins, 2007; Brown 2012). As just-described, I found employers simultaneously adopting the two proactive/strategic and reactive/tactical reward management approaches as complementary rather than competing approaches. Reward work is characterised under this perspective as being of a blended nature, having clear business and reward goals, but open-minded and with flexibility in the "best fit" between business needs and reward practices at any particular time and balancing the past and present reality with the desired future (Brown, 2012, p 12). It is an evolving process rather than a set of fixed policies.

The key implication therefore was that the concept of reward strategy needed to change to reflect the approach that UK employers appeared to be pursuing and displaying in my research. I set out based on my research findings three ways in which the term needed to evolve.

First, reward strategy is not just the intended *goals* of reward policies, but also: the *designs* such as pay structures and bonus plans; and *processes* such as line management and communications used to put those policies into practice, as well as the effectiveness of their delivery (Armstrong and Brown, 2006, p 251 – 253).

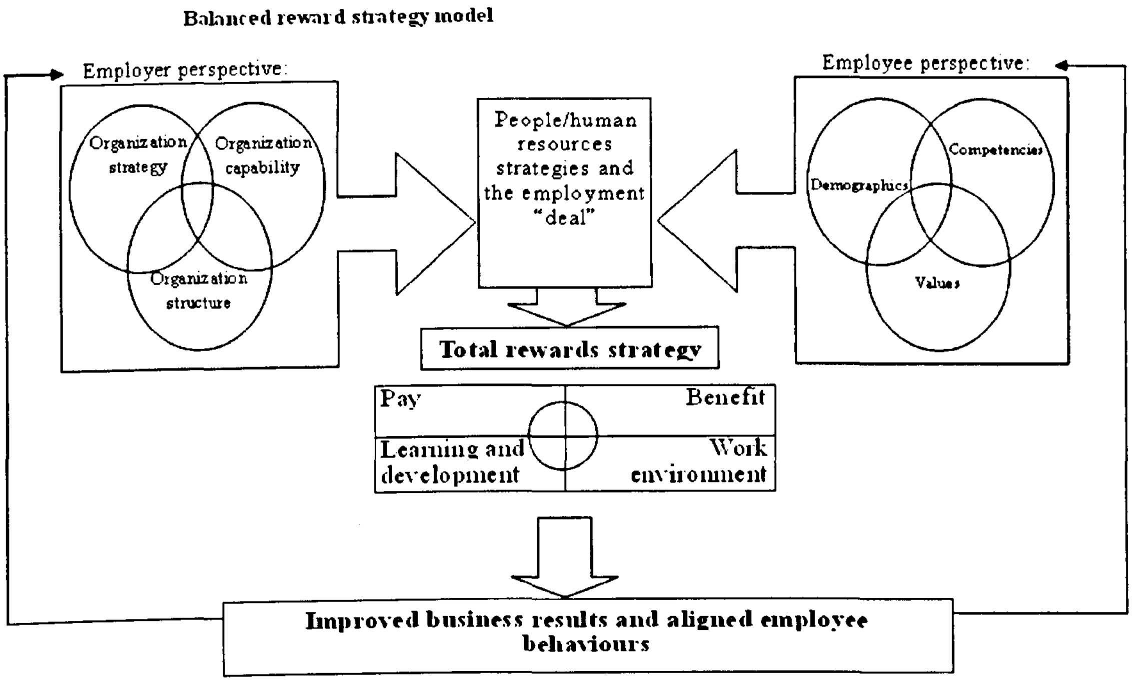
Second, the concept needed to reflect a multiple stakeholder agenda and in particular reassert the primacy of employee needs and culture alongside business requirements (Armstrong and Brown, 2006; Brown and Reilly, 2008; Brown, 2012). Banks and Kepes (2015, p 364) note that positive employee perceptions of practices such as merit pay are critical to delivering the intended alignment between business strategy and employee behaviour and I noted in Section 2.2.1 the wealth of research supporting the importance of employee engagement with reward practices and reward communications. Here however, I concluded that the whole approach to employee reward in an employer needs to more strongly reflect employee needs and motivations rather than just being aligned with the business strategy (Armstrong and Brown, 2006, chapters 10 and 13).

Third, my research had demonstrated that the idea of reward strategy needed to expand, beyond the monetary focus of the *new pay* advocates and obsession with performance pay techniques, to encompass the full range of financial and non-financial factors that engage employees - a true "total rewards" perspective (Cox, Brown and Reilly, 2010, p 253).

I referred to my revised concept as the "new realism in reward strategy", describing the term as "a melody, a framework, a pathway" and a process of continuous improvement, rather than an end-point plan (Armstrong and Brown, 2006, p 2). I proposed a more balanced, two-way employer/employee model of reward strategy in comparison to the linearity of Lawler's original theory (1990); as well as explicitly separating out the intended reward goals and strategy from the reward designs and practices; and encompassing four dimensions of total rewards in the design criteria, rather than just the original Lawler focus on a single one, pay.

This model is illustrated in Figure 3 below (Brown, 2001, p 16). This model still underpins much of my research, teaching and consulting work.

Figure 3: My Reward Strategy Model



In comparison to Lawler's model, it places employee needs as being equally important to those of the business, and essential to delivering the latter.

This model has now been widely adopted – for example it was referred to and illustrated by the United Nations in 2013 in their scoping paper when they agreed to launch a review of the Common (pay) System (see Appendix 4), and by Transport for London in their major reward policy review (see Appendix 4). Moreover, the *Reward Fundamentals* study which I led (Aon Hewitt, 2012a), found that while 87% of respondents believed that their pay and reward policies reflected business needs and priorities, the lowest ratings of effectiveness were in the areas of employee communications and involvement, line manager application and delivery of an integrated total reward offer. Addressing these areas comprised three of the most commonly mentioned top five reward priorities for the future across the whole survey sample (Brown, 2012).

My contribution in this area therefore has been to:

- help to frame and summarise this debate over reward strategy, demonstrating a systematic acquisition and understanding of a substantial body of knowledge in the field (Brown, 2001 a, 2001b; Armstrong and Brown, 2005; 2006);
- research and link academic criticisms and the difficulties practitioners were experiencing in my critique of Lawler's original linear concept and prevailing ideas in the normative practitioner literature on reward strategy (Brown, 2000; Brown and Perkins, 2007; Cox, Reilly and Brown, 2010; Brown, 2012);
- arrive at a new and original, expanded conceptual definition of reward strategy, which attempts to reconcile these different perspectives and produce a more robust and realistic, valid and implementable definition and approach to reward strategy in the UK (Armstrong and Brown 2005; 2006)

- conceptualise and personally carry out research, employing a variety of methods and techniques, which has tested and provided evidential support for this revised theory and extended the forefront of the discipline (Brown, 2012).

3.3 The Application of the Reward Strategy Concept in Practice

As shown in Section 2, the major and continuing criticisms of the concepts of reward strategy focus on the difficulties of implementation (Becker and Huselid, 2006; Banks and Kepes, 2015), which is the second major area of contribution in my submitted publications, in particular in Armstrong and Brown (2006), Brown and Purcell (2007), Reilly and Brown (2008) and Brown and Reilly (2013).

The advocates of so-called "new HRM", and the emergence of an open systems approach to HR strategy in more complex, fast-changing organisations, highlight the importance of employees and line managers in turning the HR strategy concept into reality, the policy into practice (Purcell, 2003; Bach, 2005), as well as adapting to the local culture and context (Brown, 2000; 2012). I now illustrate how my work has illuminated thinking and practice in the reward sphere on this, taking the multi-stakeholder concept and producing an original and evidence-based application of it in reward management.

3.3.1 Research Findings: Engaging and Communicating with Employees on Rewards

My early analysis of relevant research contained in my first books on *Paying for Contribution* (Brown and Armstrong, 1999) and *Reward Strategies: From Intent to Impact* (Brown, 2001b) was that effective two-way communications and employee understanding and trust in the design and ongoing operation of pay practices are essential, if they are to succeed.

Bowey and Thorpe's (1983) research for example had found the degree of employee involvement and communication was more important than the design of bonus plans in explaining successful outcomes. I subsequently found in survey research that I carried out on salary management practices that the main distinction between self-ratings of success or failure in implementing new pay structures was the resources devoted to involving and training managers and staff (Armstrong and Brown, 2001, p 50). Putting these findings into practice, at one of my case study clients, Standard Life, I helped to run workshops with managers to develop their pay structure changes, after which they carried out extensive piloting to build trust amongst staff prior to full and successful implementation (Brown, 2001c).

At that time, as noted in the previous section, there was a considerable level of interest in the concept of the psychological contract, defined by Herriot and Pemberton (1995) as the perception of employer and employee as to their employment relationship. This influenced me in contributing to my second theme.

When I established and managed national employee attitude survey research for the CIPD in 2006, it went under the more fashionable nomenclature of employee engagement (Truss, Soane and Edwards, 2006). The popularity of the engagement concept in academic and management circles, combined with the dearth of research into linkages between engagement and pay and reward policies, made it an effective area for me to investigate in terms of the relationships with reward management, both to advance knowledge in the field and thereby also to help employers to more effectively engage employees in delivering their reward strategies into practice. As I noted in an initial literature review of the relationships and thought-piece on the subject, which I carried jointly with my colleague Peter Reilly, "the strategic focus on business alignment and business fit has often led reward professionals to place correspondingly less emphasis on employee needs and motivations" (Reilly and Brown, 2008, p 1), helping to explain the researched difficulties with the application of the reward strategy concept (see Section 2).

Moreover, the research and theoretical frameworks for employee engagement we argued (Brown and Reilly, 2013) potentially specify how reward and other HR practices are associated with organisational performance, opening up Guest's (2011, p3) "black box" and enabling me to contribute by researching and detailing the role of pay and reward in this process. Access to internal client research helped us to investigate and illustrate these relationships. Earlier IES research in the NHS for example, demonstrated that pay and benefits correlated with staff feeling valued and involved, which was in turn the most important determinant of employee engagement levels (Robinson, Perryman and Hayday, 2004).

Our research at IES and earlier at CIPD had found further evidence of the associations between HR practices, employee engagement and business performance (Salanova et al., 2005; Rayton, 2012), as well as individual employee intentions to quit (Truss et al., 2006). But Reilly and I concluded from our review of the field, covering both published and un-published, quantitative and qualitative research, that the relationship with reward practices and the part that they play in the engagement-performance relationship was an under-researched, under-emphasised, still misunderstood area (Reilly and Brown, 2008, p 10). This work was designed to partly address that research and knowledge gap, and our follow-up article (Brown and Reilly, 2013, p155 - 156) also set out a research framework and highlighted areas for further research, such as how low skill/low pay employment models at firms such as McDonalds can still achieve high levels of employee engagement.

As we point out in these two papers, despite the common presence of pay and reward practices in the "bundle" of high performance work practices associated in this research with organisation performance (Combs et al., 2006; Guest, 2003), the conclusions from many studies of employee engagement is to downplay the role of rewards, particularly pay, as an influence on engagement and performance (Macleod and Clarke, 2009; Truss et al., 2006). Partly this could be down to the difficulties of defining and categorising the terms "engagement" and "rewards" for research purposes. A major report from the Government-taskforce on the subject identified over 70 different definitions (Macleod and Clarke, 2009).

Sparrow however, on the basis of research at Lancaster University, we observed in our literature review, was critical of the widespread application of a generic "happy, smiling" customer service-style engagement model to all organisational settings. He questions if high engagement is required for high performance in many situations (quoted in E-reward, 2012) and supports the need for engagement studies which are individually researched and specific to each employer. My papers went further and set out a framework and methods and tools for researchers and employers to review and study the links between engagement and reward in each unique setting.

Research in individual employers has produced some of the best evidence on linkages between reward policies, employee engagement and employer performance. The Sears study (Rucci et al., 1998) which found positive associations between employee engagement, customer satisfaction and sales growth across their North American stores, has been highly influential and replicated in the UK. I interviewed and wrote up the financial services mutual company Nationwide, for example, as a case study in our research on the links between reward and engagement (Reilly and Brown, 2008). Their own in-house research in their branch network had found that a 3% improvement in employee perceptions of five HR practices, including pay transparency and fairness, was associated with a 1% increase in positive customer perceptions and sales growth, (Reilly and Brown, 2008, p21).

The severe economic downturn after this published research may help to explain the continuing lack of research into the relationships between rewards and engagement, despite the popularity of the engagement concept (Brown, 2012) and led us to update and expand our findings (Brown and Reilly, 2013). Studies we summarised in that paper indicated a global engagement, as well as economic, recession after the financial crash, with only partial recovery evident in the UK and Europe (Aon Hewitt, 2013). Four out of ten employees were not engaged according to the Aon Hewitt definition.

This Aon Hewitt study (2013), reflecting the effects of the downturn on UK living standards, suggested that pay has become a more important determinant of engagement levels since 2008. But it also points to a lack of employer action in response to engagement survey findings, with only one in five employers having action plans, even though our time-series analysis found taking action in response, by changing reward and other HR practices, is associated with subsequent improvements in engagement (Brown, 2012). Uniquely amongst research in this area, our research papers (2008, 2013) were designed to encourage such actions, by summarising the evidence on the importance of reward-engagement linkages and providing evidence-based tools and methods to facilitate action.

3.3.2 Research Conclusions: Engaging and Communicating with Employees on Rewards

We conclude both articles, which summarise our own research and that of other academics on this subject, by contending that engagement is a multi-faceted concept that needs to be clearly specified and measured by each employer, as opposed to simply "jumping on the employee engagement and 'Best Place to Work' bandwagon" (Reilly and Brown, 2008). Rather than simply copying competitor practice and seeking a reward "silver bullet" to boost engagement and performance, the research evidence supports that a tailored "best fit" and evidence-based approach is required.

Reilly and I developed and tested based on our review and case study research a five-step process framework to help practitioners to take action to do this and to guide further research in this area at the individual employer level. The process we outline involves researching the business strategy of the organisation; surveying employee views on overall engagement levels and the factors related to them, including rewards; constructing a model of the links between reward practices, levels of engagement and strategy-supportive behaviours; then designing, testing and implementing changes to reward practices which positively leverage this relationship. Our 2013 article describes our actual application of this model in a major UK bank.

Our aim was to encourage a more evidence-based approach to employer efforts to improve engagement through their reward systems (ibid, p 11 – 13; and detailed further and illustrated through case studies in Brown and Reilly, 2013). I believe this framework is unique in linking reward practices explicitly to engagement levels, illustrating the segregation of reward and engagement researchers and practitioners which Gerhart and Rynes (2003) believe has stifled the progress of knowledge in the field.

Gathering employee perceptions is a critical part of this process and I would argue any research work on reward strategy, despite relatively limited use of the approach in prior research on this issue (Gerhart and Rynes, 2003). For as Lawler (1986) concluded from his research on motivation, in order to be effective, a pay system must impact perceptions and beliefs in ways that produce the desired organisational behaviours.

Indeed, despite the proliferation of cheaper methods for communicating, a number of my research studies suggest that organisations have become worse at rewards communications and more, not less secretive about their reward arrangements over the past 20 years (EHRC, 2010). My international reward practice survey at Aon Hewitt (2012a; described in Brown, 2012) found that the most negative ratings of rewards effectiveness made by HR professionals were in respect of employee communications, perceived to be a shortcoming by 29%. Only 55% of respondents believed that their reward practices engage their staff effectively, while line managers' skills to put reward policies into practice was the second highest area of dissatisfaction (Brown, 2012, p10 -11). A continuing emphasis on top-down, one-way channels was evident in the switch from paper to electronic communications methods found in that survey, and a strong focus in reward communications on management and HR audiences, rather than employees, evident in employers therefore as well as in academic research.

My equivalent survey at Towers Perrin (1999), described in Brown (2000), came to a similar conclusion, with two-thirds of participants reporting change implementation difficulties, most commonly attributed to ineffective communications (45%) and lack of line managers' skills (28%). In-between times, the CIPD Reward Management Survey (2007) I managed found insufficient communications as the second highest barrier to the effective operation of reward strategies, behind only line managers' skills, referenced by more than half (cited by Brown and Purcell, 2007, p 30).

Weak communications I conclude appears itself to be a persistent and critical "Achilles Heel" (Brown, 2008, p 23) in the effective implementation of intended reward strategies. All three of my submitted reward strategy books, particularly Armstrong and Brown (2006, p 229 – 250) contain information on the researched case for improved reward communications and also tools, checklists and case studies to help employers to do this in practice, illustrating the practical as well as academic contribution of my work. The CIPD Reward Strategy Toolkit (2005) I authored for example, has been downloaded over 27,000 times (see Appendix 4).

As well as therefore more systematically surveying and documenting the difficulties with reward communications and engagement which other research critics of the reward strategy concept point out (Trevor and Brown, W, 2014), I have been distinctive in producing evidence-based research approaches and process models to help employers to prioritise and address these difficulties as part of a more solution-focused research approach (Gas and Gillis, 1995). I suggest further research areas in this field at the end of this Introduction (Section 4).

3.3.3 Research Findings: Line Managers and Reward Strategy

The perceived failings of line managers in delivering on strategic reward intentions in the workplace, and how to address them, has also been a consistent theme in my work and area of personal contribution.

I researched the line manager issue in particular with the CIPD project that I directed and managed (see Hutchinson and Purcell, 2007; Brown and Purcell, 2007). As highlighted in the last section, how HR departments and line managers partner to deliver reward and HR policies has been a regular area of debate over the past 50 year (Drucker, 1954).

The debate has been given new force over the period of the publications included in this review by:

- the already referenced restructuring of HR departments and devolvement of reward management responsibilities to line managers (Ulrich, 1997) – 60% of the case studies in my CIPD line manager research project had made this change (Brown and Purcell, 2007, p 30);
- evidence that the role of "warm, supportive and enabling" line managers is critical to encouraging high levels of employee engagement and customer service (Brown and West, 2005, p 30) and that "the role of front line leaders in bringing policies to life can be crucial in making the difference between low-performing and high-performing organisations" (Hutchinson and Purcell, 2007, Foreword p ix).

The folly of HR professionals focusing on reward designs rather than delivery was highlighted in our CIPD survey of 535 of them (CIPD, 2006; Hutchison and Purcell, 2007). Although 80% of the HR group had consulted board executives in developing their reward strategies, only 40% had spoken in advance with line managers (and fewer than 10% with employees themselves). My *Reward Fundamentals* study carried out at Aon Hewitt found very similar results and displayed little if any improvement (Brown, 2012).

The case studies for the CIPD line manager and reward project substantiated these findings. They present a common picture of line managers with little local HR support and severely restricted freedoms struggling with increasingly complex reward plans rolled out from the HR department, feeling as one said like the "piggy in the middle". One manager felt "I have to pick up the pieces" of reward policy failings (Hutchinson and Purcell, 2007, p 13). Our research concluded that a focus on reward strategy rhetoric in the boardroom and the technical perfection of reward plan designs have severely restricted the effectiveness of many reward strategies in the reality of day-to-day operation in the organisation (Brown and Purcell, 2007, p 34).

The first stage of analysis of the results from the employee questionnaires gathered in this study was to assess the association between the outcome variable of employee engagement and the variables of line manager behaviour and perceptions of reward practices. There was indeed a strong and significantly positive relationship found between them, for example with a bivariate correlation of 0.569 between the perceptions of the latter two variables ($p<0.01$)

3.3.4 Research Conclusions on Line Managers and Reward Strategy

The research's conclusion was that "where reward professionals understand, support, skill and enable line managers to create a totally rewarding environment for their staff, then this alignment of reward policy and practice is far more likely to result in a highly engaged and high performance workforce" (Brown and Purcell , 2007, p 34). Moreover, the research highlighted a number of areas of practical action to investigate and address the identified issues, including better training and support for line managers, simplification of reward management processes, and using line managers much more directly in reward communications with employees.

Interestingly, we found that all of the case study organisations were aware of these issues, helping to increase the practical impact of my findings and subsequent publications. A major limitation to this form of research is that by being cross-sectional, it is impossible to identify trends or establish causality. We were able to do quasi-longitudinal research in this study by repeating the fieldwork after 12 months.

One of the cases was John Lewis (Brown and Purcell, 2007, p32) where a new competency framework and pay structure was developed with extensive management and employee involvement. Another was retailer Selfridges, where two-thirds of staff in the first survey said that they had never been asked their views by their manager and some employees had never had an appraisal. Following the results, the store focused on making improvements to the team leaders' role and their management of appraisal and reward policies. The second survey 12 months later revealed significant improvements in employee satisfaction and engagement levels. For example expressed satisfaction with appraisal rose from 59% to 84% agreeing/strongly agreeing, and with reward policies, perceptions of satisfaction improved from 70% to 88%.

Further illustrating my contribution, following similar issues revealed in one of my consultancy assignments, a drinks company now employs a line managers' panel which all proposed changes to rewards now have to be discussed with. I have been disseminating such ideas and examples through my writing and consulting activity ever since then (e.g. Brown, 2012, pp 8 – 10; Armstrong and Brown, 2006, p 193 – 206) I believe that this combination of strong and robust research investigation being used to drive demonstrable improvements in practice is relatively unusual amongst both academic researchers and practitioners (Gerhart and Rynes, 2003; Davis, 2015) and so distinguishes and differentiates my contribution in the field.

I personally established, contracted and managed this reward and line manager project which was part of a significant and wider, three year research project on HR and line managers which I directed and was responsible to the board for at CIPD. I was closely involved with the research team at Bath University who carried out the case study work and drafted the final research report, incorporating findings from the CIPD Annual Reward Management Survey 2006, in which we had added a specific survey on reward strategy implementation and line managers. I drafted the article (2007) summarising the results of our survey and case study work, which my co-author commented on and edited.

My submitted publications and in particular Brown and Purcell (2007) and Armstrong and Brown (2006, chapter 11, 193 – 206) have therefore helped to highlight the nature and importance of line manager enactment issues and provided research-based processes, toolkits, examples and ideas to address this common occurrence.

3.4 Measuring the Effectiveness and Improving the Impact of Reward Strategy

3.4.1 Introduction

Reward strategy effectiveness has been the third strand of my contribution in this field, and focused on in particular in a number of the submitted publications and associated research studies – (Brown, 2008); Armstrong, Brown and Reilly (2010 and 2011). A key thread of my work has been to demonstrate the lack of measurement of the effectiveness of reward strategy and to promote more academic research in the field and more evidence-based reward management practice.

A successful change in reward practice is perhaps my own career highlight, as when I helped to design a team bonus plan for a nuclear power station associated with significant performance improvement (Hilton, 1993). My first consulting experiences of the importance of a strategic approach to rewards were helping to rectify very obvious examples of mis-alignment between business strategy needs and what employees get paid for , referred to by rewards' vice-president at GE Steve Kerr in his PhD research as "rewarding 'A' while hoping for 'B'"(Kerr, 1975).

This requirement for business alignment and justification for reward practices continues to the present day, despite much greater quantities of performance and reporting information available in many organisations. With the development of more human capital-driven economies, discretionary action by employees has become more critical to employer performance and reward practices have become more significant influences, as evidenced in the reward strategy toolkit I personally developed and drafted with an advisory group of NHS managers for all NHS employers (NHS Employers, 2014, Business Case section).

At the macro level, as shown in Section 2, a variety of studies and meta-analyses demonstrate links between HR practices, employee engagement levels and employer performance (summarised and critiqued in Reilly and Brown, 2008, p 3, 6; Brown and Reilly, 2013, p 147 – 148). One CIPD project I commissioned found over 30 health-related research studies showing associations between a "bundle" of various HR practices and health outcomes (Hyde et al, 2006).

But these studies provide no indication as to how more effective reward practices can be selected and developed by individual employers. As Rose (2014, p 11 - 12) highlights, they support a "best fit" rather than "best practice" interpretation of the linkages, and suggest that it is worth the effort for employers to consider how their rewards can influence their employees to deliver on their business goals. But this justification for reward strategy in terms of thereby gaining a performance impact only leads to the supplementary questions of: how you can judge if your reward strategy is working or not? And how do you measure its effectiveness? This has been a strong and continuing focus of my research and advisory work and my third area of contribution in the field.

My original and differentiated contribution in this area, beyond summarising this evidence, has been to research specific employer practices in detail using survey and case study methods, and to extend the forefront of the discipline by providing researchers and practitioners with an original measurement model and evidence-based process to investigate the linkages in each setting (Brown and Reilly, 2013, p 147 – 149)

3.4.2 Research Findings and Outcomes

As described in section 2, the CIPD Annual Reward Management survey (2009) highlighted few systematic attempts to evaluate the impact and effectiveness of reward practices amongst UK employers. Addressing this lacuna, on moving to IES I was able to launch a more comprehensive research study (Armstrong, Brown and Reilly, 2010; 2011) involving a literature review and detailed survey investigation of almost 200 employers, as well as undertaking case studies with a range of different employers (see methodology detailed in Section 3.1.3.2).

Our findings were organised and reported in four areas. First in terms of incidence, we found that almost half of employers did make some attempt to review the effectiveness of their reward practices, which is somewhat higher that that found in other UK surveys, possibly because of the cost pressures resulting from the recent onset of economic recession. However, just 54% of these were satisfied with the results and the survey confirmed that employers on the whole conducted limited, piecemeal evaluation of their reward practices and any changes designed to improve them.

Second we considered the reasons for and barriers to evaluation. The rationale was varied, ranging from: the need to demonstrate value for money because of the recession; to most commonly cited, the wider, more general requirement to show a return on the investment in people; and even in response to one of our open questions by a technology company, the desire "to improve understanding of what is going on in order to enhance our contextual as well as empirical analysis capabilities".

Amongst the majority not evaluating, our survey found 8% of employers reported lack of skills as a barrier, 48% citing lack of time/resources and 15% lack of senior management interest. By carrying out correlation analysis of the survey findings we identified a tradition and process of wider human capital measurement to be strongly associated with reward evaluation, as well as a disciplined and performance-results-oriented approach to management, confirmed by our subsequent case studies in Standard Chartered and McDonalds respectively.

Third, in terms of measures employed, we found a wide range of metrics, most commonly including employee attitudes and engagement, competitive market analysis and labour turnover rates. The findings of my research informed a model of ten generic assessment criteria that we developed and subsequently tested, which employers can now use to select measures of the effectiveness of their reward practices (Armstrong, Brown and Reilly, 2010, and E-reward, 2010). This framework has been used in toolkits and by particular employers, with the Irish Labour Relations Commission for example using it in an independent review of pay reforms at water company Eriva in 2015 after a dispute (Waller et al., 2015, p 7).

However, being able to combine case study research with quantitative survey data meant that we were able to achieve a unique understanding of our fourth area of investigation, the process as to how evaluation is carried out in practice and how the reported barriers can be overcome. The case study participants all accepted that the process of evaluating the effectiveness of their reward programmes was difficult and highly case-specific - because of factors such as the social and political processes involved (Buchanan and Badham, 1999), difficulties in separating the variables and identifying causation, and institutional factors and barriers to change (Trevor and Brown, W., 2014). Some pointed to risks, such as a focus on the most measurable rather than the most important, using a model of management which may be more rational than it is achievable in practice (Mabey, Salaman and Storey, 2009), perhaps best expressed by Oscar Wilde (1899) as practiced by those "who know the price of everything and the value of nothing". They also all would have agreed with Corby et al. (2005) research finding that no matter how good the data, significant pay decisions were the result of a social and political process only partly shaped by the evidence, affected by group interests and with limitations in information and understanding. This is in line with my revised broader, multi-stakeholder and more emergent reward strategy concept.

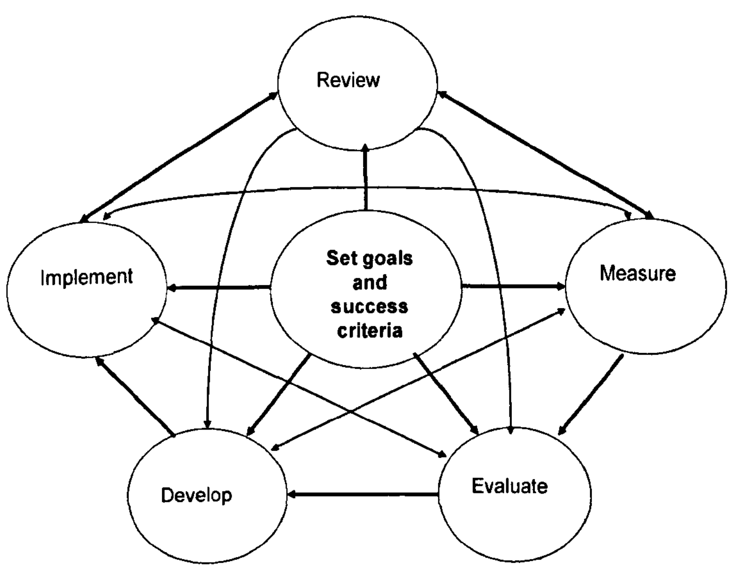
But unlike the academic reward strategy critics, all the case study participants shared a belief in the value of the effort of reward strategy alignment and evaluation. The advice of our survey participants for others, gathered from responses to our final open survey question was, as these researchers point out, to be realistic and recognise the difficulties and multiplicity of stakeholders involved, and not to be too ambitious (Corby et al. 2005). But unlike most of these critics, it is vital to get started and as one participant observed, "do it!" (E-reward, 2010a, p 11).

3.4.3 Research Conclusions and Implications

We found the case study organisations describing reward evaluation as a journey, a continuous process of improvement, rather than a measurement dashboard and one-off review. As the head of reward at a regulatory body told me, engage key stakeholders such as senior line managers and trade unions and build a consensus on the strengths and weaknesses of current rewards and possible improvements; use quantitative data but always in context; and "include and interpret the 'grey' as well as the 'black and white' areas".

Based on our findings, my reward effectiveness model developed from the research shows the complex and varied ways in which evidence-based reward management tends to operate – see Figure 4 below. As well as a research and conceptual framework, it is designed to be a practical process, with high face validity, so as to encourage practitioners to use the model. As well as the measurement framework, I developed on the basis of our research this process framework which an employer or independent advisor can use to carry out and improve evaluation of their reward systems (Armstrong, Brown and Reilly, 2010, Chapter 8, p 198 - 236).

Figure 4: The Process Model for Evidence-based Reward Management (Armstrong, Brown and Reilly, 2010)



Our research also resulted in the production of practical tools to help practitioners to review their reward policies and work on improving them at each stage of this process, including how to make best use of external academic research findings (E-reward, 2010b; Armstrong, Brown and Reilly, 2010, pp 129 - 236).

3.4.4 Summary Contribution in Measuring Reward Effectiveness

In summary therefore, my contribution in this area has been to:

- summarise the literature and evidence for the potential performance benefits from aligning reward practices with business strategy, showing my acquisition and understanding of an existing body of knowledge (Brown, 2008; Armstrong, Brown and Reilly, 2010);
- conduct my own quantitative and qualitative research project into how the evaluation of reward practices can be undertaken by employers, demonstrating understanding of advanced research techniques and producing new knowledge in an under-researched field, at the forefront of the discipline (Armstrong, Brown and Reilly, 2010; 2011);
- develop and promote research frameworks to encourage more academic studies in this area, as well as practical toolkits for employers to use in order to apply a more evidence-based reward management approach in their own setting (Brown, 2008; Brown, 2012 ; Brown and Reilly 2013).

3.5 Total Rewards and its Relationship with Reward Strategy

3.5.1 Introduction

Total rewards and its link to reward strategy is my fourth and final stream of contribution, and particularly emphasised in my cited publications Brown (2012 and 2014), Cox, Brown and Reilly (2010) and Brown and West (2005).

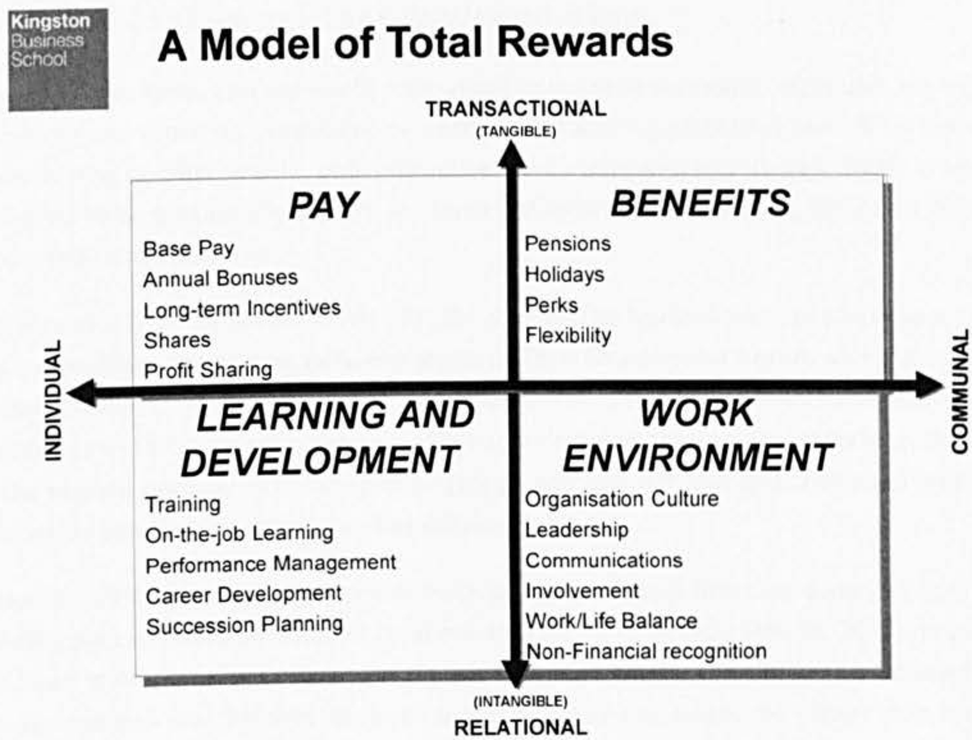
The progression of my work in this area has reflected a similar pattern to that on reward strategy as a whole and demonstrates the coherence of my contribution. Initial interest stemmed from circumstantial evidence from my consulting and case study research. This was followed by in-depth research to confirm the importance and components of the idea, the development and adoption of a conceptual framework based on this research and dissemination of tools based on it for practitioners to apply it. Then increasing disillusionment at the generic and unthinking way the concept was being popularised in practice was followed by further research and a personal re-appraisal and re-specification of the concept so as to improve the definition and its application.

3.5.2 Research Findings: Growing Popularity and Choice

My early survey research (Towers Perrin, 1999) highlighted that only one-third of employers felt their HR practices were well-integrated and delivered a consistent message to employees. But they forecast a significant growth in emphasis on the objective of managing rewards on a total reward basis and providing employees with more choice in the make-up of their package. As indicated in Section 2, this was a growing field of practitioner interest and academic inquiry, and my research highlighted the spread of flexible benefits over the following decade (Brown, 2012).

O'Neal (1998) defined the drivers and parameters of the total rewards concept based on her US research and experience (see section 2). She was my global practice leader at that time, and developing Milkovich and Bloom's (1995) ideas, based on her research in the US and mine in the UK, we created the Towers Perrin Total Rewards model, illustrated below (Brown, 2001b, p115).

Figure 5: A Model of Total Rewards



This model is regularly cited in literature (for example Armstrong and Murlis, 2007) and by companies using it in practice – for example by research case studies Centrica and the Financial Services Authority (Armstrong and Brown, 2006, p 25 - 27).

My most important research contribution in this area was a CIPD study carried out with an Aston University team - the methodology is described in the Section 3.1.3 (Brown and West, 2005). Contrasting the espoused importance of customer service in many organisations' business strategies with the UK's poor reputation in service sectors (e.g. Porter and Ketels, 2003), this study attempted to identify amongst a sample of 15 service sector organisations whether those displaying the highest levels of customer service were also differentiated by their reward strategy.

We found that five of these firms excelled against the measures of customer service employed in the research, and they were also differentiated in their reward practices. They all employed measures of customer satisfaction in their performance-related pay plans, were twice as likely as the others to use individual PRP and also made greater use of bonuses and non-financial recognition.

But in similar fashion to Guest (2003), the study found that a variety of other management practices and HR policies - regarding career development, employee involvement, performance management and work-life balance - were vital in creating the supportive context for employees to commit to serve the customer, and created a strong sense that the entire organisation "practices what it preaches" (Brown and West, 2005, p30).

In other words, non-financial rewards played a critical part in building the "totally rewarding environment" in which staff felt valued and financially rewarded for delivering high levels of customer service. This article was a finalist in WorldatWork Publications' Contributors of the Year awards in 2005.

3.5.3 Research Findings: The Policy/Practice Gap

However, over time, and especially following the onset of economic recession, my experience was that more and more UK organisations were not "practicing what they preach" in respect of total rewards. The familiar say/do, policy/practice, rhetoric/reality gap (Bevan, 2006) in reward strategy appeared to be particularly evident in respect of total rewards (Brown, 2012 and 2014). My research supported this experience.

Aon Hewitt's Total Rewards Survey (2012b) of over 700 North American employers found that there was a significant correlation between levels of Total Shareholder Return and the communications of a total rewards strategy. 88% of the participants regarded aligning total rewards with business strategy as a critical priority. Yet only 25% had a declared total rewards strategy, only 29% had data on the reward preferences of employee groups and just 10% thought they used total rewards in practice as an effective labour market differentiator.

In the UK, 39% of the 430 predominantly large private sector firms we surveyed operated flexible benefits packages and 34% issued total rewards statements (Aon Hewitt, 2014), proportions which had been stable in recent years. Our review of relevant literature similarly concluded that researchers and practitioners were still adopting a pay and employer, rather than total rewards and employee-focused approach to reward management, (Cox, Brown and Reilly, 2010)

3.5.4 Research Conclusions and Implications: Reconceptualising Total Rewards

My summation of the situation, using all of this research evidence (Brown, 2014), was that during the post-2008 recessionary period, while attractive total rewards language remained on company recruitment sites and intranets, 40% of UK employers froze pay in 2009/10 and many reduced employee pensions benefits, as well as placing increasing numbers of staff on significantly inferior zero hours contracts. This low-investment, total rewards rhetoric with its uniform "chocolate box" flexible benefits plans, I argued, does little to support the delivery of business strategy in practice.

The four components of a more genuinely strategic total rewards concept I put forward instead were more to do with the process and practice of reward management in an employer, rather than the focus on pay and reward plans and designs and the classification of them in my original total rewards framework shown in Figure 5 (Brown, 2014). These were:

- a simpler and more flexible focus on a few core values and reward principles;
- a more evidence-based approach, with clearer measures of success and more use of them;
- a stronger emphasis on employee communications and engagement;
- less focus on "desire and design and more emphasis on communications and delivery".

One commentator paraphrased my recommended shift in the application of the total rewards concept as being, "about having a much simpler, clearer, more open, realistic and, crucially, evidence-based approach" (Paton, 2014, p2). As he points out, this view has been controversial in practitioner circles, but I would argue that my redefined concept has stimulated more research focus on this area and encouraged more practitioners to evaluate their claimed total rewards policies, which I regard as important contributions in the field.

This latest total reward article and associated pieces in practitioner journals (Arnstein, 2015) and at conferences has been widely accessed and discussed:

- As of March 2015 it was the fourth most downloaded article from the *Compensation and Benefits Review* web site: http://cbr.sagepub.com/reports/most-read
- A report on these ideas (Lovewell-Tuck, 2014) similarly topped the weekly drawdowns in October 2014 from the *Employee Benefits* magazine web site: http://www.employeebenefits.co.uk/105624.article?cmpid=ebupdate_574571
- I had accepted and presented a paper on these ideas at an academic research conference organised by the European Institute of Advanced Studies in Management in Brussels in December 2015.

These four components are very similar to the elements of the wider definition of reward strategy that I originally researched and defined in 2001 - 2006 to address the emerging rhetoric/reality gap at that time (Brown, 2001b, p 258 - 265), illustrating the continuity of my ideas and personal contribution through changing times and over a lengthy period of time.

3.5.5 Summary Contribution in Total Rewards

My contribution in this field of total rewards has therefore been to:

- research and produce a widely used conceptual model of total rewards, extending the forefront of the discipline (Brown, 2001a);
- lead research demonstrating the importance of the total rewards context for employee engagement and discretionary effort and performance, (Brown and West, 2005);
- research total rewards using a range of advanced research methods, including gathering employee and manager views and perspectives, an important component missing from many earlier studies (Brown and West, 2005);
- conduct survey research showing the limits and issues in practice with the application of the concept (Brown, 2012);
- highlight a "say/do" gap in the practice of total rewards and again extend the forefront of the discipline by proposing a reformulation and more genuinely strategic but realistic interpretation and application of the concept (Brown, 2014);
- apply and advise on the application of my total rewards model by reward practitioners (Cox, Brown and Reilly, 2010; Brown, 2012).

From a research perspective, as noted in section 2, this area has seen disagreement upon the main components of the construct, as well as the lack of validated tools and measures - a research gap (Torre and Sarti, 2013). The focus of much academic research on the alignment of rewards with business strategy from an employer perspective means that there is also little empirical evidence about the application of total reward systems from an employee perspective. My contribution has been to highlight this shortcoming and fill this gap with my research, thereby also helping employers to address their difficulties with reward strategy enactment (Cox, Brown and Reilly, 2010, p 252).

4. Summary, Conclusions and Overall Contribution to the Reward Strategy Field

As my overview of historic and contemporary research in the area summarised in Section 2 highlights, reward strategy is a broad, sometimes ill-specified and under-researched area that has thereby attracted controversy in both academic and practitioner circles. In this submission I have organised the subject into four areas where my own work and contribution has been focused. These are:

- The definition, meaning and value of reward strategy;
- The application and implementation of reward strategy;
- Measuring the effectiveness and impact of reward strategy;
- The total reward dimensions of reward strategy.

4.1 Context

In terms of the context for my personal contribution in these four areas, Section 2 has described in the research literature:

- First, the original concept of reward strategy (Lawler, 1990) which focused on a business-driven, linear and "top down" portrayal of the linkages between business strategy, reward practices and employee behaviour and performance, as well as using pay and financial incentives, "the new pay" (Lawler, 1995) as the optimum means of positively reinforcing these relationships; the move to more market and individually-focused economic, social and employee relations in the UK encouraged the spread of these ideas (White, 1996). Research studies have found macro-correlations between particular business strategies and reward policies (Balkin and Gomez Mejia, 1987), as well showing a relationship between a basket of "high performance" HR and reward practices and organisation performance (Combs et al., 2006);
- However, second, a significant stream of research demonstrates the problems of implementing and enacting the HR function's reward strategy intentions (Trevor and Brown, W., 2014), commonly related to line management behaviour and weak employee communications and engagement. This has led to the emergence of a "rhetoric/reality gap" (Bevan, 2006) and to some critics denying the practical existence and value of reward strategies, particularly when a number of studies also point to the predominance in practice of an external market-copying approach to reward plans (Trevor, 2009);
- Third, this controversy continues partly due to what I found to be a remarkable lack of academic research studies into the effectiveness of reward strategies and practices and frameworks for making that assessment, as well as practitioner attempts to review and improve their reward practices. Predominant research methods and approaches in the field have also restricted the progress of knowledge (Gerhart and Rynes, 2003) with: many quantitative surveys investigating senior management and HR and reward professionals' views, rather than incorporating line manager and employee perspectives; unhelpful subject area and disciplinary segmentation (O'Neal, 1998); and a focus on the problems of reward

strategy delivery rather than more relevant and "solutions focused" work (Gas and Gillis, 1995);

- Total reward, the fourth area for my work, has become a stated component of the reward strategies in many large UK employers. But here again, while there are research studies demonstrating the effectiveness of particular practices and links with employee engagement and organisation performance, "there is little systematic research in this area" (Wright, 2009) and a lack of validated research frameworks, methods and practitioner tools (Torre and Sarti, 2013). This has led some to argue that the concept has in reality been used to support a low pay and employee exploiting, rather than the stated employee engaging and high performing, management agenda (Holbeche, 2014).

Bloom and Milkovich (1995, p 18,19) believe therefore that given the lack of research evidence for much strategic reward management practice, "a better blend of theory, research and practice holds the promise of expanding knowledge about the forces and processes that shape compensation systems" and resulting in more evidence-based rather than "faddish" practice in employers (Milsome, 2006). This is where my work and personal contributions have been focused.

4.2 Contribution

Starting with researching and writing case studies based on my reward consulting work to illustrate the importance and applicability of the reward strategy concept in the UK; and running large national and international reward practice surveys to show its growing popularity; I progressed to using a more formal grounded theory and multiple methods research approach, which has helped me, unusually amongst researchers in this field, to investigate all four areas highlighted in this submission. As well as combining and integrating academic and practitioner perspectives and publishing in academic and popular management journals, I have regularly incorporated my own and colleagues' studies of line manager and employee perspectives on these dimensions of reward strategy in my research.

In terms of the overall definition of what a reward strategy is, how it can be applied, how its effectiveness can be measured, and the role played by total rewards, my research work submitted with this Introduction has:

- produced evidence as to the performance benefits of adopting a strategic rewards approach;
- publicised and promoted the concept and how it can be applied;
- highlighted common barriers to implementing reward strategies effectively and described how these can be overcome;
- developed evidence-based processes, methods and tools for implementing rewards that are best tailored to suit the specific context in each organisation;
- specified how total rewards approaches can best support effective delivery.

In Section 3 I have documented my research methods and findings in each of the four areas of reward strategy. Summarising this now in terms of the general requirements for a PhD, this section supports my contention that I have:

- Created new knowledge and extended the forefront of the disciple by:

- Researching, defining and testing a new model of reward strategy in the UK context, which focuses more heavily on reward strategy application and the processes of securing line manager and employee engagement to the reward practices employed (Brown, 2000; Brown, 2001b; Armstrong and Brown, 2006) as well as for the first time demonstrating the simultaneous use by employers of both strategic and tactical reward management approaches (Brown and Perkins, 2007);
- Addressing the common lack of focus in the existing reward strategy literature on non-pay rewards (Brown and West, 2005) and initially developing a widely used framework for researching and practicing a total rewards approach(Brown, 2001b);
- then subsequently critiquing the generic, un-tailored and un-researched usage of the framework by employers (Brown, 2012), leading to me re-conceptualising and re-defining this framework as more of an ongoing process, in response to changing economic and social circumstances and evidence I produced of this policy/practice gap in the field (Brown, 2014);
- Developing through working with individual organisations on specific reward issues (Brown, 2001c) and then attempting to generalise from my findings, new technical reward concepts and approaches which have since achieved widespread popularity amongst employers and in the rewards literature, such as paying for contribution (Brown and Armstrong, 1999).

• Demonstrated a systematic acquisition and understanding of a substantial body of knowledge in:
  - Initially summarising existing mostly North American research and producing my own European and UK evidence of the potential performance benefits of adopting a reward strategy approach (Towers Perrin, 1999; Brown, 2001a, 2001b); and later integrating and presenting a detailed summation and critique of reward strategy research globally in terms of major findings, inconsistencies, and content and methodological gaps and weaknesses that needed to be addressed (Cox, Reilly and Brown, 2010);
  - Summarising and relating research in the formerly quite divorced subject areas of reward management and employee engagement, in terms of content and academic and practitioner communities (Reilly and Brown, 2008); then using this analysis to support the application of a "best fit" model between the two subject areas and their relationship to organisational performance; and again producing an innovative and evidence-based model and process to encourage more academic and practitioner work to investigate and attempt to leverage these positive associations (Brown and Reilly, 2013);

• Personally conceptualised, designed, managed and implemented research projects that have generated this new knowledge and its dissemination and application, through:
  - Leading and carrying out personally and directly a significant portion of a major research project into reward effectiveness, involving me conducting survey and case study research, and resulting in the production of new measurement frameworks and process tools to encourage and facilitate both academic researchers and HR practitioners to carry out more reward evaluation and assessment work (Brown, 2008; Armstrong, Brown and Reilly, 2010; 2011);
  - Running and directly undertaking major surveys of reward practices in Europe and the UK which have demonstrated both the application of reward strategy approaches, as

well as trends and problems in their usage (Towers Perrin, 1999 and 2000; Brown, 2001a; CIPD, 2007; Brown, 2012)

- Displayed the understanding and application of a variety of techniques and methods of advanced academic enquiry, by:
  - Directing and participating directly in major multi-method research projects which I led, including quantitative and qualitative, cross-sectional and longitudinal studies, which have contributed to a better understanding of the links between specific business strategies and the details of the reward practices associated with them, and the relationships to organisation performance (for example, business strategies focused on customer service in Brown and West, 2005);
  - Attempting to address weaknesses in the methods and gaps in the findings from previous research, such as the lack of involvement (in academic research and the practice of reward strategy development) of line managers and employees (a gap identified by Werner and Ward, 2004; shown in Brown and Purcell, 2007, and Brown and West, 2005); and the investigation of reward process development and change, rather than just pay plan design and incidence (a gap identified by Bruce and Skovoroda, 2015; covered in my research such as Brown, 2001c and Brown and Purcell, 2007);
  - And producing robust research of relevance and use to practicing managers (Brown and Purcell, 2007; Armstrong, Brown and Reilly, 2010; Brown and Reilly, 2013) and which is therefore also solution rather than just problem-oriented (Gas and Gillis, 1995) and thereby differentiated from other research in this field.

Taking a deliberately broad perspective on this subject, incorporating different disciplines and attempting to integrate academic research rigour with practical management relevance has led to my commonly working with a wide range of colleagues and associates from different organisations and disciplines; and meant that much of my work has been carried out in teams and resulted in joint publications. I do not apologise for this, indeed I have regarded it as essential to my contribution in producing both more business-relevant academic research which answers the important questions managers need answering (but most researchers have ignored - Davis, 2015); and addressing the evidence-free, "hunch-based", assumption-driven reward practices in many employers (Pfeffer and Stutton, 2006)

In this main text and the Appendix 1 description of cited publications I have now specified my personal contribution in joint work, which has typically been a major one, as my colleagues and ex-colleagues will confirm (see Appendix 4).

As well my research and research-based publications, I have been able to influence and contribute to progress in research and practice in the reward strategy subject through the following activities:

- as a leader at a number of HR consulting firms and on assignments with major employers such as Transport for London (see Appendix 4), Lloyds Banking Group, DHL , The Civil Service/Cabinet Office, National Health Service and the United Nations, many of whom participated in my research as survey participants or case studies;
- as director of research and policy at CIPD and the Institute for Employment Studies;
- through authoring my popular practitioner articles and blogs - see for example: http://www.cipd.co.uk/pm/members/duncanbrown9000272/default.aspx and also:

http://www.employeebenefits.co.uk/benefits/duncan-brown-innovative-rewards-boost-engagement-and-add-value/104517.article

- through drafting evidence-based, online toolkits designed to improve the work of HR and reward professionals - see a recent example I researched and drafted to help NHS Employers (2014) adopt a more strategic approach to managing pay and rewards; in the first seven months of recorded downloads after this toolkit went on line in January 2014, 11,957 downloads were recorded; and the CIPD tell me that 27,000 downloads have occurred for their reward strategy toolkit which I also researched and authored (CIPD, 2005; see Appendix 4);
- through the development and delivery of reward strategy programmes – for example I ran two, two-day reward strategy masterclasses for the Universities and Colleges Employers' Association in 2014, and 204 students to date have successfully completed the CIPD's Advanced Certificate in Reward Management which we developed when I was there;
- and in dozens of external management presentations and student lectures each year – see for example my sessions at the IDS Pay Planning conference 2015, Employee Benefits Live 2015 and the HR Norge Reward Conference 2014 at:
  http://legalconferencespd.com/ids-pay-planning/speakers/duncan-brown/
  http://brosjyre.net/HR_Norge/Belonningsdagene/2014/
  http://www.employeebenefitslive.co.uk/conference-main/conference-2015
  In 2014 I gave 13 external presentations on reward topics and ran three reward strategy masterclasses e.g
  http://www.ucea.ac.uk/en/seminars/events-list.cfm/nov16

I hope that my work has therefore also contributed in a practical sense, by increasing the chances of the strategic ambitions of higher organisational performance through reward to be realised in many more workplaces (Cox, Brown and Reilly, 2010, p 259). Further evidence as to the use and influence of my cited publications is provided in Appendix 2.

The publication of the book on *Evidence-based Reward Management* (Armstrong, Brown and Reilly, 2010) as the culmination of my research and advisory work on that aspect of the reward strategy issue was important in seeing me ranked in *HR Magazine's* "HR Most Influential" list in 2010 as the third most influential HR thinker in the UK over the prior five years - http://www.hrmagazine.co.uk/hr/news/1015195/the-most-influential

4.3 Further Research

I have tried to highlight both the strengths and weaknesses of my research methods and findings in this submission and Introduction to my research publications. In terms of areas highlighted by my work as requiring further future research I would list the following:

- **More multi-stakeholder studies** comparing the views of employees and line managers on financial and non-financial rewards, their influence on employee behaviour and the barriers to managers in creating totally rewarding work environments, rather than just gathering HR staff views on pay policies and practices. Torre and Sarti (2014) note that rather than the adoption of a "top-down' model" there is a need for more employee-centred "bottom up analyses" to find sound evidence as to what people really expect from their work. Bruce and

Skovoroda (2015) similarly argue that we need a richer understanding exploring the idiosyncrasies of process, the organisational politics which help to reward explain outcomes. Gerhart and Rynes (2003) blame the dominance of economic theory rather than models from psychology in the field for this situation, while Werner and Ward (2004) note the paucity of research on how organisational culture affects reward systems.

- Given that the reality of reward strategy appears to be that it is a long-term and at least partly emergent process, **more time-series case studies** following the progress of specific reward strategies and changes in individual employers would be valuable. Some of my survey research, particularly at CIPD, allowed me to monitor constant samples of employers over a number of years, to compare for example planned reward changes with the actual pattern of change (CIPD, 2007); and some case studies have reflected on changes over a number of years (Brown, 2001c). But more research following specific changes in individual employers would be highly beneficial in determining how best to tailor rewards to a given situation. Guest (2011) believes that despite two decades of research, we are still unable to answer core questions about the relationship between pay systems and performance due to the limited amount of longitudinal research focusing on HR implementation.
- This would also help in addressing the need to produce more studies which specify and **assess the effectiveness of reward strategies and changes**, still a relatively under-researched area, testing out our 10-criteria model for example (Armstrong, Brown and Reilly, 2010, 2011). While I have been able to apply the model personally on specific consulting assignments such as Eriva, it would be valuable to generalise the research further and find out how practice has progressed and what methods and measures employers are now using.
- The more specific and detailed testing of reward strategy concepts in varied and often hard-to-access research contexts, such as **SMEs and co-operatives**, would be valuable. The focus to date has been in large multi-national companies. This would also help to assess if there are indeed any common elements in more successful reward strategies, or whether it is all down to local "best fit".
- Research would also be beneficial into the nature and forms of **rewards communications** which employees perceive to be most effective, how these perceptions vary according to type of employer and employee demographics, and whether employees are interested in the wider strategic objectives of reward practices, or primarily just about their own rewards. Existing studies focus on reward communications techniques and vehicles, the "whats", and are less helpful on some of the "why" questions, such as why employees prefer one communications vehicle to another.
- Studies into the **effects of external variables such as the National Minimum Wage** on the reward strategies that employers adopt and the effectiveness with which they are managed, as well as on the relationships between rewards in the employer and employee engagement. Academic research seems to be divided between those focused on deterministic models of internal business alignment and the effect of pay incentives in furthering these (Balkin and Gomez-Mejia, 1987); and those who favour externally-driven institutional explanations for pay system determination and deny the existence of reward strategies in practice (Trevor, 2009), both stances which do little to help practitioners with the effective design of reward systems in their own situation.

4.4 Conclusion

By trying throughout my career's work on reward strategy to bring together reward research and practice, academics and practitioners, concepts and application, employers and employees, line manager and HR perspectives, and the financial and non-financial dimensions of rewards, I believe I have made an original and valuable, sustained contribution to progress in this field. The Kingston University Guidelines for a PhD by publication also emphasise the need to show the coherence of the publications and knowledge produced and I believe that I have combined a longevity of consistent contribution in the reward strategy field with the ability to adapt my ideas to new knowledge and circumstances, and produce new knowledge myself to move the reward paradigm on, sometimes generating my own controversy in the process (Brown, 2014; Paton, 2014; Arnstein, 2015).

Collectively, my work over the 15 year period of the publications listed has offered a detailed, continuous and sustained exploration of the concept and application of reward strategy in the UK context, bringing together academic and practitioner perspectives and informed by and influencing leading academics and practitioners in the field. This coherent body of work together makes a significant and original contribution to the present state of knowledge on reward thinking and practice and in related HR and management areas.

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Appendix 1: List of Publications for PhD Submission, Content Summary, Personal Contribution

Brown, D. (2000) 'The Third Way: The future of pay and reward strategies in Europe', *WorldatWork Journal*, Vol. 9 (2), second quarter, pp 15 – 29.

- Using data from a comprehensive consultancy research study I led of trends among 464 organizations based in 13 European countries (Towers Perrin, 1999), I build three possible model interpretations for the future of pay and rewards practices in Europe.
- Firstly, I demonstrate that typical North American employment practices, such as short-term contracts, variable pay and flexible rewards, are spreading rapidly in the UK and continental Europe. However, secondly, I also present contrary evidence indicating that a greater Pan-European commonality of rewards practices is emerging, strongly influenced by state governments and European Union employment directives – for example, growth evident in Europe-wide pay negotiations, pay structures and incentive plans.
- In this study, I recommend and describe the emergence of a "third way" in rewards practice, in which organisations meld more traditional pay approaches -- such as profit sharing and job evaluation -- with newer variable and competency pay models, so as to produce tailored and blended solutions to suit their own unique situations and needs. I interpret this as being the heart of applying a truly strategic and workable approach to reward management.
- These core themes of reward strategy involving tailored choices and the need to adapt to local conditions have at the core or my academic and consulting work on reward strategy in future years, contributing particularly to my first and second themes in this submission.
- **Personal role: My role in this research included: initially scoping and securing internal funding for the project; designing the questionnaire; targeting and securing participants; analysing the resulting data with one analyst; drafting the survey report; and personally drafting articles based on the survey findings.**

Brown, D. (2001a) 'Reward Strategies for Real: Moving from Intent to Impact', *WorldatWork Journal*, Vol. 10 (3), third quarter, pp 42 – 49.

- Summarising the arguments and contents of the book, Reward Strategies: From intent to impact, and using findings from a consultancy survey of over 450 European employers I carried out, in this study I critique the prevailing "outdated, narrow, wholly business-driven and top-down model of reward strategy" as "unsuitable for this contemporary, rapidly changing, human capital driven world".
- While defining and using evidence to justify a strategic approach to reward matters, I propose and illustrate what I define as a less mechanistic and more organic approach, characterised by three dimensions: "a clear and shared vision and direction; a flexible and adaptable, total rewards design approach; (and) vastly improved reward processes that better meet employee needs". These were all core aspects of my subsequent reward strategy work, in redefining the reward strategy concept.
- **Personal role: as above, same survey findings used.**

Brown, D. (2001b) *Reward Strategies: From intent to impact*. CIPD, London.

- In this book, I summarise my thinking and experience after more than a decade of management consulting with a wide diversity of organisations on strategic reward issues. I set out a framework for reward strategy work, which I subsequently adapted and developed and that guided my writing and consultancy over the next decade. It is this publication that is the most important contribution in my first core theme and research question for this submission, defining what reward strategy means and the value of the concept.
- I chart the history of reward work "from pay administration to strategic reward management" and then summarise the contemporary controversy over the usefulness and applicability of the North America-derived reward strategy concept, as "essential or ineffectual"? My answer is both, as I outline a new, expanded definition of reward strategy which is more applicable for a UK context.
- I demonstrate, using practice surveys and capsule client case studies, the strategic importance and impact of pay and reward practices on employers and their success. But I also critique many contemporary reward strategies for the common difficulties research studies reveal in putting them into practice, which can be attributed to an excessive focus on the planned business agenda in the boardroom. "Underneath the glossy jargon in board policy documents" I write, "changing pay and benefits in practice is a sensitive, difficult and time-consuming exercise."
- The fault, I assert, is not with actively attempting to use reward practices to support the delivery of business strategy but "the way in which the concept is often applied, force-fitted into a 'best practice' and technical 'quick fix' mind-set, that ironically the whole concept was originally designed to counteract". The solution is therefore "not to abandon it to return to administrative backwaters" but "to change the way we think about and operationalise our reward strategies".
- The concept for what I call "real" and "living" reward strategies has three parts, which act as the structure for the book: first the 'why' of reward strategy, the business case and how to align rewards with business goals and organisation structure. Second, I consider the 'what', reward practices such as performance-related pay, flexible benefits and total rewards. Finally I describe the 'how', setting out "a pathway" for practitioners to use to develop and implement a reward strategy in their own organisation, winning the support and commitment of the critical line manager and employee populations.
- **Personal role. I wrote this book in its entirety over the course of one year. Much of the source material was my own survey (Towers Perrin, 1999) and case study work, including the seven case study write ups aligned with each of the main chapters which I researched and drafted personally, supplemented by literature searches which I carried out.**

Armstrong, M. and Brown, D. (2005) 'Reward Strategies and Trends in the UK: the land of diverse and pragmatic dreams', *Compensation and Benefits Review*, Vol. 37 (4), July/August, pp 41-53.

- This articles illustrates my expanded definition of reward strategy but also contains more information and thinking on my second area of focus in this PhD submission, how to apply and implement a reward strategy. Many U.K. organizations have adopted the U.S.-derived concepts of reward strategy and total rewards. In this article I profile common difficulties with applying these strategies in the UK environment, primarily relating to implementation, line management behaviour, employee communications and achieving alignment with business goals.

- By examining data on reward trends and practices in areas including job evaluation, pay structure design, and contingent and variable pay, drawn for the CIPD's annual Reward Management survey covering almost 500 employers, I demonstrate that a more realistic, tailored, diverse, and long-term approach is emerging that can enable U.K. reward professionals to come closer to fulfilling their strategic ambitions.
- As well as further detailing and illustrating my expanded definition of a reward strategy, this paper starts to delve more fully into total rewards practices and the difficulties of implementation, two of the four themes which are the focus of this application.
- **Personal role: I carried out a meta-analysis of relevant research studies to support our thinking for this article and our subsequent book (2006). We planned the article contents in detail together, I produced the first draft and Michael, my long-term co-author, edited it and completed the bibliography.**

Brown, D. and West M. (2005) 'Rewarding Service? Using reward policies to deliver your customer service strategy', *WorldatWork Journal,* Vol. 14 (4), second quarter, pp 22-31.

- This article focuses on how reward policies can help or hinder the delivery of specific business strategies. Customer service is the cornerstone of many contemporary corporate strategies. Yet studies show and we all experience poor service, and front-line staff are often employed on a "low pay/low skills" basis. Are these two factors related, are reward practices obstructing the delivery of customer-service strategies?
- The article summarises UK research commissioned and carried out by Aston University among 15 service-based organizations. It shows how reward practices can support the delivery of effective customer service and financial performance, finding that those organisations delivering the best service levels make significantly greater use of performance-related pay, individual and team recognition and harmonised conditions, as well as work-life balance and career development policies.
- But the key differentiating factor appears to be how they implement and manage these policies to create positive employee engagement and commitment to delivering high levels of service to customers. We conclude that the role of reward professionals is to help managers to create "totally rewarding contexts" that support employee engagement and high performance.
- It is therefore an important contribution to my thinking in my first PhD area of reward strategy definition, the second of reward strategy application in these types of organisation, and the fourth of total rewards and building rewarding environments for high levels of employee engagement and performance.
- **Personal role: this research was carried out by the Aston University team under my direction and supervision, with my role involving scoping the project, selecting the research team, regular monitoring and agreement of the research instruments, review and interpretation of the initial results and substantial revision of the initial draft report Aston produced. This article was drafted entirely by myself based on the study results, with minor comments and amendments from Professor West.**

Armstrong, M. and Brown, D. (2006) *Strategic Reward: Making it Happen*. Kogan Page, London.

- With five further years of experience, in this book I explore the content and context for reward strategies in more detail and focus heavily on the application and implementation of reward strategy, my second PhD submission core area.
- With my co-author, we profile "the overall shift in the concept and practice of strategic reward management over recent years" which we christen "the new realism". Demonstrating that: "strategic reward management is ever-more critical in these turbulent times to the increasingly inter-twined dual agenda in a human capital-driven economy of the successful performance of organisations and the motivation and engagement of their people"; we set out the "different, more varied and balanced approach to reward strategy that has evolved in the UK environment", merging intent and application, practice and plan.
- Part 1 of the book describes academic and corporate definitions of reward strategies and what they consist of, summarising the evidence on the links between reward practices, employee engagement and organisation performance.
- Part 2, in contrast to more determinist and activist North American definitions, illustrates and investigates the importance of adapting to the organisational context to successful reward strategies. It considers in some detail the pay and reward practices emerging in knowledge-based organisations and in the service-based economy for customer service employees.
- Part 3 considers the practicalities of successfully applying and operating strategic reward management in faster-changing organisations. It develops in more detail the Aristotelian concept of balance and its application in reward, providing a range of management tools to help practitioners assess their current position on a variety of reward dimensions and whether and how to change these.
- It also considers the roles and skills required of both line managers and reward professionals in applying reward strategies successfully. It concludes with research findings on the importance of employee communications and involvement in reward management, the current difficulties in this area, and ideas on and examples of more effective reward communications.
- **Personal role: my joint author and I wrote this book equally, agreeing an initial detailed specification required to secure our publisher's agreement; then dividing up the chapters between us and meeting up regularly to compare progress and review each other's work. I wrote the first draft of seven of the thirteen chapters, including those on the meaning of reward strategy; reward strategies in knowledge and service-based firms; the roles of the reward professional and communicating rewards. I carried out the literature review and provided the case examples for these chapters.**

Brown, D. and Purcell, J. (2007) 'Reward Management: On the Line', *Compensation and Benefits Review*, Vol 39 (3), May/June, pp 28-34.

- Developing the theme of the difficulties in applying and implementing strategic reward intentions, in this article I summarise survey and case research that I commissioned by Bath University. It describes how and how effectively line managers implement reward policies, in what is one of the definitive works still for academics and practitioners on reward strategy implementation, my second core theme in this submission.

- The research confirmed that failures in line manager implementation are a widespread and significant issue, restricting the impact of reward policies on business performance and employee engagement.
- I draw out key lessons in support of effective reward policy implementation by the line, in terms of: early and extensive line manager involvement in reward policy development and design; effective training and HR support for managers; and adopting a broad definition of total rewards (my fourth PhD theme), so HR and line managers co-operate to build a totally rewarding context for high employee performance.
- **Personal role: I personally established, contracted and managed this reward and line manager project which was part of a significant and wider, 3 year research project on HR and line managers which I directed and was responsible to the board for at CIPD. I was closely involved with the research team at Bath University who carried out the case study work and drafted the final research report, incorporating findings from the CIPD Annual Reward Management Survey 2006, in which we had added a specific survey on reward strategy implementation and line managers. I drafted this article summarising the results of our survey and case study work, which my co-author commented on and edited.**

Brown, D. and Perkins, S. (2007) 'Reward Strategy: The reality of making it happen', *WorldatWork Journal*, Vol 16 (2), second quarter, pp 82-93.

- Developing and updating my ideas on the evolution of strategic reward thinking and practice, we use data from the CIPD's annual reward management survey and a follow-up study to highlight common difficulties experienced with these strategies, both in the UK but here also in international reward policies. These issues primarily relate to implementation, notably lack of sufficient flexibility to adapt to varied countries and contexts and a failure to address employee and line manager needs.
- We show multinational employers using "reactive" approaches more commonly and heavily than planned "strategic" ones, but emphasise that these are complementary rather than competing perspectives, akin to the concepts of "living" and "emergent" business strategies.
- We describe moves towards a more realistic and diverse approach, involving less emphasis on reward plans and more emphasis on process; a move from imposition to involvement and enforcement to engagement in reward management; and employers working towards tailored "best fit" designs across all areas of total rewards, rather than adopting supposedly universal "best practice" and focusing on narrow fields such as bonus and incentive plans.
- **Personal role. I met with and jointly planned this article with my co-author, based on survey research I personally carried out for CIPD amongst UK employers and another study which my co-author had carried out for CIPD amongst multinational organisations. I drafted the article, which my co-author commented on and edited.**

Brown, D. (2008) 'Measuring the Effectiveness of Pay and Rewards: the Achilles heel of contemporary reward professionals?' *Compensation and Benefits Review*, Vol. 40 (5), September/October, pp 23-41.

- Moving on from ideas of reward strategy design and implementation, in this article I argue that the lack of evidence for and evaluation of pay and reward practices is a huge weakness in many organisations, creating a dangerous knowing/doing, policy/practice and strategic rhetoric/ practical reality gap in reward management, damaging the returns achieved on the major investments made in employee rewards. This first sets out my thinking in my third PhD submission strand of reward strategy effectiveness, which I subsequently researched and wrote up in more depth in my third reward strategy book.

- I document the widespread lack of evaluation and the reasons for it, before outlining a four-step process in support of improved evaluation and moving to more effective, evidence-based reward management.
- This involves an ongoing process of setting reward strategy goals and direction; reviewing current policies and practices against these goals and success criteria; piloting and evolving changes and improvements, and continuing to measure, monitor, review and adapt. Rather than measuring "the price of everything and the value of nothing", I argue that we need to do both.
- **Personal role: I and a junior colleague personally carried out the employer survey which supplied the findings that formed the basis for this article, along with the literature review which also informed it. I drafted the article myself.**

Reilly, P., Brown, D. (2008) 'Employee Engagement: What is the Relationship with Reward Management?' *HR Network Paper* MP83, January, Institute for Employment Studies, Brighton, Sussex.

- Having investigated the barriers to effective reward strategy application in line management, this article considers the issue of securing employee understanding and buy in to a reward strategy, relevant to my second theme of reward strategy implementation.
- In this paper, my co-author and I set out the relationship between reward and employee engagement as a valid and important area for future research and practice in reward management. We consider what employee engagement really means and why it is important - primarily because of the potentially powerful influence on organisation performance.
- The paper presents a review of research evidence on the complex relationship between reward and engagement, and provides guidelines for practising a more engagement-focused approach to reward management. We conclude that employee engagement is not simply a new "fad" but provides genuine scope for reward professionals to leverage a more powerful impact on their employees' and organisation's performance. But this requires careful thinking and research in each setting, rather than simply borrowing supposed "best practice" reward practices and simplistic, universal models of employee engagement.
- **Personal role: this article emerged from a detailed literature review on the subject which my co-author and colleague Peter jointly carried out with me for a client in the public sector. We planned the article together, Peter wrote the first draft and I heavily amended and edited it before we submitted.**

Cox, A., Brown, D., Reilly, P. (2010). 'Reward Strategy: Time for a more realistic reconceptualization and reinterpretation?' *Thunderbird International Business Review*, Wiley InterScience, Vol. 52 (3), April, pp 249-260.

- Further developing the theme of the importance of employee engagement for reward strategy delivery, in this article, which is informed by a wealth of academic research studies and set in a context of predominant theories of human behaviour drawn from economics rather than psychology, we highlight the continuing struggles of employers to design and implement successful and credible reward strategies in fast-moving and rapidly changing organisations. We argue using research evidence that a major and neglected factor explaining this is a lack of attention devoted by managers to employee views and preferences for different types of reward and in particular, an under-emphasis by many employers on the importance of non-financial rewards and over-emphasis on financial incentives.

- It therefore brings together academic thinking on the issues of employee engagement and total rewards, arguing that these links have been neglected and there is therefore too great a reliance on top-down and pay-driven reward models and assumptions about how rewards impact on employee behaviour and performance.
- We present data and examples supporting the need for more realistic, broader-based and employee-focused models of reward strategy. We conclude that effective reward strategy implementation needs to be based not on "universal best practices and quick wins" but "a broad range of activities and policies over a lengthy timescale", with this article thereby contributing to all four reward strategy themes in this submission.
- **Personal role: with two fellow IES employees, we split the reward strategy field into three parts and after agreeing some initial hypotheses, we each searched and reviewed the literature in one of the three areas. I reviewed the literature on reward communications and implementation and drafted this section of the article, I would estimate comprising third of the work in total. Annette wrote the first full draft, and Peter and I carried out further minor amendments.**

Armstrong, M., Brown D., Reilly, P. (2010). *Evidence-based Reward Management: Creating measurable business impact from your pay and reward practices.* Kogan Page, London.

- "This book" according to Group HR Director at Guardian Media Group Carolyn Gray "is what HR directors have been waiting for: how to justify the huge spend on rewards with hard data, another milestone on the journey from HR overhead to true business partner". In it, my third reward strategy book, I focus on the third area of focus in this PhD submission, how to measure and improve the effectiveness of a reward strategy.
- In the first section of the book we define evidence-based reward management as "the management of reward systems based on fact rather than opinion, understanding rather than assumptions, grounded theory rather than dogma".
- Through research survey and case study evidence we then show the current situation in the UK: a prevailing lack of evaluation of reward practices by employers which is frustrating efforts to demonstrate the impact on business strategy of reward practice.
- Finally we set out and illustrate a six-step model to help organisations to adopt a more evaluation-focused and evidence-based approach, so as to improve their reward practices and "bridge the common 'say-do', policy-practice gap in reward management". We also on the basis of our research set out a framework of 10 criteria commonly used to assess and improve reward effectiveness.
- The book is supported by write-ups which I carried out of case study research in organisations including KPMG, McDonalds, Standard Chartered Bank and the NSPCC.

- **Personal role: Michael Armstrong and I wrote this book, with my colleague Peter Reilly playing an editing and oversight role. I researched and wrote four of the nine chapters plus the introduction, including supporting literature searches. The main quantitative data we used was drawn from a survey of almost 200 employers which I designed and carried out jointly with one of Michael's colleagues at E-reward, and I wrote up chapter 3 which covers the results in detail. I also personally visited and wrote up all the seven case studies which are detailed in the book, two of which have been used as HR Masters' student assignments by Kingston University. I would therefore say I personally carried out more than half the total work on this overall project.**

Armstrong, M., Brown, D. and Reilly, P. (2011). 'Increasing the Effectiveness of Reward Management: an evidence-based approach', *Employee Relations*. Emerald, Vol. 33 (2), March, pp 106-120.

- In this article, my co-authors and I explore the reasons as to why many organisations do not evaluate the effectiveness of their reward policies and practices, summarising the findings from our 2010 book. We make the case for evaluation, examine the approaches used by those organisations which do evaluate, and illustrate a model of evidence-based reward management which describes how practitioners can evaluate and improve their reward practices and implement their reward strategies more effectively.
- The paper extends the pioneering research of Corby et al. (2005) to develop new insights into the process of reward evaluation. We carried out a survey of 173 reward and HR practitioners and visited 13 case study organisations. The survey found that only 46 per cent of respondents carried out a full evaluation. The findings are considered in more detail in our book, *Evidence-based Reward Management* (2010).
- Rather than apply a set of common "best practice" measures of reward effectiveness, we illustrate why evaluations need to be context-specific and recommend a stepped process to help organisations progress on a journey to improved evaluation and better investment of their reward spend.
- **Personal role: this article relied mostly on the research which I carried out for our 2010 book on the same subject. It forms part of a special issue of *Employee Relations* on this subject which emerged from a conference on the subject hosted by Manchester Metropolitan University where I presented our research findings. I produced the first draft of the article and Michael amended it heavily following editorial review.**

Brown, D. (2012) 'European Rewards in an Era of Austerity: Shifting the Balance from the Past to the Future', *Compensation and Benefits Review, Vol* 44 (3), pp131-144.

- Further developing and updating my reward strategy ideas, the contention in this article is that just as our political leaders realised that, four years into economic depression, they need to combine their austerity approach with a new focus on investment and growth; so the balance of compensation and reward activities in our organisations needed to shift away from an extreme cost focus towards policies that more positively engage their employees and develop their talent.
- Using data from a comprehensive study I led of reward strategies and practices among 252 organisations based in 25 countries in Europe, I profile a number of dimensions of this shifting balance: moving from low to high added value pay, from fixed to variable rewards,

from pay to a genuine total rewards perspective and from a focus on technical design to paying more attention to reward delivery and application, emphasizing line manager involvement and more open employee communications.

- Making this shift will, I argue, take courageous leadership but will of itself be a powerful force for re-engaging employees and driving recovery in corporate and national economic performance. The article contributes to my second and fourth submission themes, and illustrates my cross-country research survey experience.
- **Personal role: I managed the European team who co-ordinated this research to secure the 252 participants across Europe. Three of us designed and tested the survey instrument, the distributed it to European colleagues to secure the participants. The results were tabulated by our pay survey team based in India and analysed in the UK by myself and a colleague analyst. I made numerous presentations on the findings around Europe and wrote this article personally. I played the major direct individual part amongst the team necessarily involved in a survey of this type.**

Brown D. and Reilly P. (2013) 'Reward and Engagement: the new realities', *Compensation and Benefits Review*, Vol 45 (3), May/June, pp 145-157.

- Updating and revising our 2009 paper on the subject, and while supporting the need for reward strategies to take more account of employee needs and motivations, in this article we contend that despite the popularity of the term and of corporate surveys to measure it, employee engagement is often an ill-defined concept. We show that the relationship of engagement with reward management is even more unclear and under-researched.
- In a wide-ranging analysis, we consider the impact of the difficult global economic climate on engagement levels and what we have learned from research and practice about the relationship with rewards since the earlier article on the subject.
- We present evidence suggesting that engagement and its links with pay and rewards needs to be defined and understood in each specific organisation setting, rather than assuming that a simplistic, universal "happy smiling employee" model can be adopted.
- We also highlight the importance of a total rewards approach, my fourth submission theme, in engaging the diversity of the workforce and meeting the wide variety of employee needs. We call for more employer actions in response to engagement survey results, with the recession having widened the "say–do" gap on employee engagement.
- Finally, we highlight some outstanding questions for future research and practice to investigate in this field.
- **Personal role: updating our 2008 joint article, this time I wrote the first draft after reviewing relevant literature and IES case work since 2008, and Peter critiqued and amended it. This included the findings from a research study we had carried out for a government department reviewing academic research evidence for the relationships between reward methods, employee engagement and organisation performance.**

Brown, D. (2014) 'The Future of Reward Management: From Total Reward Strategies to Smart Rewards', *Compensation and Benefits Review*, May/June, Vol. 46 (3), pp 147-55.

- In this article, I focus on my fourth strategic reward theme, that of total rewards, illustrating how the whole idea of strategically tailoring reward practices to suit each employer has been subverted by a rush to adopt generic flexible benefits packages.
- I argue that the terminology and concept of "total rewards", which is mentioned in virtually every corporate reward strategy, is becoming increasingly meaningless and out-dated in our post-recessionary economy of austerity and inequality. Its generic and unthinking application, primarily in uniform flexible benefits packages, risks isolating the rewards profession into an administrative backwater.
- Instead I argue for a new approach which I provocatively title "smart rewards", following recent thinking and writing in economic and foreign policy on both sides of the Atlantic.
- I discern four components of this emerging reward management approach: a simpler and clearer focus on a few core values and principles; a stronger basis in evidence and measurement; more emphasis on employee engagement through rewards; and improved and more open communications and line management of reward. While these themes informed much of my writing over the previous decade, a recession-induced focus on short-term and cost cutting measures makes attention to them even more important to re-engaging the UK workforce. They encompass all four areas of my contribution highlighted in this PhD submission.
- I conclude that adapting and tailoring this type of approach is much more likely to create the genuinely business-enhancing and employee engaging reward practices in our contemporary context that reward professionals and their policies aspire to.
- **Personal role: I researched and drafted this original article myself.**

Appendix 2: Citations and Influence

In this section I provide more information on the publications which my work has appeared in and the influence achieved by them.

Articles

Compensation and Benefits Review

Six of my selected articles for this PhD submission are published in *Compensation and Benefits Review* (CBR), a journal produced by Sage Publications. Published bi-monthly, CBR is the leading North American journal for senior executives and professionals who design, implement, evaluate and communicate compensation and benefits policies and programs. The journal supports human resources and compensation and benefits specialists and academic experts with up-to-date analyses and information on salary and wage trends, labour markets, pay plans, incentive compensation, legal compliance, retirement programs, and health care benefits.

CBR is available to over 8,000 academic libraries worldwide and recorded just over 103,000 PDF downloads in 2014.

In terms of my articles in CBR, citations listed on Google Scholar are:

'Reward strategies and trends in the United Kingdom: the land of diverse and pragmatic dreams'. (2005).

This was the fourth most popular article downloaded from the CBR website in 2005. It has been cited 13 times in the following publications:

1. Strategic fit among business competitive strategy, human resource strategy, and reward system, Academy of Strategic Management Journal
   Y Hsieh, H Chen - 2011 - tkuir.lib.tku.edu.tw
   Cited by 21 Related articles
2. Literature review on total rewards: An international perspective
   T Nazir, SFH Shah, K Zaman - African Journal of Business Management, 2012 - academia.edu
   Cited by 6 Related articles.
3. Measuring The Effectiveness Of Pay And Rewards: The Achilles' Heel Of Contemporary Reward Professionals
   D Brown - Compensation & Benefits Review, 2008 - cbr.sagepub.com
   Cited by 4 Related articles
4. Make Your People Before You Make Your Products: Using Talent Management to Achieve Competitive Advantage in Global Organizations
   P Turner, D Kalman - 2014 - books.google.com
5. The Evolution of Remuneration Systems Toward Personalized Reward
   T Torre - Labour And Social Rights. An Evolving Scenario, 2015 - G Giappichelli Editore
6. Managing People in a Contemporary Context
   Parry, S Tyson - 2013 - books.google.com

7. An examination of the influences on reward mix determination: observations from the UK financial services industry
   J Chapman - 2011 - dspace.lib.cranfield.ac.uk
8. THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT
   EA Maycock, I Salawudeen - theijbm.com
9. Role of First Line Manager: Strategic Leadership in Implementing Successful PMS
   F Firoz[1], MF Chowdhury - 2012 - oaji.net
10. Competitive Strategic Response to Changes in Turbulent Environment: A Case of Mwea Rice Mills
    DN Munyi - 2014 - erepo.usiu.ac.ke
11. Dialektyczna perspektywa polityki wynagrodzeń
    M Majowska - yadda.icm.edu.pl
12. Palkitsemisjärjestelmät ja niiden soveltaminen caseyrityksessä
    J Söderström - 2009 - doria.fi
13. The Dialectic Perspective of Remuneration Strategy
    M Majowska - Zarządzanie Zasobami Ludzkimi, 2010 - bazekon.icm.edu.pl

'Reward management: On the line' (2007)

This article has been cited 9 times in the following publications:

1. Armstrong's handbook of reward management practice: Improving performance through reward
   M Armstrong - 2010 .
   Cited by 33 Related articles
2. Reward strategy: Time for a more realistic reconceptualization and reinterpretation?
   A Cox, D Brown, P Reilly - Thunderbird International Business, 2010 - Wiley Online Library
3. Rewards communication in Australia: A survey of policies and programs
   J Shields, D Scott, R Sperling... - Compensation & Benefits ..., 2009 - cbr.sagepub.com
   Cited by 7 Related articles.
4. European rewards in an era of austerity: Shifting the balance from the past to the future
   D Brown - Compensation & Benefits Review, 2012 - cbr.sagepub.com
   Cited by 4 Related articles
5. Measuring The Effectiveness Of Pay And Rewards: The Achilles' Heel Of Contemporary Reward Professionals
   D Brown - Compensation & Benefits Review, 2008 –
   Cited by 4 Related articles
6. A formative evaluation of a pay-for-performance system
   L Joseph, K Emmett, J Louw-Potgieter... - SA Journal of ..., 2012.
   Cited by 1 Related article
7. Rewards system developments: pay for performance in knowledge-intensive industries in China
   C Rowley, Q Wei - Journal for Global Business Advancement, 2010 – Inderscience
   Cited by 1 Related article
8. Evaluation of a pay-for-performance system at a South African university

K Emmett - 2009 - open.uct.ac.za
Cited by 1 Related article

9. Role of line managers in human resource management: empirical evidence from India
FT Azmi, S Mushtaq - The International Journal of Human ..., 2015 - Taylor & Francis
Cited by 1 Related article.

'Measuring the Effectiveness Of Pay And Rewards: The Achilles' Heel Of Contemporary Reward Professionals' (2008).

This article has been cited 4 times in the following publications:

1. Literature review on total rewards: An international perspective
T Nazir, SFH Shah, K Zaman - African Journal of Business, 2012
Cited by 6 related articles.
2. Ocena efektywności systemów wynagrodzeń
E Beck-Krala - Zarządzanie Zasobami Ludzkimi, 2012 - yadda.icm.edu.pl
Cited by 3 Related articles
3. Evaluation of motivation system in Health Care Organization-perception of employees. A case study analysis from Polish hospital
E Beck-Krala, E Tarczoń - Managerial Economics, 2014 - yadda.icm.edu.pl
4. The Effects of Incentive Compensation on Moral Awareness–An Explorative Study
V Lundberg, C Montell - 2010 - gupea.ub.gu.se

'European Rewards in an Era of Austerity: Shifting the Balance from the Past to the Future' (2012).

This has 4 citations below. It also has 32 downloads from the Researchgate website.

1. Determinants of GDP Growth and the Impact of Austerity
A Jadhav, JP Neelankavil - Journal of Applied Business and Economics..., 2013 - na-businesspress.com
2. Does the presence or absence of virtues define the character of a leader and impact performance?
GA Williams - 2013 - digitalcommons.georgefox.edu
3. Creating Employee's Compensation during the Recession
E Beck-Krala - Organization and Management, 2013 - degruyter.com
4. Kształtowanie systemów wynagrodzeń pracowniczych w czasie kryzysu
E Beck-Krala - Organizacja i Kierowanie, 2013 - kolegia.sgh.waw.pl

'Reward and Engagement: the New Realities' (2013).

As of April 2015, this was the 25th most downloaded article from the CBR website.

'The Future of Reward Management: From Total Reward Strategies to Smart Rewards' (2014).

As of April 2015, this was the fourth most commonly downloaded article from the CBR website.

This article also has 23 downloads from the Researchgate website. An associated article by Lovewell-Tuck, 'Total Rewards is Dead', published in *Employee Benefits* magazine after we presented the ideas at their annual conference at Olympia was the most downloaded/read article on that journal's website in the week of September 25th 2014 - http://www.employeebenefits.co.uk/105624.article?cmpid=ebupdate_574571

In terms of CBR downloads, figures were supplied on a spreadsheet by the editorial team at CBR and cover the period January 2012 to April 2015. In some cases separate download channels are recorded and so two figures are shown.

1. Armstrong, M. and Brown, D. (2005) 'Reward Strategies and Trends in the UK: the land of diverse and pragmatic dreams', *Compensation and Benefits Review*, Vol 37, 4, July/August, pp 41 – 53. No information recorded.
2. Brown, D. and Purcell, J. (2007) 'Reward Management: On the Line', *Compensation and Benefits Review*, Vol 39, 3, May/June, pp 28 – 34. Downloads: 514
3. Brown, D. (2008) 'Measuring the effectiveness of pay and rewards: the Achilles heel of contemporary reward professionals?' *Compensation and Benefits Review*, Vol 40, 5, September/October, pp 23-41. Downloads 1369
4. Brown, D. (2012) 'European Rewards in an Era of Austerity: Shifting the Balance from the Past to the Future', *Compensation and Benefits Review, Vol* 44, 3, pp131-144. Oct 12 to April 2015, 365 + 109
5. Brown D. and Reilly P. (2013) 'Reward and Engagement: the new realities', *Compensation and Benefits Review*, Vol 45, 3, May/June, pp145 – 157. Downloads September 2013 to April 2015: 1384
6. Brown, D. (2014) 'The Future of Reward Management: From Total Reward Strategies to Smart Rewards', *Compensation and Benefits Review*. Downloads October 2014 to April 2015: 1088 + 145

World at Work Journal

Four of my submitted articles are published in this journal:

1. Brown, D. (2000) 'The Third Way: The future of pay and reward strategies in Europe', *WorldatWork Journal*, Vol 9, 2, second quarter, pp 15-29.
2. Brown, D. (2001a) 'Reward Strategies for Real: Moving from Intent to Impact', *WorldatWork Journal*, Vol 10, 3, third quarter, pp 42-49.
3. Brown, D. and West M.A. (2005) 'Rewarding Service? Using reward policies to deliver your customer service strategy', *WorldatWork Journal*, Vol 14, 4, second quarter, pp 22-31.
4. Brown, D. and Perkins, S. J. (2007) 'Reward strategy: The reality of making it happen', *WorldatWork Journal*, Vol 16, 2, second quarter, pp 82-93.

The magazine does not retain individual download or citation information, but the editor explains the magazine's reach and article selection process in the note to me below:

May 28, 2015

Duncan Brown
Institute for Employment Studies
Sovereign House
Church St.
Brighton, BN1 1UJ

Dear Duncan:

Per our conversation, I am including in this letter some information about the *WorldatWork Journal* in which you have been published.

WorldatWork, the organization which publishes the *WorldatWork Journal* (www.worldatwork.org) is a nonprofit human resources association for professionals and organizations focused on compensation, benefits, work-life effectiveness and total rewards. Its mission is to help total rewards professionals achieve their career goals and influence their organization's success. WorldatWork provides thought leadership in total rewards disciplines from the world's most respected experts through publications such as the *WorldatWork Journal*. Founded in 1955, WorldatWork has offices in Scottsdale, Ariz., and Washington, D.C.

The *WorldatWork Journal* readership consists of the 21,000 WorldatWork members around the world, and survey results show that 58% of readers share the *WorldatWork Journal* with a colleague or coworker. In addition, the *WorldatWork Journal* is consistently in the top three highest-rated member benefits in annual member surveys.

The journal is published quarterly and the email announcing the availability of the latest issue has an average 26% open rate. Unfortunately, we do not have data on the open rate for the individual articles that remain in our database and open to all members due to recent analytics reporting tool changes, but we know that WorldatWork Journal articles are among the top 10 most frequently opened documents in our entire database of 500,000 white papers, articles, research reports, fact sheets, etc.

All articles go through a blind peer review process. Our reviewers consist of more than 250 practitioners, consultants and academics in the various fields within human resources and total rewards who review and score each article based on technical accuracy, quality of research or theory, importance to the industry and relevance of the topic. We have a 51% rejection rate for the time period from January through March 2015.

Please feel free to contact me with any further questions.

Sincerely,

Jean Christofferson

Jean Christofferson, Managing Editor
WorldatWork

Employee Relations

One of my submitted articles was published in this journal:

'Increasing the effectiveness of reward management: an evidence-based approach' (2011)

The article has been cited three times, by

1. Findlay Jeanette , Findlay Patricia , Stewart Robert . (2014) Occupational pay comparisons – easier said than done?. Employee Relations Vol 36:1.
2. Managing People in a Contemporary Context (2013)
   E Parry, S Tyson
3. Empirical evidence on applying the European Foundation for Quality Management Excellence Model, a literature review, H.J. Doeleman, S. ten Have, C.T.B. Ahaus, Total Quality Management and Business Excellence 01/2014; 25.

Employee Relations is produced by Emerald which publishes some 290 journals with the highest quality of double-blind peer-reviewed research by some of the most prestigious contributors in their respective fields as a common component. Content is selected for original contribution to the subject field, as well as practical relevance to policy making and future inquiry. Employee Relations is a leading international academic journal focusing on the importance of understanding and merging corporate, management and employee needs to achieve optimum performance, commitment and effectiveness, addresses research, practice and ideas about relationships in employment. International issues are covered in all areas of HR and industrial relations.

A stringent double-blind review of each paper is undertaken to ensure its relevance and validity. The journal is ranked by: Association of Business Schools (ABS) Academic Journal Quality Guide, AERES (France), Australian Business Deans Council (ABDC) Quality Journal List, Australian Research Council (ERA Journal List), CNRS (France), ESSEC (France), FNEGE (France), JourQUAL 2.1 (Germany), NSD (Norway), QUALIS, Scopus.

Thunderbird International Business Review

One of my submitted articles was published in this journal:

'Reward strategy: Time for a more realistic reconceptualization and reinterpretation?' (2010).

This article has been cited by:

Baeten Xavier, Shaping the future research agenda for compensation and benefits management: Some thoughts based on a stakeholder inquiry, *Human Resource Management Review*, 2014, 24, 1, 31.

Thunderbird International Business Review is a peer-reviewed journal that is published six times a year in cooperation with the Thunderbird School of Global Business Management, the world's leading institution in the education of global managers. The journal's aim is to advance and disseminate research in the field of international business. Its main target audience includes academicians and executives in business and government who have an interest in international business.

Thunderbird International Business Review features innovative ideas and new research methods for understanding the challenges confronting global business. Emphasising applied research, the articles—whether empirical, field study, or conceptual—help to bridge the gap between academics and the business community. Taking a multidisciplinary approach, the journal covers various aspects of international business, including the unique challenges of global human management, marketing, finance, and accounting. This journal also features economic, political, legal, socio-cultural, or technological issues related to international business.

Books

Two of my books used in this submission are published by Kogan Page and one by CIPD, and they have been cited as follows:

1. *Reward Strategy: from Intent to Impact* (2001) has 41 citations.
2. *Strategic Reward: Making it Happen* (2006) has 55 citations.
3. *Evidence-based Reward Management* (2010) has 11 citations.

Kogan Page

According to their website, Kogan Page (KP) is Europe's leading independent business book publisher and a major force in international business publishing. Founded in 1967, the company provides up-to-the-minute business information and practical guidance for specialist practitioners and students in the areas of Leadership and Management, Human Resources and Coaching, Marketing and Sales; and Operations and Logistics. Their list, which currently comprises about 700 titles (in both print and digital form) derives internationally from the authorship of a wide range of business practitioners, consultants, acknowledged industry experts, academics, professional bodies and global professional firms.

Commissioning Editors use their deep sector knowledge of the areas that they work in to develop the highest quality, best value product propositions all clearly targeted to be highly relevant to the end user. They use their extensive professional networks to sign the most credible and qualified authors and contributors, ensuring that KP titles can be relied upon to provide the insight, tools and best practice that our readers need to be better in business.

The publishing process is driven by our drive for quality content. We work hard to create agile schedules that are process-driven with quality in mind, but that also ensure that titles are published at the best time to maximise their sales potential and reach. Typically, from completion of the writing process, the Production Process takes between 4-6 months from handover to the Production Editor to print and bound copies arriving in the warehouse.

Editor Katy Hamilton gives more details of the firm and their publishing process in the note to me below:

From: Katy Hamilton [KHamilton@koganpage.com]
Sent: 27 May 2015 11:52
To: Duncan Brown
Subject: RE: book sales and other information

Hi Duncan,

Here is some information for you attached and below. Please do let me know if this doesn't cover anything which you need to know. This relates to what we do now but I'm afraid that it is difficult to comment on the process which would have been in place specifically for your books as the editors have now moved on from Kogan Page.

Kogan Page is a publisher of specialist practitioner and academic titles and we publish around 100 new titles each year. We send out sample chapters for each publication to a variety of academic contacts and practitioners to ensure that our products are in line with market need. During the development process, the work is usually reviewed by approximately 5 external readers. Within the area of HR, approximately 5-10 new titles are commissioned each year. When the books first published they would have been key frontlist/lead titles.

I do hope this is helpful but let me know if you need anything else and I will see if there is a way to find out.

Thanks,

Katy

Information on sales and some reviewer comments on each book are shown below:

Evidence-Based Reward Management: Creating measurable business impact from your pay and reward practices (2010)

Life sales: 1823 (228 home and 1595 export).

Reviews:

"The book is grounded in facts and theory with the mainstay of the subject being written with the past very much underpinning practices put forward for consideration in respect of organisational reward policy." HR Network Scotland, September 2010.

"This book, which fills a big gap, presents the tools and techniques that can be applied and draws on the experience of many organizations, not just those that are the focus of the case studies." Benefits and Compensation International, September 2010.

Strategic Reward: Making it happen (2006)

Life sales: 563 (242 home, 321 export).

Reviews:

"I thoroughly enjoyed reading this book. I like the authors' approach to strategic reward with its emphasis on process and delivery. Each section has a host of relevant organizational examples plus the latest research. I particularly liked the section on the reward for knowledge workers. This book will certainly influence reward thinking and practice and is an essential read for anyone working in the field."

Bruce Thompson, Senior Lecturer in Reward, Middlesex University Business School and former Reward Manager, BP Oil UK.

"Strategic Reward is a book for all reward practitioners who want to raise their game. This is a thoughtful and stimulating book; it is also remarkably clear and accessible for those who want to learn about what reward really means and move beyond traditional transactional thinking."

Helen Murlis, Director, Hay Group.

"A particularly useful book for those interested in reward, or thinking about developing a reward strategy, which proposes a way of thinking that is strategic in nature but highly practical in its application."

Tim Fevyer, Compensation & Benefits, Lloyds TSB.

Paying for Contribution, 1999. (additional book, listed in Bibliography)

No sales information

Reviews:

"Here is the sequel to Ed Lawler's 'Strategic Pay' to get us through the next decade. This book covers the familiar battleground of performance pay, with a nice summary of the latest research and thinking on the topic, and an integrated approach to rewards that will drive performance. It will serve as the textbook for compensation practitioners worldwide, because it sets the latest thinking about pay in the broader context of reshaping business, led by leaders such as Jack Welch at GE." Diane Gherson, Worldwide Practice Leader, Reward Management, Towers Perrin.

CIPD

CIPD is the professional institute for HR professionals in the UK with some 130,000 members. They published my book, **Reward Strategy: from Intent to Impact** (2001), which has according to their records sold 304 copies (I think this may omit sales in the early years, before their records began). While working at CIPD I also helped to develop the Advanced Certificate in Reward Management qualification and authored their website toolkit on reward strategy (CIPD, 2005). The former certificate has been completed successfully by 204 students since it was established. And some 27,000 people have downloaded the reward strategy toolkit, as confirmed by Performance and Reward Adviser Charles Cotton in the notes to me below:

-------- Original Message --------
Subject: RE:
From: Charles Cotton
To: duncan brown
CC:

All's good, Duncan, though lots of internal change.

Anyway, your requests are taking a bit longer to address than I anticipated.

To date 204 students have successfully completed the advanced certificate and advanced award in reward management. This year we launched a postgraduate certificate, though no one has completed it yet, and we're collaborating with Vlerick University on their postgraduate course on global reward.

By contrast, around 27,000 people have downloaded the toolkit!!

Publishing are still looking to see how many books they sold.

Not sure if this will be of interest to you
http://www.eiasm.org/frontoffice/event_announcement.asp?event_id=1115

Cheers,

Charles

From: Charles Cotton [mailto:C.Cotton@cipd.co.uk]
Sent: 15 June 2015 15:04
To: duncan brown
Subject: RE:

Dear Duncan

We have sold 347 copies of your book on reward strategy. The book went out of print in 2008.

Hope that helps,

Charles
Charles Cotton

Public policy and HR practice development adviser - performance and reward

CIPD, the professional body for HR and people development

T +44(0)20 8612 6000

DL +44(0)20 8612 6369

M +44 (0)7826 550 596

cipd.co.uk

Appendix 3: Example Research Questionnaire

This was the questionnaire used for the IES/E-reward Survey of Rewards Effectiveness (referred to extensively in Armstrong, Brown and Reilly, 2010 and 2011).

A SURVEY OF REWARD EFFECTIVENESS:

BY E-REWARD AND INSTITUTE FOR EMPLOYMENT STUDIES

SECTION 1: CONTACT INFORMATION

To receive a free copy of the survey and enter our **prize draw for** a £100 Amazon.co.uk gift voucher, you will need to fill in all of your contact details and complete all of the appropriate survey questions:

1.1 Full name:

1.2 Organisation:

1.3 Email address:

1.4 Please confirm email:

1.5 *Telephone number:*

SECTION 2: ORGANISATION DETAILS

2.1 How many people does your organisation employ in the UK?

Number

2.2 Please indicate which of the following most accurately describes the business you are in:

Agriculture, forestry, fishing, mining, quarrying

Banking, insurance, finance

Central, local government, voluntary

Chemicals, oil, pharmaceuticals

Construction

Consultancy, business services, professional services

Education, training

Electricity, gas, water

Engineering, electronics, metals

Food, drink, tobacco

Health, medical

Hotels, catering, leisure

Other manufacturing

Paper, printing

Property, leasing, real estate

Publishing, broadcasting, media

Retail, wholesale, repair

Telecom, IT, software, e-commerce

Textiles, clothing

Transport, distribution, logistics

2.3 What sector is your organisation in?

Public

Voluntary

Private

SECTION 3: CHANGES TO REWARD

3.1 Considering these following key areas of reward, have you made changes in any of them over the past three years?

	Yes	No
Reward strategy		
Job evaluation methods		
Base pay management		
Pay and grading structures		
Bonus and incentive plans		
Share plans		
Pensions		
Company cars		
Other benefits, allowances, flexible benefits, voluntary benefits etc		

Recognition plans

Reward communications

3.2 Why have you made changes in these areas? Please specify as many options as apply:

Address identified weaknesses/shortfalls/ineffectiveness

Reflect/match market practice

Respond to legislation

Driven by changes in our business strategy/reflect business needs

Driven by changes in our organisation structure – e.g. merger, downsizing etc

Reflect employee needs

Cost/financial pressures

Other - please specify [Open]

3.3 Is your function under more pressure to demonstrate the value which you and your reward systems deliver? Please select one option only:

Yes - a lot

Yes - somewhat

No

SECTION 4: REWARD OBJECTIVES

4.1 Which of the following would you describe as being your most important reward goals?

Please rate your top five goals, from 1 most important through to 5 least important

Number [between 1 and 5] May select only 5 options

External competitiveness to recruit and retain

Alignment with the business strategy

Co-ordinated with other HR processes – e.g. recruitment, development etc

Internal fairness and equity

Paying for performance and contribution

Cost effectiveness and affordability

Rewarding our values

Motivating and engaging our employees

Effective communication and transparency

Effective line management

Job and work design

Legislative compliance

Rewarding skills and competence growth

Customised and flexible to meet the need of different employees

Flexible and able to change

Efficient to control and administer

Support staff mobility and talent management

Simplicity

Other - please specify [Open]

4.2 And how would you rate the effectiveness with which you think these objectives are currently being delivered in your organisation?

Highly effective

Reasonably effective

Not very effective

Totally ineffective

Impossible to assess

SECTION 5: VIEWS ON REWARD SYSTEM EFFECTIVENESS

5.1 Looking at all aspects of reward, how effective do you think the reward systems in your organisation are?

Please rate on a scale from 1-10 where:

1 - Not effective at all

3 - Some key weaknesses evident

5 - Average/OK

7 - Strong, better than competitors

10 - Brilliant, world class

Number [between 1 and 10]

5.2 And how would your reward effectiveness rating differ from what you would have scored 12 months ago? Please select one box only:

Better - our reward systems are improving

About the same

Worse - our reward systems are not as effective as they were

5.3 And how would your reward effectiveness score differ for the following groups of staff in your organisation?

Please rate each group on a scale from 1-10 where:

1 - Not effective at all

3 - Some key weaknesses evident

5 - Average/OK

7 - Strong, better than competitors

10 - Brilliant, world class

	Number [between 1 and 10]
Executives and senior management	
Middle and junior management	
Professional employees – e.g. IT, finance	
Sales and marketing	
Clerical/administrative	
Manual	

5.4 Considering the areas of reward listed below, how would you rate their current effectiveness?

Please rate on a scale from 1-10 where:

1 - Not effective at all

3 - Some key weaknesses evident

5 - Average/OK

7 - Strong, better than competitors

10 - Brilliant, world class

Please indicate "Not applicable" if you do not have that practice.

	Number [between 1 and 10] or Not applicable
Reward strategy	
Job evaluation methods	
Base pay management	
Pay and grading structures	
Bonus and incentive plans	
Share plans	
Pensions	
Company cars	
Other benefits, allowances, flexible benefits, voluntary benefits etc	
Recognition plans	
Reward communications	

SECTION 6: REVIEWING THE EFFECTIVENESS OF REWARD ARRANGEMENTS

6.1 Have you made any attempt to systematically review the effectiveness of your pay and reward arrangements over the last 12 months? Please select one option only:

No [Go to Q6.2]

Yes [Go to Q6.3]

Partly [Go to Q6.3]

6.2 If No, please outline your main reasons for not attempting to review the effectiveness of your pay and reward arrangements: [Go to Q7.1]

Lack of information and data

Lack of resources and time

Lack of skills in assessment

Senior management views

Line manager attitudes and lack of skills

Employee attitudes

Regular changes in organisation

Other - please specify [Open]

6.3 How satisfied are you with your attempts and methods to review and demonstrate effectiveness? Please select one option only:

Delighted

Satisfied

Partly satisfied

Depressed

6.4 Do you use any of the following **methods** to assess reward effectiveness? Please specify as many as apply:

Specific review group/taskforce

Internal data analysis

Equal pay reviews

Staff attitude surveys

Line manager surveys

External market pay surveys

Business/HR benchmarking

Legal/compliance reviews

Other - please specify [Open]

6.5 In terms of the **general criteria** that can be used to assess the effectiveness of reward systems, do you use any of the following? Please specify as many as apply:

Financial impact and costs

HR outcomes – e.g. labour turnover, absenteeism

Stakeholder views – e.g. managers, employees

External benchmarking

Business KPIs and outcomes - e.g. profit, customer service

Other - please specify [Open]

6.6 And what are some of the **specific measures** that you use to assess effectiveness? Please specify as many as apply:

Assessment against reward strategy objectives

Analysis of pay market positioning

Employee attitudes – e.g. satisfaction, engagement

Staff turnover rates

Vacancy rates

Job refusal rates

Length of service

Absenteeism rates

Business financial performance

Other business metrics - e.g. sales, customer service

Financial costs and savings – e.g. of labour turnover

Impact of rewards on employee performance/productivity

Other - please specify [Open]

6.7 What would help you to improve **your ability to assess and demonstrate the effectiveness** of your pay and reward arrangements? Please specify as many as apply:

Better quality HR data

Improved HR systems

Better business/financial data

Improved employee communications/understanding

More time/resources

Changes in management attitudes

Better analytical techniques

Improved services from external advisers and consultants

Other - please specify [Open]

SECTION 7: LESSONS LEARNT

7.1 If you had to say what are the **three** major obstacles to improving the effectiveness of rewards in your organisation, what would they be? Please select the three most important obstacles:

[May select only 3 options]

Lack of information and data

Lack of resources and time

Lack of skills in assessment

Senior management views

Line manager attitudes and lack of skills

Employee attitudes

Regular changes in organisation

Other - please specify [Open]

7.2 What advice would you give other reward professionals about measuring and improving the assessment of reward effectiveness in their organisation?

Do . . .

[Open]

7.3 What advice would you give other reward professionals about measuring and improving the assessment of reward effectiveness in their organisation?

Don't . . .

[Open]

Many thanks for completing this questionnaire

May we contact you again for a more detailed discussion about your responses to provide case-study material?

Yes

No

The survey report will be emailed to you in PDF format in approximately two months' time.

If you have any questions, please email:

Appendix 4: Statements by Joint Authors and Other Relevant Comments

Co-author: Peter Reilly

From: Peter Reilly [mailto:Peter.Reilly@employment-studies.co.uk]
Sent: 14 November 2014 10:03
To: Duncan Brown
Subject: Co-authorship

Duncan, you asked me to confirm formally that we wrote the following material together (along with other authors as listed). I can indeed confirm that this was the case & that these articles & book are also listed under my name on the IES website (indicated on the footer to this e mail).

Reilly, P., Brown, D. (2009) 'Employee Engagement: What is the Relationship with Reward Management?' *HR Network Paper* MP83, January, Institute for Employment Studies, Brighton, Sussex.

Cox, A., Brown, D., Reilly, P. (2010). 'Reward strategy: Time for a more realistic reconceptualization and reinterpretation?' *Thunderbird International Business Review* (ABS 2*), Wiley InterScience, Vol. 52, 3, April, pp 249 – 260.

Armstrong, M., Brown D., Reilly, P. (2010). *Evidence-based Reward Management: Creating measurable business impact from your pay and reward practices.* Kogan Page, London.

Brown, D., Reilly, P., Armstrong, M. (2011). 'Increasing the effectiveness of reward management: an evidence-based approach', Employee Relations (ABS 2*). Emerald, Vol. 33, 2, March, pp 106 - 120.

Brown D. and Reilly P. (2013) ' Reward and Engagement: the new realities', Compensation and Benefits Review, Vol 45, 3, May/June, pp145 – 157.

Peter Reilly

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mobile: +44 (0) 7771 932993

skype: peter.reilly87

e-mail: peter.reilly@employment-studies.co.uk

website: http://www.employment-studies.co.uk

Co-author: Michael Armstrong

From: Michael Armstrong [mailto:michael@crescentwood.co.uk]
Sent: 24 October 2014 15:56
To: Duncan Brown
Subject: Re: Performance management article

Dear Duncan

This is to confirm that you and I worked closely together on each of the following publications and that you made an important contribution in developing and presenting the material, including the associated research.

Armstrong, M. and Brown, D. (2005) 'Reward Strategies and Trends in the UK: the land of diverse and pragmatic dreams', *Compensation and Benefits Review*, Vol 37, 4, July/August, pp 41 – 53.

Armstrong, M. and Brown, D. (2006) *Strategic Reward: Making it Happen*. Kogan Page, London.

Armstrong, M., Brown D., Reilly, P. (2010). *Evidence-based Reward Management: Creating measurable business impact from your pay and reward practices.* Kogan Page, London.

Brown, D., Reilly, P., Armstrong, M. (2011). 'Increasing the effectiveness of reward management: an evidence-based approach', *Employee Relations* (ABS 2*). Emerald, Vol. 33, 2, March, pp 106 – 120.

Best regards

Michael Armstrong

Co-author: Stephen Perkins

----Original message----
From: s.perkins@londonmet.ac.uk
Date : 31/03/2015 - 19:26 (GMTST)
To : duncanibrown@btinternet.com
Subject : Re: joint publication

Great hearing from you, Duncan.

Pleased to know about your preparation to defend a prior publications thesis. You've more than made a contribution to knowledge in our shared area of interest over many years.

Thanks for referring to our joint article. Of course happy to confirm that we worked on this jointly.

Good luck - and let's arrange to get together for a proper catch up: it's been too long!

Come and visit us at Moorgate if that would work for you. We can arrange date and time when you're ready.

All the best

Stephen

Professor STEPHEN J. PERKINS DPhil (Oxon) Chartered FCIPD CMgr FCMI FHEA

Dean

London Metropolitan University, Electra House, 84 Moorgate, London, EC2M 6SQ

E: s.perkins@londonmet.ac.uk | W: londonmet.ac.uk/fbl| Twitter: @profsjp T: +44 207 320 1668

Comments from Dr Georgy Petrov, Director of the Kingston International HR Masters Programme, Kingston University

From: "Petrov, Georgy" <G.Petrov@kingston.ac.uk>

Date: Thu, 16 Oct 2014 16:29:54 +0100

To: duncanbrown (duncanibrown@btinternet.com) (duncanibrown@btinternet.com)<duncanibrown@btinternet.com>; Duncan Brown (duncan.brown@aonhewitt.com)<duncan.brown@aonhewitt.com>; Farmer, Mark A<M.Farmer@kingston.ac.uk>

Cc: Narendran, Sunitha<S.Narendran@kingston.ac.uk>

Subject: Feedback from Moscow

Dear Duncan and Mark,

I just wanted to say a big Thank You to both of you for delivering the Reward Management module in Moscow last week.

I've just had a conference call with Natalia and Margarita, the Dean, at ANE in Moscow. They told me that feedback from students was very positive. The students spoke highly of your lectures, your teaching styles and a good balance between theory and practical applications. I hope you enjoyed the experience as much as they did.

So, this means that we will need you both again in December 2015. I will inform you of the exact dates in the spring/summer 2015 and I hope both of you will be available.

Many thanks.

Best,

Georgy

Comments from Mr Peter Robinson, Reward and Recognition Manager, Transport for London (referenced as a user of my reward strategy models in this submission)

Tue 16/06/2015 17:47

Robinson Peter (Reward & Pensions) <PeterRobinson@TfL.gov.uk>

Duncan,

You asked me to drop you a line to confirm your involvement and support given to TfL regarding our recent work looking at the TfL reward strategy. I am happy to confirm that this was the case and that we found your support and thinking on the matter extremely helpful. Through our series of workshops you provided some very pertinent and useful insights and analysis; and generally helped us to hone our approach and set a more refined and clearer direction, whilst simplifying how we could articulate our strategy in future. We also focused on our need to gather stronger evidence for shaping our future direction and whilst this remains a work in progress for TfL your input was hugely beneficial in moving our thinking forward.

Kind regards

Peter

Peter Robinson | Reward & Recognition Manager
Transport *for* London | Reward & Pensions | HR | Floor 4 | Wing-over-Station
55 Broadway | London | SW1H 0BD
☎ 020 7918 4763 | **Auto:** 44763 | **M:** 07809 491666 | **Email:** PeterRobinson@tfl.gov.uk

Comments from Ms Regina Pawlik, Executive Secretary to the ICSC of the United Nations

I refer in my submission to the UN's use of my reward strategy model as part of their review of the Common System. They have not been able to release the briefing document concerned but comment that I can confirm its use in the note below.

From: Regina Pawlik/NY/UNO
To: duncan.brown@btinternet.com
Date: 10/04/2015 12:23 PM
Subject: Reference to background document

Dear Duncan,

I discussed the request with our Chairman and we both agreed that you could go ahead and reference the document that discusses your reward strategy model.

Thank you for having sent me your new contact information and whereabouts. Let's keep in touch.

All the best,
Regina

Regina Pawlik
Executive Secretary
International Civil Service Commission (ICSC)
e-mail: Pawlik@un.org
Tel. +1-212-963-2092

Appendix 5: Text of Articles being Submitted

WorldatWork journal

Volume 9 Number 2 Second Quarter 2000

The Third Way
The Future of Pay and Rewards Strategies in Europe

By Duncan Brown

Ten years ago, the future for pay and benefits practices in Europe appeared to be running along two clearly distinct tracks. Then-U.K. Prime Minister Margaret Thatcher's primary affiliations were across the Atlantic, and British rewards practices were following her laissez-faire economics, as well as American-inspired human resource management ideas: more flexible and short-term contracts; more individual performance-related pay; and larger executive incentives and a consequent widening of pay differentials. These were some of the most obvious symbols of the trans-Atlantic traffic in rewards and employment practices.

In continental Europe, on the other hand, few questioned the prevailing corporatist mindset, with its high levels of state benefits provisions, pay co-determination structures and equity-driven pay settlements. According to management writer Andrew Lorenz, French and German politicians faced a stark choice: follow "the British enterprise culture, which contains many features of the all-conquering American economy" or remain "tied up in the Euro straitjacket" (Lorenz, 1999).

Towers Perrin's latest research on 464 Europe-based organizations, *European Rewards Challenges and Changes 1999*, reveals that a significant level of change in pay and rewards practice is occurring, but there is no longer an obvious "twin-track" pattern to these changes. Supply-side reforms to state welfare provisions and employment conditions are occurring in Germany, Italy and Spain. Meanwhile, U.K. employers are struggling with an increasing wealth of European Union-inspired employment legislation on working hours, the minimum wage and employee consultation. This follows the Labor Government's decision to fully adopt the social provisions of the Maastrict Treaty.

If not an American or Continental model of pay and rewards, is something else emerging? Is a combined, blended "third way"–espoused in the political arena by former U.S. Labor Secretary Robert Reich and UK Prime Minister Tony Blair–evolving in the rewards sphere, combining "North American dynamism and flexibility with European social justice and welfare" (Blair, 1998)?

This was the subject of a lively and well-attended debate that Towers Perrin hosted at the 1999 American Compensation Association Conference in Boston last May. Each of these three directions–more U.S.-style practices, greater European commonality and a combined "third way"–were presented and discussed, and a vote was taken at the conclusion as to the likeliest future scenario.

Since then, detailed analysis has been completed on the results of the Towers Perrin research study in order to see what the factual evidence indicates.

In this article, some key arguments for these three futures for European pay and rewards are presented, and the extent to which the detailed research data supports them is examined. Finally, the implications and conclusions for employers with operations in Europe are offered.

Methodology

Towers Perrin first undertook a detailed study of pay, rewards and employment practices throughout Europe in 1996. In 1999, this research was updated and extended, and 464 organizations based in 13 European countries participated. The sample was biased toward large private-sector multi-nationals, such as Marks and Spencer and Glaxo Wellcome in the United Kingdom; Deutsche Telekom and Volkswagen in Germany; Pechinet in France; Fiat in Italy and Banco Santander in Spain, but organizations of all sizes and in all areas of economic activity took part. (See Figure 1.) Many European subsidiaries of North America-based firms also participated, including Citibank, Motorola, HP, Seagram and American Express.

Figure 1: PROFILE OF THE 464 PARTICIPANTS IN THE PERRIN EUROPEAN REWARDS STUDY

The study methodology involved participants, who were generally directors of human resources or heads of the compensation and benefits function, completing a detailed questionnaire, often in individual meetings with consultants. The questionnaire was pre-tested in five countries. Follow-up interviews were conducted, after the initial data analysis and before the production of the final study report, to test the emerging themes. What does the evidence suggest for the emerging trends and directions in European rewards management?

The North American Way: The Spread of Shareholder Capitalism

In February 1999, the European edition of Fortune magazine observed that "two decades after the United States, the Old World's blue chips are finally getting the shareholder value religion. For all the talk about protecting employees and the community...the ethos of Wall Street has arrived" (Guyon, 1999).

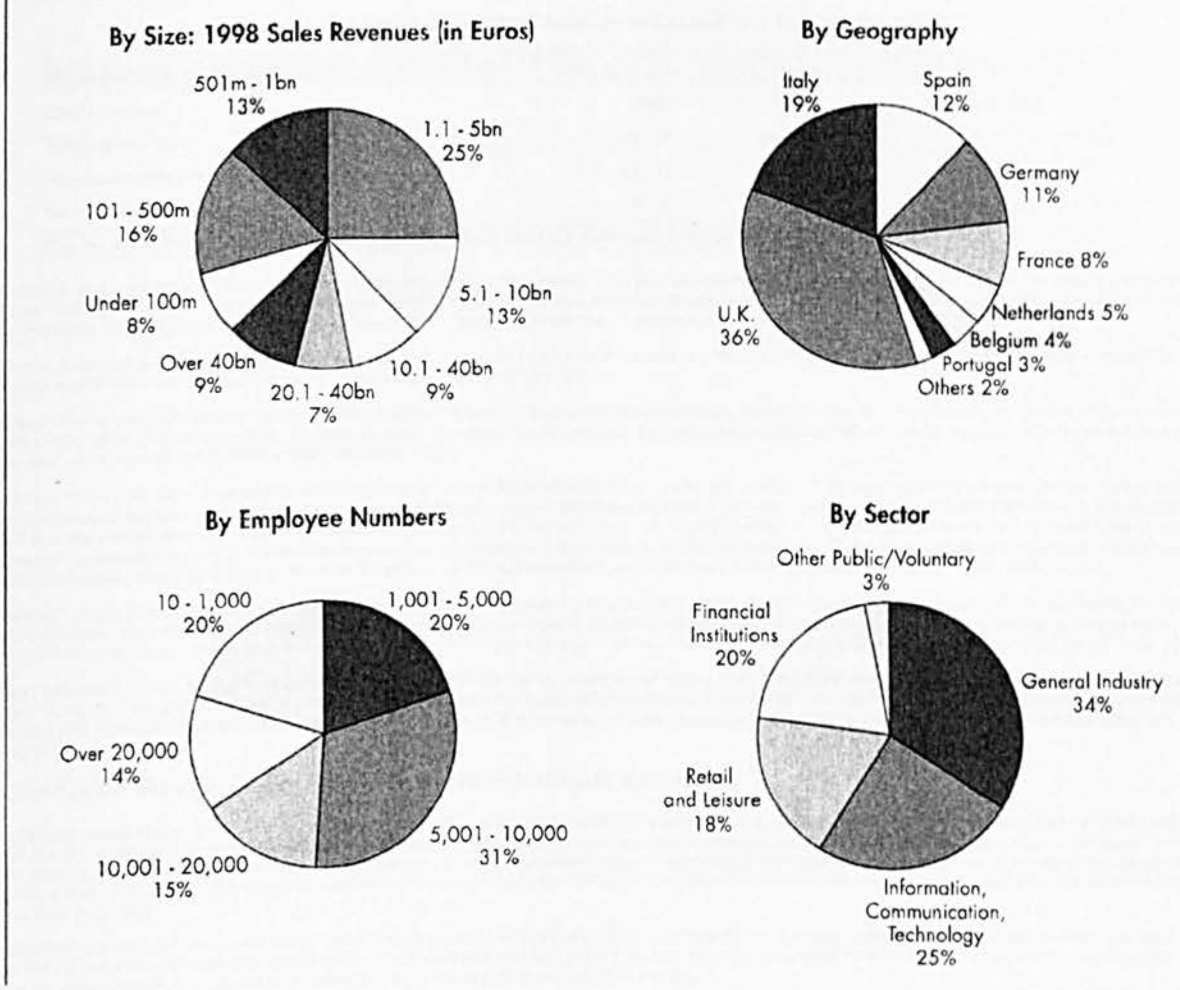
The percentage of non-U.S. equity holdings by US companies doubled in the decade after 1988, with $600 billion in foreign equity now held by American investors. According to Nobert Walter, Deutsche Bank's chief economist, the new emphasis on shareholder value means Europe "is finally back on track" (Woolacott, 1999). An unprecedented upsurge in hostile takeover activity across the Continent in 1999, as well as significant restructuring and downsizing at major employers such as DaimlerChrysler, Shell and Philips, provides support for this interpretation. Significantly, the *Fortune* article also mentioned the related emergence of executive stock options in mainland Europe, particularly in Germany and Sweden, following the US and UK executive pay model.

Towers Perrin's latest rewards research provides plenty of justification to suggest a U.S.-inspired future for European rewards practices. For example:

- The proportion of variable pay in the average European worker's pay packet has increased by approximately 5 percent since 1996, and this trend is forecast to continue at all levels. (See Figure 2.) More than 90 percent of companies now operate cash bonus plans, with a majority operating three or more schemes.
- Distinct, differentiated, performance- and market-driven pay arrangements for senior executives are now the norm in 70 percent of Europe-based companies, with 27 percent either having recently introduced or enhanced executive share option schemes to help reinforce the primacy of shareholder performance.
- In base pay, wholly merit-based increases now predominate for management and professional staff, with only a quarter of participating organizations still using general, across-the-board increases even for nonmanagement staff.

Figure 1

PROFILE OF THE 464 PARTICIPANTS IN THE TOWERS PERRIN EUROPEAN REWARDS STUDY



- Flexible benefits have already had a significant impact in the United Kingdom, and 55 percent of the participants across Europe have plans to introduce greater flexibility and choice, particularly in the Netherlands and Spain.
- Fifty-five percent of companies have increased their use of contract workers in the past three years and 44 percent have increased their part-time and temporary work forces. The trend is forecast to continue.

Figure 2: THE INCREASING EMPHASIS ON VARIABLE PAY ACROSS EUROPE

Mix of Base Pay and Variable Pay			
Staff Category	**1996**	**1999**	**Forecast 2002**
Senior Executives	**80 : 20**	**75 : 25**	**69 : 31**
Management/Professional Staff	**88 : 12**	**84 : 16**	**79 : 21**
Nonmanagement Staff	**96 : 4**	**93 : 7**	**89 : 11**
Figures are average ratio between fixed pay and variable pay for participants with bonus plans.			

Yet it would be easy to exaggerate the influence of these changes. Many of the more radical "new pay" approaches such as broadbanding and pay-at-risk remain very much minority practice in Europe. Only 6 percent of all companies in the Towers Perrin study, for example, currently operate cafeteria-style benefits plans, while the incidence of competency-related pay has increased only marginally in the last three years, from 11 percent to 14 percent of companies.

Traditional and often long-standing profit-sharing plans remain the most frequently used form of variable pay for nonmanagement employees. Generally, such schemes have a much larger internal membership and coverage than the newer, individually focused incentive plans.

Nor has the spread of such "alien" US practices achieved wholehearted support. Writing in *The Financial Times*, Robert Bridges, for example, attacks "the US culture of enterprise (which) would be a bitter pill for Europe to swallow. Consider the price the United States has paid: ever-widening pay differentials and social extremes, six-day work weeks and two weeks holiday a year, serious wage and benefits abuses" (Bridges, 1999).

German, French and Italian trade unions, as well as politicians such as French Prime Minister Lionel Jospin and Germany's ex-Finance Minister Oscar Lafontaine, have also reasserted the importance of maintaining "traditional" European social values to support economic success in the future. Jospin told the European Parliament in Strasbourg in September 1999 that "the market economy doesn't find harmony of its own accord: it needs rules." His latest proposals include financial penalties for employers guilty of "abusive" job cuts, or those relying "excessively" on part-time and temporary workers. According to management journalist Andrew Grice, "Prime Minister Blair is on a collision course with fellow European Union (EU) leaders, after urging them to adopt his strategy of permanent revolution (and) to emulate America's economic miracle" (Grice, 1999).

Whatever the popular criticisms of the continental European labor market model, according to economics professor John Kay at Oxford University, "If you are looking for the world's most successful economies, don't look to the United States: a small west European state is the best predictor – Denmark, Ireland, Switzerland, Luxembourg. They all have stifling levels of taxation, social cohesion and interlocking networks of business, employer and state – principal features of the supposedly defunct European social model" (Kay, 1998).

At the micro level, analysis in the Towers Perrin rewards study does not indicate that the highest- performing companies in the sample – calculated both in terms of total shareholder returns and return on equity – are any more likely to use "new pay" or flexible employment practices than the remainder. They do, however, make greater use of all-merit base pay and bonus schemes and appear to pay greater attention to, and invest more in, the *processes* of rewards management, such as associated employee communications and management training.

The Pan-European Way: A Collectivist Future with National Variations

The Towers Perrin data would support the argument that the continental European model is definitely not defunct, but actually is thriving and extending. Just more than half of the European multinationals studied by Towers Perrin believe that Economic and Monetary Union (EMU) will encourage more Pan-European pay agreements in the future. The larger trade unions are already working with this aim in mind. Seventy-seven percent of companies expect the increased pay transparency across borders, resulting from the move to a common currency, to lead to greater commonality in remuneration programs in the longer term. Companies such as Eli Lilly are already showing staff their pay in both euros and local currency on their wage slips.

Fifty-six percent of the UK and U.S.-owned companies Towers Perrin studied also want, ultimately, to harmonize their pension schemes across Europe. Two-thirds of those organizations in the research with internationally based executives already use a single, global long-term incentive plan, while 54 percent operate a common job evaluation system and grade structure, either globally, such as Nortel, or within the European region, such as United Biscuits.

Indeed, the rewards package for a typical employee in a representative European company today does not look significantly different from what you would have seen three years or even a decade ago, with:

- Base pay initially established through an internal job evaluation process (used by 75 percent of organizations, with a particularly high incidence in Germany and the public and manufacturing sectors).
- A pay structure consisting of four or five grades for managers and six or seven for nonmanagement staff, with median range widths from top to bottom of 25 to 50 percent. Traditional promotions up the grades are still the most commonly used tool to recognize and retain high-performing employees.
- Base pay increases for high performers of around 1.5 times the general, cost-of-living-related amount.
- A common, profit-sharing element of up to 10 percent of base pay (in 50 percent of participants).
- An increasingly comprehensive package of benefits and perquisites, with 43 percent of organizations in the study having increased their benefits expenditure in the past three years, compared to only 5 percent who have decreased it.

Yet two fundamental rejoinders can be made to this data and this interpretation of greater European commonality. First, evidence suggests that the inflexibility of the traditional European employment model is being subverted by increasingly global companies, operating in ever-more competitive and international markets. Witness the failure early in 1999 of a Dutch law aimed at protecting part-time workers. It had to be overhauled after only a few weeks because it simply encouraged companies to lay off these employees, to avoid the extra burdens imposed by the EU-inspired legislation.

In recent years, European companies such as Siemens have considerably reduced the size of their domestic German operations, and built new capacity in lower-cost locations such as the United Kingdom and United States. According to Reich, the European model, in the context of increasing global competition and a rapidly aging population, can only result in ever-higher unemployment, and organizational and state bankruptcy (Reich, 1999).

Second, totally harmonized Euro-rewards practices appear to be a long way off. The massive gulf in pay levels between, say, the Swiss and the Portuguese participants in the research is clearly not going to be closed in the short to medium term. Almost four out of five multi-national organizations in the Towers Perrin study reported continuing difficulties in the international management of pay and benefits, such as moving staff between countries (41 percent) and cross-border equity or relativity disputes (20 percent).

Indeed, the overwhelming impression received from detailed analysis of the European rewards study data is of the continuing country-based variations and idiosyncrasies in rewards management, a finding with which the compensation and benefits director of any major US company with operations in more than one European country would concur. Some key distinctive characteristics of national rewards practices are summarized in Figure 3.

Figure 3: SOME KEY DISTINGUISHING CHARACTERISTICS OF PAY AND REWARDS POLICIES IN INDIVIDUAL COUNTRIES COMPARED TO THE ALL-EUROPEAN AVERAGE DATA

UK	• Strong emphasis on need to recruit and retain high-performing employees • High incidence of broadbanding • Highest incidence of flexible benefits approaches • Greater outsourcing of rewards activities • Greater use of technology, such as HR service centers
France	• Fewer changes in performance management systems • Extensive use of profit sharing and share schemes • Significant levels of change in benefits policies, particularly evident in medical care plans, and pensions • Higher incidence of skill-/competency-related pay • Rewards management remains strongly centralized and HR-controlled
Germany	• Traditional, factor-based job evaluation and "top down" appraisal systems are still prevalent • Strong trend towards harmonization of pay and grading structures • Low usage of all-merit pay reviews • High levels of recent change in the areas of flexible working initiatives, working hours and conditions • Strong technical / structural focus to rewards communications
Italy	• Stronger legislative influence on reward strategies • High use of competencies in job evaluation and performance management systems • Broader membership of variable pay reviews • Fewer flexible benefits programs at present, but greatest interest in future in introducing • Major change forecast toward communicating / involving employees in rewards issues
Spain	• Higher incidence of team rewards and collective bonus plans • Greater proportion of work force covered by bonus plans • Strongest move away from general to all-merit pay increases in past three years • Greater devolution of rewards management under way • High use of competencies for rewards purposes, particularly in job evaluation

Outside of chaos theory, there is another interpretation that could be placed on the country and sector variations in the Towers Perrin data – a third approach to rewards management is emerging.

Third Way Pay: Economic Efficiency with Social Justice

The third way is not a new concept, and has been used by politicians of all persuasions at various times throughout the past century. Blair has perhaps set out its central tenets most clearly, calling for the need to move beyond the preoccupations of the Old Left and New Right (Giddens, 1999). He has drawn support from Reich and US President Bill Clinton in the United States, having participated in a joint seminar on the subject in September 1998.

Not surprising, this useful concept has spread beyond politics. An Anglo-German working group, for example, has been set up to examine ways of promoting this "Neue Mitte" and Massimo D'Alma, prime minister of Italy, recently expressed his full agreement with Blair on "the need for innovation, to find a dynamic social model." Even Jospin was described by The Economist as "treading cautiously down Tony Blair's 'third way'" ("A Left Jink," 1999).

As Blair expressed it to the Labor Party's 1999 annual conference, the third way is about "creating equality of opportunity without restricting choices, combining the dynamic markets of America with the social cohesion of Europe, achieving both economic efficiency *and* social justice." Similarly, Reich argues strongly for U.S.-style business flexibility in mainland Europe, but also for "security, to encourage workers to change." Otherwise, he notes, "workers will react adversely against low wages and job insecurity" and there will be the sort of social and political backlash against widening inequalities that he fears will occur in the United States (Reich, 1999).

As well as taking a new approach to balancing traditional opposites, the third way eschews set, universal solutions. As Blair described it to the French National Assembly in 1998, the third way is "whatever works... permanent revisionism to keep the balance, to meet our goals in fluctuating circumstances, changing the means but not the ends."

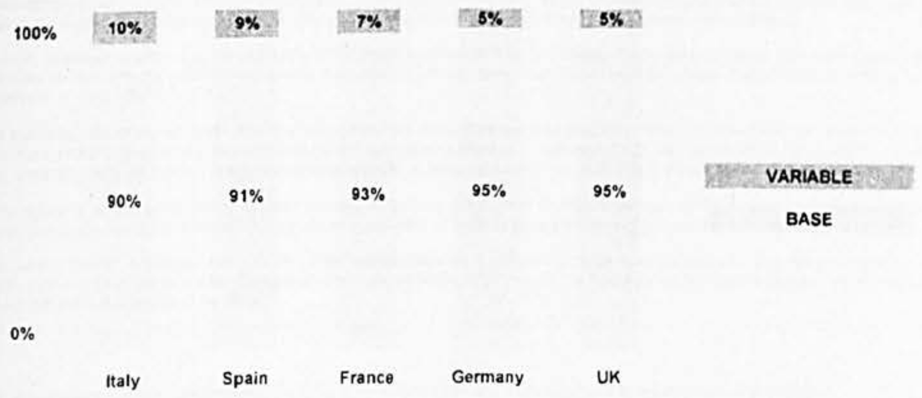
The Central Planning Bureau of the Dutch government, explaining the success of their country's economy in the 1990s, described the employment and pay implications of the third way in an internal document as follows:

"The American model promotes flexibility but at the expense of security, making employees less committed. The German labor market, with sector-based negotiations, is much less flexible. The Dutch labor market is somewhere in between, combining flexibility and commitment with a high percentage of part-time and temporary workers, varied wage levels but wide-ranging protection against dismissal and considerable employee participation."

Towers Perrin's European rewards study provides strong evidence to suggest that this process of international and philosophical fusion, of companies picking and tailoring the best approaches to suit themselves, drawing from old and new, individual and collective, Anglo-Saxon and Continental practice, is already well under way.

Indeed, it is already difficult to identify separate UK and continental European rewards practices, with broadbanded pay structures and competency-related pay being just as common in France, Germany and Italy as in the United Kingdom. In turn, traditional equity-focused job evaluation schemes are as popular in the United Kingdom as among French companies operating in their national industry pay structures. In a number of cases, average bonus and variable pay represent a higher percentage of total cash payments among continental European employers than in the United Kingdom. (See Figure 4.)

Figure 4: THE CURRENT AVERAGE BASE PAY: VARIABLE PAY MIX FOR NONMANAGEMENT STAFF IN SELECTED EUROPEAN COUNTRIES



This finding is, perhaps, not surprising. Many UK manufacturers have imported flexible and efficient working practices from their German subsidiaries. Towers Perrin's study shows that German companies have led Europe in the past three years in making changes to contractual terms and conditions. Similarly, the incidence of part-time working, job sharing and other flexible working initiatives is no higher in the United Kingdom than in the rest of continental Europe.

Interestingly, it is in looking at individual pay and benefits practices in the research data that this process of creative tailoring and melding is most evident. For example:

- Thirty-seven percent of companies now have team and collective bonus schemes in addition to individual performance pay, compared to just 2 percent who have team pay alone. The fastest-growing types of variable pay are combined, multi-tiered bonus programs, measuring performance at the company, team and sometimes individual level, and thereby aiming to provide both collective rewards and individual incentive.

While 16 percent of organizations have introduced broad pay bands with a width of 60 percent or more in the past three years, more common in the European environment have been more marginal increases in range widths and gradual reductions in the number of pay grades, in order to maintain an appropriate balance of structure and flexibility in base pay management. A number of organizations in the Towers Perrin study, such as the BBC, have progressively evolved to fewer grades and broader bands in a series of stages, developing the capability to manage the greater flexibility in pay levels within their new structures before pushing it further.

- Hybrid approaches are also emerging in the area of job evaluation, where the use of standard, "off the shelf" schemes has declined significantly; but far from seeing the death of job evaluation, such as predicted in *Compensation & Benefits Review*, newer considerations of skills and competency pay are being combined with it (Emerson, 1999). Fifty-seven percent of organizations in the Towers Perrin study have job evaluation schemes, including measurements of essential skills and competencies, often alongside of more traditional "inputs" and accountability measurement criteria. Examples include Guinness, Glaxo Wellcome, Volkswagen and Nortel.

This abandoning of simple, universal approaches and adopting of specific, tailored rewards systems is perhaps most evident in the area of remunerating internationally mobile employees. The Towers Perrin study reveals the move away from single, universal and uniform norms, such as the home-based, balance-sheet approach, which is forecast to decline in usage from 47 to 32 percent of companies over the next three years. Companies are instead trying to tailor packages to suit their particular needs and environments, with 18 percent of them forecasting the introduction of greater segmentation into their policies by employee type, and a similar proportion by geography.

Thus one large North America-based participant, with operations in the United States, Asia and Europe, recently overhauled its international remuneration policies. The company now offers less generous arrangements than before for certain categories of more junior, often unmarried, staff who need international experience for their future career development. It also provides all of its expatriate employees with greater choice in the detailed delivery of their rewards packages.

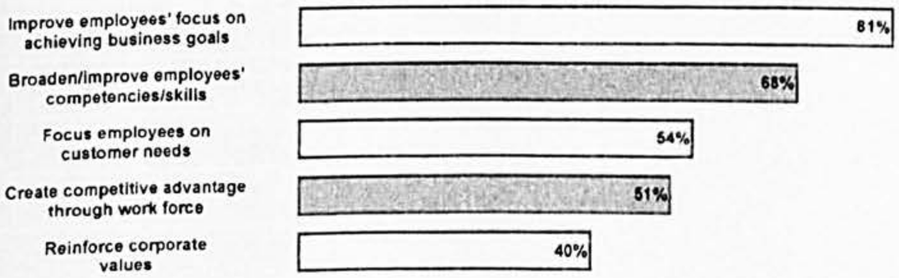
The Way Forward: Conclusions and Implications

As companies with operations in the United Kingdom and continental Europe consider their next set of pay and rewards changes – which 96 percent of them have planned, according to the Towers Perrin research – what will be their competitive context, and where are those changes leading our organizations and the societies in which they operate? This study of rewards practices in Europe paints a complex picture of change and evolution.

Organizations based in Europe are questioning and, in some cases, abandoning traditional, national employment norms. They are less influenced than one might anticipate by tax and employment legislation, with only 8 percent regarding it as a major factor in their rewards practices and changes. Nor are they faddishly following the fully flexible North American "new pay" practices, advocated by remuneration experts such as Tom Wilson and Gerald Ledford (Ledford, 1996).

Instead, companies are evolving arrangements that better support the achievement of their own strategic business goals, and suit their own unique cultures and environments. (See Figure 5.) Focusing employees on business goals and customer needs is the primary driver of current changes to pay and benefits.

Figure 5: THE MOST SIGNIFICANT HR GOALS CURRENTLY DRIVING REWARDS CHANGES IN EUROPE



In doing so, organizations in the Towers Perrin study are following one or more of three parallel and concurrent courses within their rewards strategies:

- Updating and improving their traditional and often long-standing job evaluation systems, employee-recognition programs and profit-sharing arrangements.
- Introducing totally new arrangements and systems such as cafeteria benefits, broad bands, team rewards and intranet-based rewards communications.
- Creating tailored, hybrid approaches, such as job-evaluation systems using skills and competencies, the use of marginally fewer grades and wider pay ranges, and the development of multi-tiered bonus plans.

For US organizations with substantial operations in Europe, or those worried about the widening income inequalities in North America, there might be a number of implications for the future of rewards practices. These include being aware of the dangers of blindly following local market practice, or at the other extreme, exporting wholesale domestic US practices to overseas operations. As founder-president of the Saratoga Institute Jac Fitz-enz succinctly puts it, "[T]he generalized best practice that someone touts is neither general nor best practice" (Ulrich, 1997). Practices need to be global and local, flexible and secure, individually incentivizing and collectively rewarding.

More generally, as Dave Ulrich, business professor at the University of Michigan explains and as the Towers Perrin data suggests, HR professionals are recognizing that "in a world of high amounts of change, they cannot assume that they will design the perfect program. They must learn to quickly design thoughtful programs, to learn and adapt…to be more flexible, dynamic and responsive" (Ulrich, 1997).

As with the political world's third way, this does not mean that "anything goes," but rather that rewards practices need to evolve based on a core commitment to, and alignment with, the strategic direction and culture of the organization. As Hewitt Associates consultants Edward L. Gubman, Ph.D., and Kimberly S. Scott, Ph.D., explain, "[T]here are no best practices … each company requires practices tailored and adapted to its specific strategic style and circumstances" (Gubman and Scott, 1999).

It is this desire for better strategic alignment that is driving so much change in rewards practices in Europe. However, as the Towers Perrin's research report concludes, it is "regular, incremental, 'tinkering,' evolving changes at a speed to suit the needs and capability of each organizational setting" rather than a revolutionary change.

If these are the implications, which "future" is going to win out? The three perspectives on the future for rewards management in Europe were debated at the WorldatWork's international conference in Boston and then put to a vote. Delegates voted overwhelmingly in favor of the third way as the most likely and, more important, the most desirable future. In reality, the near-term future will contain aspects of all three.

The Author

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Rewards Strategies for Real: Moving from Intent to Impact

By Duncan Brown
Towers Perrin

People who influence pay and rewards practices would today regard it as a criticism to describe those practices as "non-strategic." In earlier decades, compensation practitioners were strongly influenced by government policies, ideas of professional "best practices" and tradition. In the mid-1980s, many practitioners were criticized for their narrow-minded, reactive, technical and administrative approaches.[1]

Since then, though, the notion of strategic human resources management has become pervasive. Pay has apparently been revolutionized by increasing competition, globalization, skills shortages and new technologies. They have moved pay from a peripheral role to center stage in influencing and achieving corporate objectives.

Armed with copies of Edward Lawler's Strategic Pay and Jay Schuster and Patricia Zingheim's New Pay as guidebooks, industry professionals have spent the past decade enthusiastically righting yesterday's wrongs and pursuing the strategic approach, defined by Lawler as "an integrated rewards approach linking company strategy, pay systems and employee behaviors."

In their latest book, Schuster and Zingheim paint an enticing portrait of "sweeping and dramatic pay transitions," and of companies "using pay to lead change." HR practitioners have been transformed, shedding the persona of backroom administrators to don the hat of respected boardroom advisers and change agents who help bring strategy to reality.

The exhortations and claimed benefits of the strategic rewards approach have become more strident and expansive than ever, while non-strategic rewards have taken their place on the back-burner. Schuster and Zingheim concur, describing the old "steady state" approach as a recipe for organizational road-kill. And, with regard to the gains related to this new, more strategic role, one U.S. consulting firm recently claimed to have proof that "effective reward[s] strategies boost shareholder value by 9.2 percent."

Intent and Illusion

There is no doubt that organizations are responding to this normative HR orthodoxy. Of more than 1,000 companies in 15 countries surveyed by Towers Perrin, 78 percent have an articulated rewards strategy -- virtually double the number in the mid-1990s. Also, 94 percent of the companies made significant changes to their rewards practices in the late 1990s, and 96 percent said they planned for more modifications.

The intention is clear: linking rewards more closely to the company's key success factors is a core component of these strategies, and they appear to be driving the radical levels of change described by Zingheim and Schuster. (See Figure 1.)

The Towers Perrin research also found that the largest proportion of a compensation specialist's time is consumed by developing policies and changes, while rewards administration demands the least time. In formulating rewards changes, the action could also be considered strategic, because board members were consulted 75 percent of the time.

But is it as easy as pulling rewards lever 'A' to achieve business results 'B,' as so much industry literature implies? Or are grand rewards strategies in reality as author John Purcell describes them: "An illusion in the boardroom"?

The Issues

Critics of the rewards strategy concept have become increasingly vocal in Europe, focusing on the problems of implementation. Based on their research, Annette Cox and Purcell believe that "a combination of internal pressures, history and expectations makes the strategic use of reward[s] systems extremely difficult to achieve," thereby making pay systems stronger sources of competitive disadvantage, rather than advantage.

In reality, "managing reward[s] is a job of short-term damage limitation, not the strategic lever for change that appears so seductive in the writings of American commentators," according to Marc Thompson, fellow at Templeton College Oxford. Apparently, those American commentators ignore the common realities of change overload and initiative indigestion, overworked and incompetent line managers, suspicious staff and truculent trade unions.

However, commentators and authors Richard Henderson and Howard Risher do point out that "pay decisions are mostly short-run, messy and political." In their writings, authors Ira Kay and Jeffrey Pfeffer attack the over-reliance on financial rewards, the ineffectiveness of pay for performance and other "myths" of pay strongly reinforcing the business strategy.

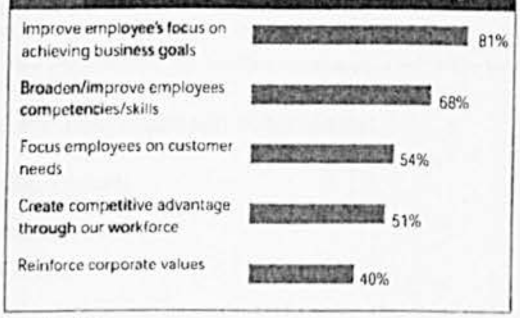
About two-thirds of 460 Towers Perrin survey participants in Europe are experiencing such difficulties which focus on the implementation and operating processes, notably:

- Ineffective communications (45 percent)
- Lack of appropriate line manager skills (28 percent)

There are many examples of under-informed, under-resourced line managers struggling to make sense of complicated new rewards schemes implemented by their corporate compensation staffs. There are undoubtedly instances of:

- Pay schemes still heavily influenced by tradition and pragmatism
- Knee-jerk responses to skills shortages
- Copying predominant market and supposed "best practices."

FIGURE 1 Significant Goals Driving Pay and Reward Changes



Source: Towers Perrin

Rewards in a European Car Manufacturer Dealership

In the highly competitive middle range of the European car market, this company adopted a business strategy of moving up-market to produce fewer, higher priced and higher quality models. The realization of this strategy rests on its new attractive models, supported by excellent customer service in the dealerships, improving on the company's already high re-purchase rates.

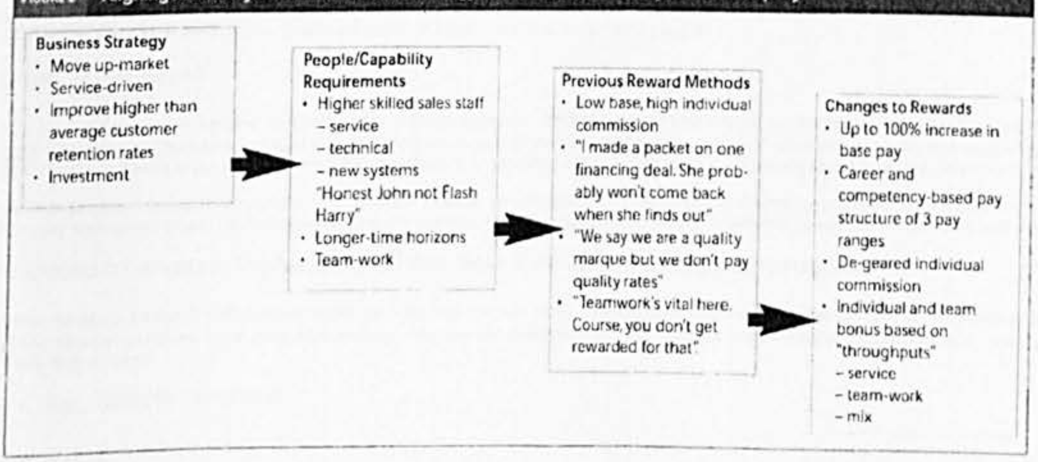
Yet investigations and consultations with sales staff in a sample of outlets highlighted the misalignment perceived between this strategy and the way employees were rewarded. (See Figure 2.) Rather than being rewarded for high levels of service and maintaining long-term relationships, most individuals were on a base pay of approximately £6,000 plus commission on margins, which in the prevailing market conditions earned them about £50 for selling a £15,000 car.

The company realized that major reform of the pay system was critical to realizing their strategy. Base pay levels were increased substantially on a phased basis, related to the demonstration of key competencies. All staff was put through a one-day assessment center and a comprehensive development program was introduced. Dealers were encouraged to improve benefits and introduce pension schemes to provide an element of security in the package and encourage retention.

Finally, the level of individual sales commission was reduced and a new bonus scheme adopted. This rewarded team and individual contribution across all aspects of the dealership's performance on a balanced scorecard basis.

With the new models and a whole host of changes in the dealerships, these reward changes proved instrumental in reinforcing a remarkable repositioning of this company in the market place, with markedly enhanced customer perceptions and financial performance.

FIGURE 2 Aligning Reward Systems with Business Strategy in the Dealers of a European Car Company



Perhaps most concerning, though, are the cases of strategic determinism – a gung-ho approach to rewards that some organizations have taken, possibly fueled by their reading. One example is that of attempts to link pay to the key business goal of customer service in the absence of any reliable and tested performance measures. Another example is that of team bonuses introduced to support a core corporate value. In fluid organizations these can create barriers to mobility and produce considerable administrative and operating complexity.

Are all of these rewards strategies just wish statements with no basis in operating reality, but suspiciously close to what everyone else in the market is doing? Should HR professionals abandon these grandiose ideas and retreat to their administrative backrooms? Is a minimized-hassle rewards strategy the only viable course in this new era of hyper change?

An HR top dog at a United Kingdom bank even admitted, "We deliberately didn't have a reward[s] strategy. The business would have reacted against the scale of the transformation involved and the resources required. It would have been a nine-day wonder."

Yet, this bank had spent the prior three years using grading redesigns, incentive plans and flexible benefits as powerful tools to reinforce the transition from a traditional mutual building society to becoming a retail bank.

Reasons a Strategic Rewards Approach Is Essential

Reward Decisions Are Significant

Strategic decisions can be defined as those that[ii]:

- Require top management involvement
- Are future oriented
- Entail considerable resources and influence on the long-term performance of the organization.

Even the most specific reward decisions – such as, how to integrate base pay structures in a merging energy company, or change the performance measures in an executive incentive plan – seem to meet these criteria.

Rule of Cause and Effect

Increasingly, an impressive body of research supports the theory that particular rewards practices cause specific improvements in corporate performance. Studies have demonstrated the relationships between business performance, employee commitment and a basket of HR rewards and practices. Additionally, Towers Perrin research has found a correlation between business returns to shareholders and particular practices, including more use of variable pay and a more open approach to rewards communications.

Shift from a Financial Focus to Human Capital

The sources of sustainable competitive advantage have shifted from financial to human capital. In an increasingly faster moving knowledge- and information-based economy, and with a talent war still underway, organizations are limited in their choices. In failing to reward and recognize what makes the business a success, or to change the rewards system as the results shift, then prepare to bid a fond farewell to those people and the company's success.

Don't Be Allergic to Change

Implementing rewards changes may be difficult but, in this new economic scenario, the options of either doing nothing or deciding that change is too sensitive and difficult to undertake are becoming far more dangerous. Less hierarchical, talent-hungry, team-based, customer-oriented and contribution-focused organizations no longer can tolerate multiple-grade structures, cost-of-living adjustments and expensive, undervalued benefits packages. Intervention and a guiding strategy are necessary. Consider these examples:

Fear of Change

A large U.K. insurance company used to pay its sales force with commission on product margins. While it is quite difficult to change such a culturally ingrained and long-standing practice, a disastrous year in the mid-1990s culminated in a massive regulatory fine for pension "mis-selling." The commission-laden compensation approach was identified as an important contributor, and plan reform became a top priority for the new CEO. Now, sales bonuses are much less highly geared and focused on customer service measures.

Not Making a Decision Is a Decision

In another real-life scenario, in which inaction came back to haunt an organization, a UK pharmaceutical operation ignored market globalization and continued to pay its executives within a local, job-evaluated pay structure. It recently lost a top executive to a U.S.-based competitor.

Reigning in the Beast

Rewards practices can rapidly become an albatross that damage corporate effectiveness and staff morale, even in fast-growing organizations. For example, a mobile phone company's entrepreneurial founders managed pay on a personal basis and opposed the rigid "big company" structures that many had experienced early in their careers. Yet, with more than 4,000 employees and no form of formal pay organization or specialist support, managers spent literally half of their time dealing with personal pay issues and negotiations.

Rewards changes are essential to support a shift in business strategy and a response to new situations. Another case in point is Royal Bank of Scotland. While a move to business unit-based pay arrangements and cafeteria rewards was not painless, the organization's pay now is determined by value to the business, rather than by status.

From Intent to Impact: Ingredients of the New Rewards Strategy Approach

Rather than throwing out the proverbial rewards strategy baby with the bath water, the original rewards strategy concept needs to be redefined. Similar to the shift that the business strategy discipline has achieved, it is a move from strategy, structure and systems to purpose, process and people [Bartlett and Ghoshal]. There are three main components of this fundamental shift in focus:

Set a Clear, Simple Direction

Compensation professionals need to:

- Abandon the obsession with detailed and complex top-down designs
- Set a clear direction and vision for HR and rewards practices that are understandable and supportable
- Adopt a flexible and adaptable approach with regard to how the vision should be realized.

Eisenhardt and Sull explained in a 2001 Harvard Business Review article: "When the business landscape was simple, companies could afford to have complex strategies. But now that business is so complex, smart companies have a new approach: a few straightforward, shared, hard-and-fast rules that define direction without confining it."

An International Energy Company's Trading Division

This company moved slowly toward a more flexible and market-driven rewards approach, including a broad-banded pay structure and new incentive schemes. But the rate of change was too slow for the power trading business, which stood as an independent division. Its success rested on appropriate risk-taking and speed of action, rather than the low risk incremental strategy of the core business.

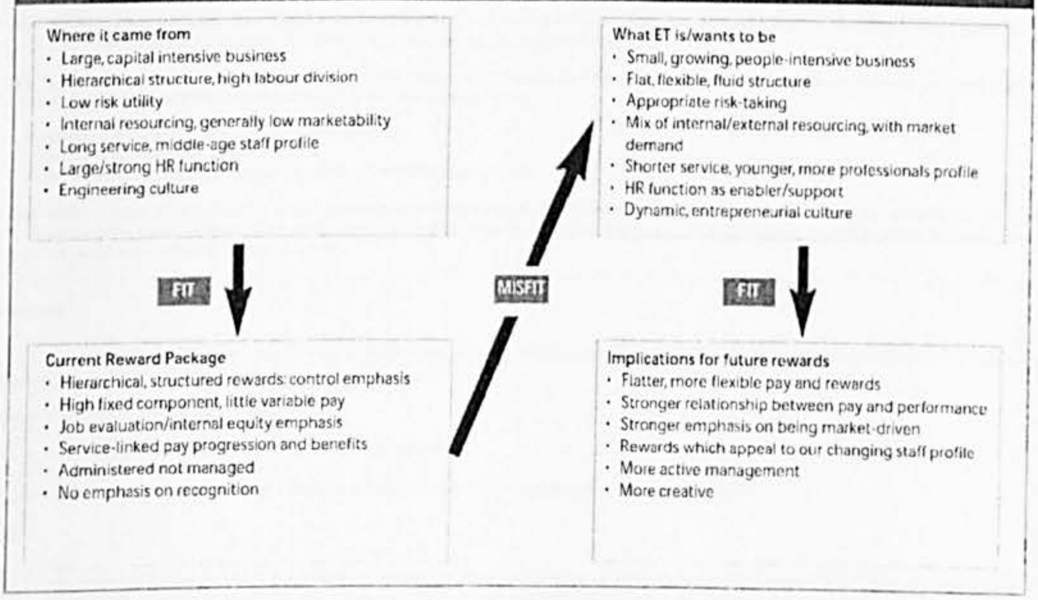
In staffing terms, while the majority of its employees still had lengthy service records with the company, more than one-third were now under age 35 and had been recruited from a variety of trading markets and countries in the last 18 months.

Rather than rush into financial trading style packages, the division set up a working team with line manager and employee members to investigate the issue. They developed a clear picture of the misalignment between the current package and what was needed for the future (See Figure 3). Equally vital, they mapped out how their employment 'deal' needed to change to reflect the changing staff profile and the newly opened energy market in the United Kingdom.

With a series of functional meetings involving all staff, the team developed a set of rewards principles that included a stronger focus on recruitment and retention, improved links between business performance, personal competence and rewards, and greater employee choice.

Proposals were rapidly developed in support of these principles, including a new flatter pay structure with job-family linked pay ranges, enhanced bonus opportunities, and improved performance management. In just four months, this strategy was defined and detailed, and in a ballot of all employees, more than 75 percent voted to support the new package. Introduction on a phased basis started in April 2001. While the HR manager recognizes the operating challenges ahead, he is amazed by the level of support and the impact that the new rewards strategy has generated.

FIGURE 3 Overview of the Required Evolution in Reward Arrangements in the Energy Trading Subsidary



Similarly, to have genuinely living strategies in HR and rewards, one can neither address the contemporary business landscape with complex individual designs, nor with dry plans. Instead, one needs to work with dynamic, integrated systems and processes, building an appropriate vision through a focus on trust and aspirations.

For example, it cannot be assumed that linking rewards to increasing shareholder value will be meaningful and motivating to the bulk of employees.

Take a Tailored, Flexible Approach

There is a need to learn and adapt in pursuit of this vision, to adopt a flexible, dynamic and responsive approach, rather than presuming to design the perfect program. Martin Ferber, Pfizer Research's HR director in Europe, describes Pfizer's approach to a broad series of pay changes as being similar to research activities: "consulting, challenging, testing, improving as we go, as part of a long-term, evolutionary process."

Towers Perrin research illustrates that much contemporary rewards work is of this tinkering, blended nature, having a clear business and rewards direction and set of goals, but open-minded and with multiple approaches in terms of how to pursue them. In the process of tailoring appropriate schemes they are:

- Borrowing ideas from the past and present, along with various sectors, and integrating what once were distinct North American and European practices
- Combining newer approaches, such as team and competency pay, into existing individual and performance pay approaches
- Moving into broader pay bands and flexible rewards, often in a sequence of changes, at a pace that matches both the rate of people's buy-in and the development of the management capability to deliver the strategy in practice.

Be Process- and Employee-Focused

Rewards strategy development often has been a narrow, analytical redesign exercise of specialists trying to produce the perfectly business-aligned scheme. Half of the HR departments in the Towers Perrin research failed to share their strategies with their line management colleagues. A paltry 7 percent involved employees directly in developing the strategy, or consulted with them regarding the redesign of incentive schemes. It is no wonder that the majority of rewards strategies stay on the drawing board.

There is a wealth of research evidence to demonstrate what Angela Bowey found 20-plus years ago: The success of rewards changes bears little relationship to the specific design of the programs adopted. Instead, it relies on clear objectives and intensive attention to the related processes of employee communications, performance management, teambuilding, etc.

John Purcell's current longitudinal research into successful HR strategies concludes that the focus needs to be on HR process that support the successful introduction of change, rather than on so-called high performance work practices. This revised rewards strategy model is already in action, as the two mini-case studies illustrate (See "Rewards in a European Car Manufacturer Dealership" and "An International Energy Company's Trading Division.")

From Rhetoric to Reality

The genuine revolution in rewards management in the past decade has been the move to genuinely embrace a much broader business agenda and strategic perspective beyond the traditional design and administration focus. Effective rewards policies need to have clear, planned goals and a well-defined link to business objectives and requirements. Of course, we also need well-designed programs that meet those needs. But that's not enough.

An outdated, narrow, wholly business-driven and top-down model of strategy is unsuitable for this contemporary, rapidly changing human capital-driven world. For organizations to fully realize in practice the written rewards strategy goals, there needs to be:

- Attention to a clear and shared vision and direction
- A flexible and adaptable approach
- Vastly improved reward processes that better meet employee needs.

In this 21st-century world of complexity, ubiquity, paradox and wave theories, organizations have to abandon outdated rewards concepts of Newtonian physics, machines and levers, revolutions and master plans. Instead, they need to borrow models from the biological sciences. Organic change, evolution and adaptation are increasingly becoming the characteristics of strategic rewards changes today.

Webnotes

Visit our Web site at www.worldatwork.org and go to Information Central. There you will find ResourcePRO, a powerful database that holds more than 7,000 full-text documents on total rewards topics.

For more information related to this article:

- Log in to ResourcePRO Search and select Simple Search
- Do Not Select a Rewards Category
- Type in this key word string on the search line: "total rewards" OR "reward and strategy or strategic"

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Endnotes

[i] Luis R.Gomez-Mejia

[ii] John Pearce and Richard Robinson, authors of Formulation, Implementation and Control of Competitive Strategy

Reward Strategies and Trends in the United Kingdom: The Land of Diverse and Pragmatic Dreams

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Joint Managing Partner
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Duncan Brown
Assistant Director General
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U.K. organizations have adopted the American-originated concept of a reward strategy but with an eclectic, pragmatic twist and a realistic assessment of the role of reward strategy in organizational success.

Tony Blair's government commonly paints a picture of the United Kingdom in international and economic affairs as a bridgehead between North America and continental Europe, combining U.S.-style economic growth and entrepreneurialism with European social justice. And although for centuries America has been described as a diverse cultural melting pot, the United Kingdom is in many senses a melting pot of reward practices. There are elements affected by the more structured, internal equity-focused policies in Europe, including powerful equal pay legislation. But ambitious performance and business-orientated strategies derived from U.S. thinking and experience have exerted perhaps the strongest influence for the last 20 years.

Much attention has been given in the United Kingdom to writers such as Lawler, Schuster, Zingheim, Ulrich and Moss Kanter as well as U.S.-parented consultancies and American business and reward journals. The practices of American-

Keywords: *reward strategy; reward trends; U.K. rewards; total rewards*

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owned global companies operating in Britain have been observed and, often, imitated.

A considerable amount of research has been carried out in recent years by the Chartered Institute of Personnel and Development (CIPD) and e-reward into what hundreds of U.K.-based organizations, of all types, sectors and sizes, are doing in the rewards field. The CIPD's Annual Reward Management Survey,[1] for example, covers almost 500 organizations employing 1.5 million people, and the data are supported by regular forum meetings and discussions. E-reward also carries out extensive survey and case-based investigations of major trends.

In this article we attempt to summarize all of this work to provide a comprehensive picture of reward strategies and trends in this U.K. melting pot of policies, practices and changes, with real-life illustrations from the reward professionals involved.

Strategic Reward Ambitions

Since Ed Lawler wrote his seminal book,[2] strategic reward has become a near-universal concept in the United States. This concept has taken longer to spread in the United Kingdom, but it is now increasingly accepted that formal reward strategies are required. The CIPD Survey established that half of all employers and more than 70% of larger ones now have a stated reward strategy, aligned to the business and human resource strategies of the organization. The top priority as shown in Exhibit 1 is supporting the goals of the organization, followed by recruiting and retaining high performers in a very tight domestic labor market.

The Real-Life Reward Scene in the United Kingdom

Having strategic reward goals is one thing; practicing them is quite another. The U.K. reward scene today is characterized by diversity, empiricism and, to a degree, conservatism. A number of organizations "burned their fingers" and experienced problems following popular and well-publicized approaches, most notably individual performance-related pay.

Today, "best fit" is more important than following supposed "best practice." Reward systems are tailored to the circumstances of the organization—its business environment, structure and culture. New ideas, including those originating from the other side of the Atlantic, are greeted with interest but also with some suspicion. The question raised is, "Are they right for us?"

For example, the concepts of broadbanding, competence-related pay and team pay were welcomed initially but have not taken off significantly in the United Kingdom. The general reaction is that there may be something useful in these practices, but caution needs to be exercised before they are adopted, if at all, and local modification is required. This also means that an evolutionary approach to making changes is generally taken, rather than an overly optimistic and immediate "revolution."

Overall, it is more about improvements than extraordinary new developments—it's a matter of what works within the context of the organization, rather than the "next big thing." Will Astill, reward manager of B&Q, a retail chain with 25,000 employees that completed a strategic reward review in 2003, explains, "An overriding theme running through our review was on the desirability of adopting a strategic approach. It wasn't a case of 'let's follow the best practice,' nor were we lured into adopting the latest fads and fashions. Taking what someone has done before will not push you ahead of rivals. Our emphasis throughout the two-year process was on what's right for the business."

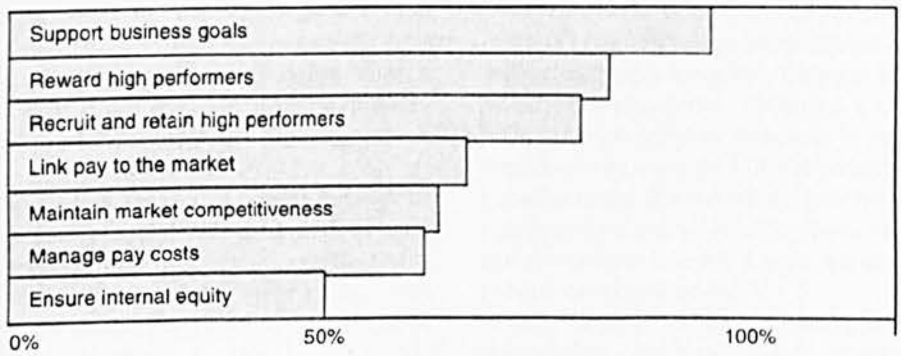
Tim Fevyer, senior manager of compensation and benefits at Lloyds TSB, the British-based bank with 80,000 employees worldwide, has a similar message: "We need to get away from adopting new initiative after new initiative . . . move away from a culture of 'flavor of the month.'"

Models of pay popularized in the 1980s and 1990s are not necessarily regarded as appropriate or workable in the 21st century. The belief that reward can be a leading driver of, rather than a contributor to, cultural change is not accepted in the United Kingdom so readily as it used to be. Mark Thompson at Oxford University wrote, "Managing reward is often a job of short-term damage limitation, not the strategic lever for change that appears so seductive in the writing of American commentators."[3] The dream of all-powerful strategic reward, of the Tom Cruise *Top Gun*-style reward managers described by Zingheim and Schuster,[4] has been subjected to a reality check.

In the following we highlight the three key challenges U.K. reward managers have faced in realizing their strategic ambitions and describe

EXHIBIT 1

Reward Strategy Goals in UK Organizations



some of the solutions arrived at in important areas, including total rewards, job evaluation, pay structures and contingent and variable pay.

Challenge 1: Implementing Reward Strategy and Change

Formulation is easy; implementation is hard. In the United Kingdom, more attention is now being given to how organizations can practice what they preach on reward. A more pragmatic approach is being taken. As one compensation director told us, "The reward strategies I like are the ones that work." It is also appreciated that implementation presents a massive change management challenge. Agenda for Change, for example, is a major pay restructuring exercise underway in the U.K. National Health Service affecting more than one million employees.

According to Paul Craven, compensation director, R&D, GlaxoSmithKline: "Don't expect people to change overnight and don't try to force change. It is better to reinforce desirable behaviour than to attempt to enforce a particular way of doing things."

This advice is given by Nicki Demby, performance and reward director at global drinks giant Diageo:

- Keep designs simple (but simple isn't easy).

- Ensure that the HR department is not developing policies and practices on its own, which are then tagged as just another HR initiative, rather than something owned by the organization as a whole.

- Explain the planned changes, the rationale behind them, and how they affect the workforce, and communicate who was involved in the development process.

Will Astill of B&Q has three pieces of advice on implementation: (a) The value of in-depth employee consultation should never be undervalued and time should always allowed for it, (b) no initiative should be implemented without looking at the return on investment and (c) always evaluate the effectiveness of programs and take action as required, generally making improvements over a number of years.

Challenge 2: The Role of Line Managers

Line managers have to both commit to the reward strategy and be capable of implementing it. Reward professionals can initiate new policies, but the line has the main responsibility for implementing them. In other words, "HR proposes but the line disposes."

Research conducted by John Purcell at Bath University[5] established that high levels of organization performance are not achieved simply by having a range of good HR policies. What makes the difference is how "line managers implement and enact policies, show leadership in dealing with employees and in exercising control." Line managers are described as the "Achilles heel" in the delivery of contemporary HR and reward strategies.

As in the United States, the trend in the United Kingdom is to devolve more responsibility for managing reward to line managers. Managers may not always do what HR professionals expect them to do, and if compelled, they can be half-hearted in their response. This puts a tremendous onus on reward specialists to develop line management capability; initiate processes that can readily be implemented by line managers; promote understanding by communicating what is happening, why and how it will affect everyone; and provide guidance, help and training where required.

Yet in the CIPD's survey, HR personnel consulted line managers in developing their reward strategies in fewer than half of the organizations, and some did not even share the strategy with them—hardly a recipe for effective understanding and implementation.

By contrast, one major Scottish financial services group extensively involved a team of 30 line managers from all parts of the company in developing a new reward strategy and more market and performance-focused approach. The new system was pilot tested in the marketing department, and then they progressively rolled it out across the organization, drawing out and spreading key learning points and improvements as they went along. And in a pharmaceutical company, a team of line managers were trained as coaches to assist their colleagues in managing their new pay system, generating enormous credibility and a successful implementation.

Challenge 3: Aligning Reward and Business Strategies

Here again, aligning reward policies with business goals is easy to draw on a chart in a boardroom but much harder to deliver in practice. In one manufacturing plant, the HR department implemented a new shop-floor incentive plan. The seven performance measures used aligned exactly with the seven strategic priorities of the business. Fantastic alignment enthused the board. Yet research showed that the majority of employees did not feel able to influence any of the measures, and subsequent performance and payments were disappointing.

At the British bankers Lloyds TSB, the corporate goal is apparently straightforward: put simply, to maximize shareholder value. To do this the company has three basic aims: to be the leader in its chosen markets, to be the first choice for customers and to facilitate investment in its people by driving down operating costs.

The principal challenge from a reward perspective for Lloyds TSB was to "tie back" all its reward practices and processes to satisfy these three corporate needs, so that developing a distinctive reward strategy contributed effectively to achieving longer term business goals. The strategy of the organization provided a sense of purpose and the general direction in which reward management must go. For the compensation and benefits team, it established priorities for developing and acting on reward plans, to ensure that the investment needed was agreed to by the group's executive board.

U.K. companies are becoming more aware of the need to integrate reward strategy, not only with the business strategy but also with the HR strategy. A good example is AEGON UK, the insurance group with 4,000 employees. As with many companies, AEGON UK's pay systems used to stand alone, apart from other HR processes.

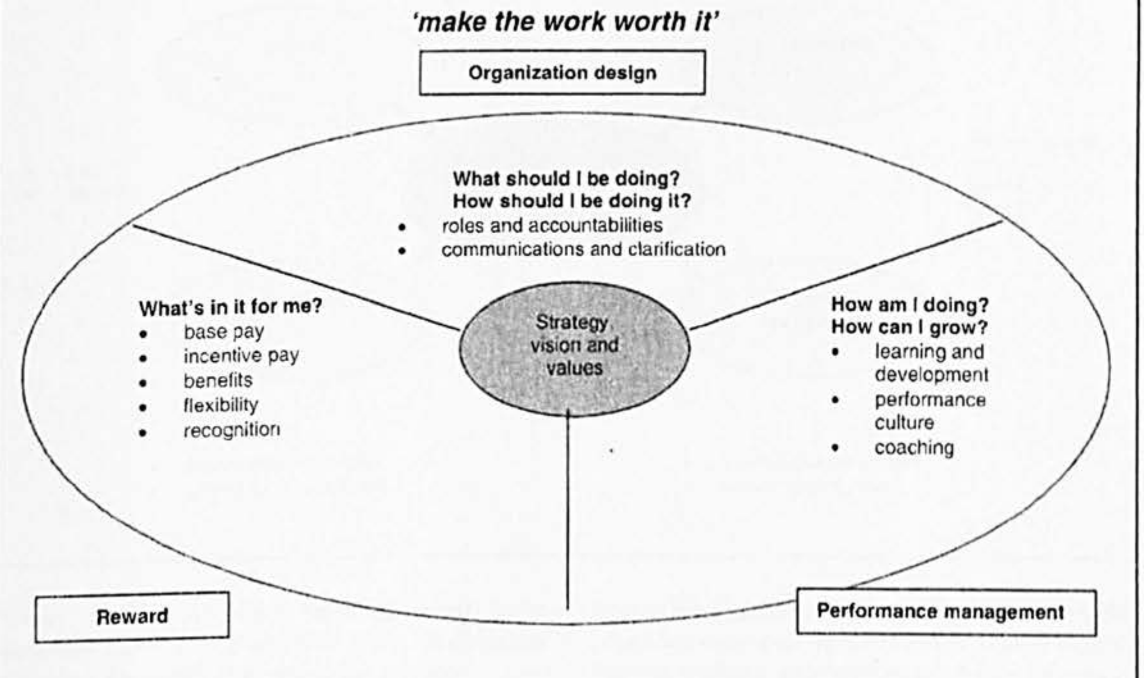
The company adopted a more holistic approach to the development of its new reward system, the Human Resources Integrated Approach. From every angle, staff can now look at the elements of reward management, performance management and career development and see they are consistent and linked, with each other and with the business objectives.

A competency framework, another common HR technique borrowed from the United States but tailored to the U.K. environment, underpins the approach. The competencies link the revised HR processes:

- *Recruitment*: competency based with multiple assessment processes
- *Reward:* market driven with individual performance dictating the rate of salary progression within broader pay bands, which replaced the existing narrow grades
- *Performance management:* not linked to pay, concentrating on objective setting and competency development
- *Training and development:* targeted on key competencies and emphasizing self-development

Even integration is not enough. The integrated strategy has to be communicated in a way that enables everyone to understand what it means for them. The total reward communications

EXHIBIT 2
Integrated Reward at Kwik-Fit



model used for this purpose by Kwik-Fit, the U.K. chain of motor repair centers, is illustrated in Exhibit 2.

Of course, a company never achieves exact alignment, but as one HR director told us, "It's not perfect, but at least now people are rewarded according to the extent to which they support the business in achieving its objectives."

Delivering on Reward Strategies: The Trend Toward Total Reward

The concept of total reward, developed in the United States, has been adopted with enthusiasm in the United Kingdom, with 28% of companies using it according to the CIPD survey. Some commentators claim it is just another "flavor of the month" and that the importance of intrinsic rewards has been recognized for a long time.

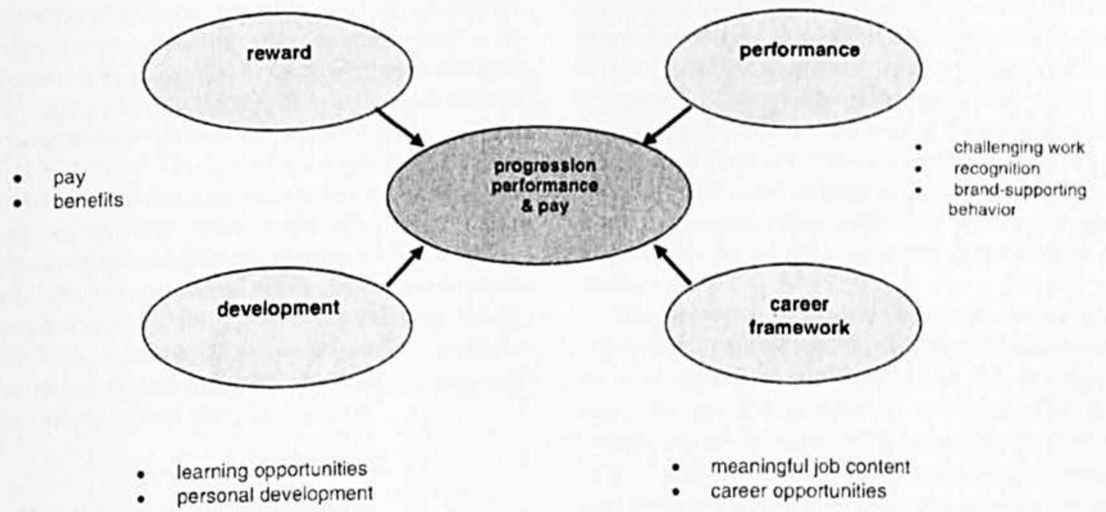
But e-reward research confirms that total reward is high on the U.K. HR agenda. There is a general belief that reward is strongly linked to the creation of "compelling employment opportunities," attracting and retaining talent and ensuring that the organization is "a great place to work." Several heads of reward emphasized that the differentiator in attracting and retaining staff was not so much levels of pay but the total reward package, especially the nonfinancial rewards, which tend to be more unique to each organization.

At Nationwide Building Society, Paul Bissell, senior manager rewards, defines their total reward policy as "a mixture of pay elements, with a defined cash value, benefits that have an intrinsic value, a positive and enjoyable work environment, and opportunities for learning and development; all designed to make Nationwide an employer of choice." Like Sears in the United States, the company is able to show powerful correlations between the satisfaction and commitment of its staff, customer satisfaction ratings and the financial performance of the business.

The total reward strategy at Norwich Union Insurance is called progression, performance and pay, and there are four elements, illustrated in Exhibit 3. According to its communications to staff, these elements "give us the tools to help build Norwich Union Insurance as a great place to work, which attracts and retains quality staff."

EXHIBIT 3

The Norwich Union Insurance Progression, Performance & Pay Framework



"Great" and "best" places to work awards have similarly crossed the Atlantic and represent an ambition for many U.K. reward managers.

Lands' End is a good example of an American company that has translated U.S. total reward policies to suit a British environment. Its reward strategy is based on the idea that staff who are enjoying themselves, who are supported and developed and who feel fulfilled and respected at work will provide the best service to customers. When the company set up its U.K. operation 10 years ago, it applied the same philosophy to its 500 employees.

The company does not believe that pay is the main driver of performance. Its reward agenda focuses on emotional, intellectual, social and spiritual rewards that recognize different aspects of the whole person. It seeks to inspire staff through its values of service and quality, to empower them to deliver the best customer service and to show appreciation when they do so. Highly favorable staff attitude and customer survey results and the company's financial performance demonstrate its success in putting the strategy into practice.

Delivering on Flexible Benefits and Pensions

Making total rewards strategies operational in practice, however, appears to be a slower evolution in the United Kingdom. Take flexible benefits plans, for example, which only 8% of local organizations operate, although more than a quarter of the largest and international companies do so. This is ahead of the rest of continental Europe but is still much lower than comparable U.S. figures. Rather than conservatism, the main barriers appear to be less sophisticated HR information systems to administer flex schemes, as well as the huge task of educating British employees so they can make sensible and informed choices.

Pensions are one area where there has been radical change in recent years, although the rate of change is now slowing, with 14% of organizations planning changes this year. The United Kingdom reacted faster than the rest of Europe to the stock market downturn, increasing longevity and decreasing birth rates, which have combined to create major state and company pension scheme deficits. The U.K. government has studied U.S. provisions in detail and is legislating for automatic enrollment into company schemes as well as considering the use of 401(k) type plans. The major trend in occupational pensions has been the closure of traditional defined benefit plans to new staff and the introduction of U.S.-style defined contribution schemes, which 49% of firms now provide.

But here again, the changes have not all followed this trend, with a wide variety of responses evident, including increasing the contribution rates of employer and employees, as at Rolls Royce and BAe Systems; moving to career average rather than final salary arrangements, as at Nationwide and Tesco; and introducing hybrid risk-sharing arrangements, such as plans with a defined benefit component up to a maximum salary of, say, £30,000 and defined contribution arrangements for pay levels above that.

U.S. retailer GAP provides a good example of company that focused on making its existing U.K. pension scheme work more effectively, rather than simply changing the design. Faced with limited take-up among a young, mostly part-time workforce, GAP relaunched its existing money purchase scheme with an extensive, branded communications program and saw participation rates triple in less than 12 months.

Delivering on Job Evaluation

It is perhaps in the field of job evaluation that there is perceived to be the greatest difference between policies in the United States and the United Kingdom, although the melting pot of approaches in practice does tend to blur the distinction. In the United States, as cited by Howard Risher,[6] Heneman and LeBlanc's[7] research shows that traditional approaches to job evaluation have fallen out of favor, with external market pricing as the prime determinant of salary levels.

Risher doesn't mention the notion of equal pay, which has become a major issue for organizations in the United Kingdom following continuing pressure from the European Commission. The U.K. government has recently established a high-powered commission to recommend ways to close the 18% gap between male and female average earnings, and all public sector bodies are required to conduct equal pay audits.

This concern has helped to maintain the interest in job evaluation in the United Kingdom. The need to be internally equitable is still generally regarded as important. In large sections of the British economy, especially public services—the National Health Service (NHS), local authorities, universities and colleges—priority is given to internal equity, and new tailored job evaluation schemes have been introduced in each of these areas in the past five years.

An e-reward survey in 2002 established that 44% of the 246 organizations had a formal job evaluation scheme, and 51% did so in the 2005 CIPD Reward Management survey. The rationale for using job evaluation is shown in Exhibit 4.

Stated reasons include, "provides us with a fair and equitable structure into which we can fit our reward strategy," "objective, transparent and consistent" and "transparent and includes staff involvement." But there were dissenting voices in our research, and not all with a North American accent, for example, "The scheme has decayed to the point of total manipulation," "Not very robust; time consuming, inflexible" and "Job evaluation bears no relation to salary as we base it on market rates."

The response has been to reform rather than remove job evaluation. Computerized approaches now speed up administration. More important, the trend has been to recognize that job evaluation has a supporting rather than a driving role. It may be used to set up a grading structure and evaluate generic benchmark roles, as in the NHS. But thereafter a faster matching process is used, often with subsequent flexibility to reflect individual and market differences in value.

And although half of organizations use job evaluation, three quarters of them also use external market based approaches to pay setting. Integrating and balancing these two goals of external and internal worth help to explain the complex diversity of changes underway in pay structures.

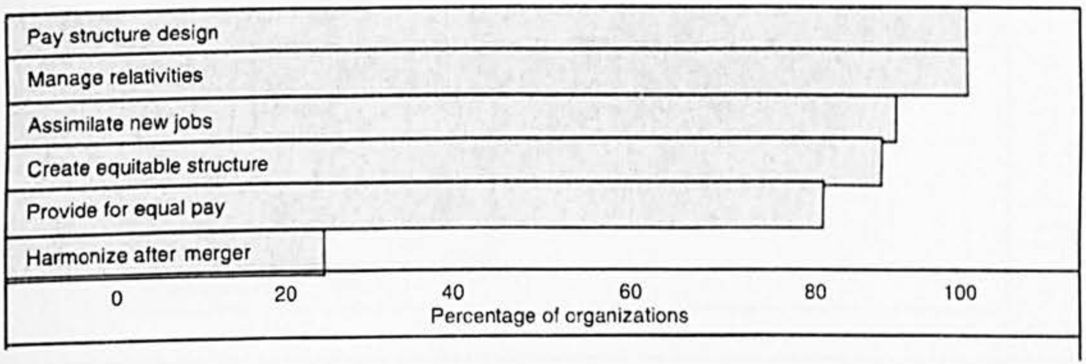
Delivering on Pay Structures and Broadbands

The brave new world of broadbanding that originated in the United States in the 1980s was greeted with enthusiasm in the United Kingdom, at least by consultants and reward commentators. It offered freedom from all the rigidity and "drift" associated with traditional, multigraded structures. It recognized the significance of market pay and lateral career progression. It was appropriate for de-layered and flexible organizations. It encouraged the devolution of responsibility for pay decisions to line managers (without always considering the extent to which they might be ready to take it on).

But broadbanding is relatively uncommon in the United Kingdom in its original form, and although the concept has been highly influential, "broader banding" is a more accurate characterization of the pay structures that have emerged. The e-reward survey found that only 8% of the 166 respondents had true broadbanded struc-

EXHIBIT 4

Why UK Organizations Have Job Evaluation



tures with five bands or less and very wide pay ranges.

As shown in Exhibit 5, structures with six to nine grades, each often divided into market-related zones (broader or "fat-graded" structures), are the most popular. Pay spines (structures consisting entirely of incremental points) are still common in the public sector, although there are moves to replace service-related progression with performance or competency-related pay.

Broadbanding created expectations for progression that could not be met in an environment of low inflation. The rationale for someone's position in a band was often unclear. Line managers felt adrift without adequate guidance and staff missed the structure they were used to. Questions were asked on the point of having broadbands when in effect all they consisted of were spot rates determined mainly by market relativities. In one public sector organization, it was calculated that it would take even a high flier 50 years to reach the top of their broadband.

Inevitably, therefore, structure started to creep back in, and a unique mixture of U.S.-driven external market freedom and European internal control has emerged. It started with reference points aligned to market rates around which similar roles could be clustered. These were then extended into market zones for groups of jobs, as illustrated in Exhibit 6. Our research established that 80% of companies have introduced controls in the form of zones and reference points.

Progressively, therefore, the original concept of broadbanding was eroded as more structure was introduced.

GlaxoSmithKline is an example of a U.K. broadbanded structure that has been divided into zones and grades. There are five bands: A and B for top executives, C for directors and managers, D for professional and technical staff, and E for administrative staff. These bands determine benefit entitlements.

Each band is divided into a number of pay zones or grades. For example, band D is divided into six zones, band E has five zones and there are 29 grades in total. The pay range for each grade is approximately 25% either side of the midpoint, and grades are also used for determining bonus entitlements.

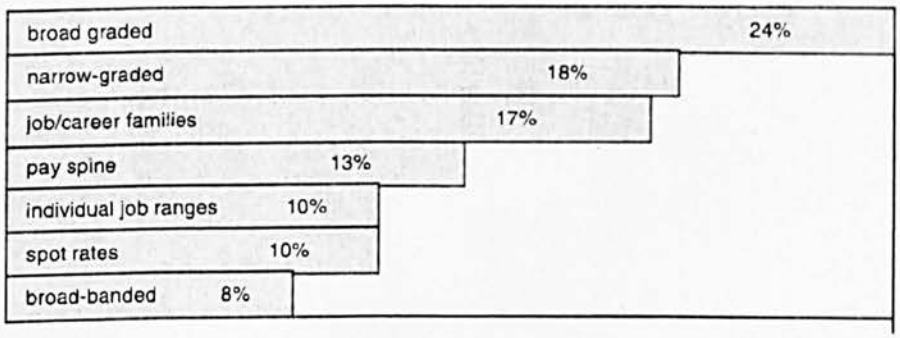
Broadbanding at Tesco

But to illustrate the diversity in U.K. practice, the structure at Tesco, our largest and most successful retailer with more than 200,000 employees, has six levels and is much closer to the U.S. broadbanding model. It was introduced because far greater flexibility in pay management was required. The company was expanding rapidly, especially overseas, and needed a system to support management movement and development. There was also a strong belief that the company was overmanaged with a multiplicity of layers.

The new structure converted the previous 22 grades into six "work levels." Jobs are placed in levels using a system of internal work measurement and classification. Each level contains what Tesco calls pay reference points, developed for about 100 benchmark roles. These are set between the median and upper quartile of pay in about 20 blue-chip service companies, designed

EXHIBIT 5

UK Incidence of Different Types of Grade and Pay Structures 2004



to reward staff who perform at the level of the very best individuals in the most successful organizations. Actual pay rates cluster around 10% below pay reference points.

In the new Tesco structure, there are no midpoints or zones, simply very substantial pay bands, which line managers can use (subject to budget constraints) to reward individuals for their contribution. The process is moderated by both senior departmental managers and human resource managers. "It is important to create the right level of expectation," say the Tesco guidelines. "The pay band for each work level is broad enough to accommodate the different types of roles and levels of contribution in that level, as well as the different external markets."

Drawing on Tesco's experiences, Richard Sullivan, Tesco's group reward manager, recommends the following:

1. Don't underestimate the old culture—it will take time to change it.

2. Deal with the move as a conversion rather than a new initiative, to minimize change issues.

3. Consider equal pay issues.

4. Use market data, but ensure that they are credible before making them public.

5. Allow at least nine months to move to the new structure.

6. Maximize employee communication so the new system will be understood.

7. Don't have less than five layers across the business.

8. Obtain managers' input when designing the new process; this will help them explain it to others and will increase their commitment.

Delivering on Job and Career Families

Another interesting mixture of external and internal and reward and development approaches is evident in the growing use of job and career families in the United Kingdom. A number of Anglo-American companies such as GlaxoSmithKline have experimented with the approach. Job families typically have separate, market-related pay structures, whereas career families are applied across a single common pay structure. Fourteen percent of U.K. organizations now use the former approach, and 12% the latter, often in conjunction with broadbands.

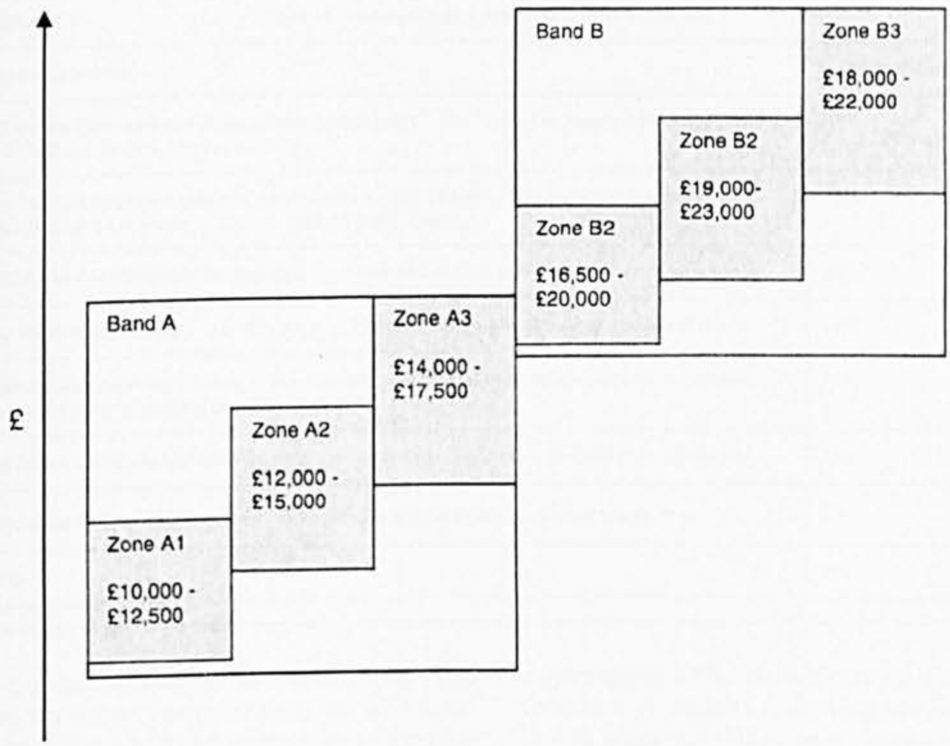
A career family structure organizes jobs into a number of functions or professional groups, each usually subdivided into no more than six or seven levels. These levels are defined in terms of key accountabilities and competence requirements. They therefore define career paths and integrate career and pay management.

At Norwich Union Insurance, a career framework helps staff to understand how their jobs fit within their business unit and the organization as a whole. The career families support movement across the organization, because individuals can identify jobs at a similar level in other families that they might like to join. The skills, knowledge and behaviors profile for each role is published to facilitate this.

Norwich Union's career framework had been used for some time before a pay structure was at-

EXHIBIT 6

Market Zones in a UK Company's Broadbanded Structure



tached to it. The salary ranges were devised by benchmarking roles against the external market. Each family contains between four and seven levels, each with a pay range with an 80% minimum, a market salary guide for competent performance and no maximum.

Delivering on Pay Contingent on Performance, Competence and Contribution

Research conducted by e-reward in 2003 looked at 189 contingent pay plans in 100 U.K. organizations (see Exhibit 7). Individual performance-related or merit pay was still the most popular approach, although it is regarded by many people in the United Kingdom as "the God that failed." This is somewhat unfair, but the government championed the use of this apparent North American success story. Many organizations, especially in the public sector, introduced it in haste, without adequate thought or consultation, and in the absence of the vital support process of effective performance management.

Academic research studies have since demonstrated that as a result, far from motivating people, merit pay often succeeded only in demotivating them. The small proportion of those receiving top performance ratings often received only small differentials in their salary increase. The larger proportion of average performers often felt hard done by, especially when they lacked confidence in their managers' judgments.

Disenchantment with merit pay has led to the emergence of a much more varied pattern of contingent pay approaches. Competence-related pay was for a time promoted as the next American-imported pay "solution," and its merits and problems have been regularly debated in the pages of this journal. But only 5% of U.K. organizations apply it in its pure form in the latest CIPD study, with issues raised about its complexity and, ironically, lack of results focus.

We noted in the 1990s the growth of hybrid approaches, which we termed contribution-related pay,[9] and the United Kingdom has certainly not reacted to its disillusionment with merit pay by returning to the "bad old days" of inflationary,

EXHIBIT 7

Types of Contingent Pay Schemes Used in the UK

Exhibit 7	Types of contingent pay schemes used in the UK
Type of scheme	**% of respondents**
Individual performance-related pay (merit pay) - pay related to results (the achievement of objectives, targets or standards).	65%
Pay related to organizational performance - pay linked to the performance of the organization as a whole or a major part eg profit sharing.	40%
Individual contribution-related pay - pay related to both performance and competence.	33%
Pay related to service - pay progresses by increments on the basis of service in the job.	15%
Team-based pay - pay linked to the performance of a team consisting of interdependent workers aiming to achieve a common goal.	11%
Individual competence-related pay - pay related to the level of competence achieved.	8%
Individual skill-based pay - pay linked to the achievement of defined levels of skill.	8%
Other	8%

across-the-board general increases. The 2005 CIPD survey shows that more than half of U.K. organizations now use this contribution-related approach to adjusting pay for at least some of their staff, compared with just 27% who relate base pay increases solely to individual performance.

Contribution-related pay involves pay decisions based on assessments of both the "outputs" and results of employees' work and the "inputs" in terms of their levels of competence and skill, the "how" as well as the "what" of their performance. It has proved to be particularly popular for the growing numbers of professional staff in U.K. firms. As the HR director of a pharmaceutical company told us, "Performance in our setting is much more complex than a decision about 5 SMART objectives. The most measurable is often not the most meaningful. . . . Contribution talks to a broader series of outcomes, is easier to relate to corporate values, encompasses future capability, teamwork and discretionary effort, rather than the sort of tightly-managed, short-term results-focused approach which stifles innovation in many organizations."

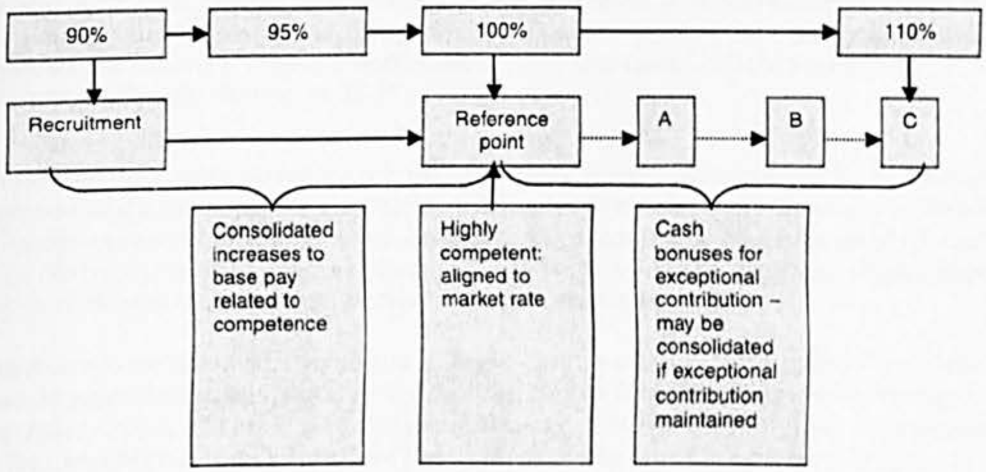
It is tough to summarize the many and varied methods of delivering on this goal of contribution-related pay now operating in the United Kingdom. One interesting example in a not-for-profit organization—The Shaw Trust—is illustrated in Exhibit 8. As well as rewarding competence and results achieved, this system melds together base and variable pay approaches. Growth in competence drives base pay increases up to the market-related reference point, and then a mixture of consolidated and variable pay increases rewards high contribution beyond that.

Disillusionment with merit pay has also contributed to the spread of bonus and variable pay schemes across all sectors of the U.K. economy, with more than 60% of firms in the private sector now operating them. A lot of enthusiasm was initially evident in team bonus schemes, and positive findings from U.S. research have been well publicized. But the results from some pilots of team pay in U.K. government departments have been mixed. Only 11% of bonus plans are wholly team-based, compared with 38% employing a combination of collective and individual criteria.

In fact, to further illustrate the eclectic mix of European and American, old and new approaches now operating in the United Kingdom, profit sharing, evident across Europe since the 19th century, remains the single most popular type of all-employee bonus scheme. And despite the recent changes to the accounting treatment of employee share schemes, these also retain their pop-

EXHIBIT 8

Contribution-Related Pay Model: The Shaw Trust



ularity and are operated by 40% of private sector firms.

Conclusion: Progressing Pragmatic Dreams

Aldous Huxley, the author of the well-known science fiction novel *Brave New World*, once remarked that the British are an island race that "dream in a pragmatic way." Most U.K. organizations have now adopted the American-originated concept of a reward strategy, a dream if you like of how they want their reward arrangements to operate. They have, thankfully, moved a long way from their traditional, history-driven, administratively focused pay and benefits practices.

At the same time, there has more recently been a shift back from some of the rhetoric and grand claims that were initially associated with the concept, accompanied by a more realistic and pragmatic assessment of the role of reward strategy as a long-term contributor to organizational success. We have profiled the common issues experienced by U.K. reward professionals in trying to deliver on their reward strategies and have discussed how by tailoring approaches to the local environment, borrowing and melding methods to suit their needs, and adopting a persistent and long-term, evolutionary perspective, they are coming closer to realizing their strategic dreams.

What is indisputable is that as in North America, strategic reward management is now at the heart of the HR and business agenda in the United Kingdom. As Nicki Demby, performance and reward director at Diageo puts it, "Great incentives should be used to drive great business performance. Great performers will always perform. Great reward programs can help the whole organization to perform."

Notes

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9. Brown, D., & Armstrong, M. (1999). *Paying for contribution: Real performance-related pay strategies.* London: Kogan Page.

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Duncan Brown is the assistant director general at the Chartered Institute of Personnel and Development and leads its research and government policy activities. He was formerly a partner with management consultants Towers Perrin. His books include Reward Strategy *(CIPD) and, jointly with Michael Armstrong,* Paying for Contribution *(Kogan Page) and* New Dimensions in Pay Management *(CIPD).*

Rewarding Service? Using Reward Policies to Deliver Your Customer Service Strategy

Duncan Brown
Chartered Institute of Personnel and Development (CIPD)

Michael West
Aston Business School

How often do we experience appalling customer service? The next time it happens to you, try asking the offending pushy sales assistant or bored call center agent how he or she is paid. Beneath the business hype about customer delight and world-class service, how an organization rewards its front-line employees proves whether it is really putting its money where its mouth is.

In the Western world, our economies are heavily knowledge- and service-based, with 70 percent of total GDP growth in the European Union deriving from the services sector. Former U.S. Labor Secretary Robert Reich identifies customer service industries as the key area for future growth in employment: "Computers can't do these jobs because they require human beings; their value comes from human touch, care and attentiveness" (Reich 2004). The fastest growing workforce sections in the UK last year included education, health and public administration (110,000 extra jobs); financial and business services; and hotels, restaurants and distribution (30,000 new jobs each).

Customer service is key to national economic success and to the business strategies of most of our major corporations, and employees are critical to the delivery of these strategies. Johnstone's research demonstrates that for ever-more discerning and less loyal customers, it is the "little things," the "personal touch" and staff being seen to "go the extra mile," that characterize perceptions of excellent customer service (Johnstone 2004). (Like the ice cream received halfway through the in-flight film on Virgin Atlantic flights.)

Studies, most notably at U.S. retailer Sears, therefore revealed powerful relationships between corporate performance and how staff behaves and is managed. Sears found a 10-percent increase in employee satisfaction was associated with a 2.5-percent increase in customer satisfaction and a 1-percent rise in sales.

What are the best ways to manage and reward staff to deliver high levels of customer service on the front line?

In the UK, financial services company Nationwide found similar links in branches among the use of certain HR practices, employee commitment and mortgage sales, and National Health Service research has associated these practices with lower mortality rates (West 2002).

Yet an initial impression of typical reward and employment conditions for front-line customer service staff would seem to belie such a vital, valuable and valued role. Regular newspaper headlines allege low pay and benefits and employee dissatisfaction at retailers such as Wal-Mart. We regularly read too of misselling by commission-focused financial services sales staff. A UK telecomms company, for example, fired 30 call center agents after claims that they were deliberately giving incorrect information to customers, so as to limit call times and earn bonuses.

A report into the UK call center industry found wages 40 percent below the national average and highlighted "sweatshop" conditions (Trade Union Congress 2001). Labor turnover rates in call centers around the world rose to 23 percent in 2004 while investment in staff training and development declined (Merchants 2005).

The Department of Trade and Industry has been concerned about the UK's poor national reputation and performance in the service sectors, highlighted in a report it commissioned from Harvard professor Michael Porter (Porter and Ketels 2003). The need to move from the predominant "low skills/low pay" employment model was an important factor explaining the current UK government's introduction of a national minimum wage. And for business leaders globally, a recent Development Dimensions International UK Ltd. (DDI) study in conjunction with the Chartered Institute of Personnel and Development (CIPD) found improving customer service and relationships was a top strategic priority among UK executives (Development Dimensions International UK Ltd. 2005).

But just what are the best ways to manage and reward staff to deliver high levels of customer service on the front line? Does performance-related pay help or hinder in these settings? Should we be using individual or team-focused rewards? How important is non-cash recognition? And ultimately, do pay and reward practices make much difference, or do other aspects of HR management more strongly impact customer service performance?

These were some key questions the Chartered Institute of Personnel and Development was investigating during the past 12 months in a research study carried out by Aston Business School (West 2005). This article summarizes the key findings and draws out the implications for reward and HR professionals.

The Research Method

The research involved 15 organizations and 22 customer service locations. These encompassed a wide range of settings and roles, including front-desk staff in leisure centers, charities and hotels; telephone enquiry and help desks in insurance, banking, utilities and telecommunications companies; government offices; and even public libraries. The number of service staff employed ranged from 37 to more than 1,000, conducting face-to-face, telephone and, in some cases, Internet-based contacts with customers.

The research incorporated a multimethod approach. Managers were interviewed in each company and information was gathered in respect to business and operational goals and performance, organization and jobs, and reward and other HR practices. Observations of specific customer/employee interactions supplemented data on customer service.

The views and experiences of 580 staff were gathered using a detailed questionnaire. These revealed that the workers in such roles do not always conform to their stereotypical "young/fleeting/female" image. While 70 percent were women, 80 percent were employed on full-time contracts and only 9 percent on a temporary basis. Their average age was 34 years and average length of service with their employer just over six years.

The Findings

Not surprisingly, the research detailed in the full report (West 2005) revealed a wide variety of job designs, management styles, and HR and reward practices. These employers appear to have heeded the UK government's message. Working environments generally were good and base pay levels competitive for their location and sector. Figure 1 illustrates the incidence of pay and bonus practices used for the front-line service and line-management staff in these locations.

Highly geared commission arrangements were rare, and most employees had the opportunity to progress their base pay through ranges, on the basis of their performance and competence. A wide variety of staff benefits was evident, with most companies providing sick pay and pension plans, as well as training courses, and some companies providing restaurant, social and child-care facilities.

But five of these organizations excelled according to the measures of customer satisfaction and service employed in the study: These were Torfaen and Kent County Councils, Scottish Water, Impulse Leisure and the Unite Group. A number of reward and management practices also served to differentiate these organizations from their often larger and better-known corporate comparators. So which approaches characterized these five organizations? Figure 2 illustrates the most significant differences.

FIGURE 1 The Pattern of Pay and Bonus Practices in the Researched Organizations

Pay Structure	Managers	Customer Service Staff
Grades	6	6
Broadbands	3	3
Individual ranges	4	4
Pay spine	2	2
Pay progression and bonus		
Individual performance pay	4	5
Skills/competency pay	2	2
Contribution pay	3	3
Individual bonus	5	6
Team bonus	4	6
Commission	0	1
Profit sharing	2	2

FIGURE 2 Significant Differences in the Reward Arrangements of the Highest-Performing Organizations

	Top Five	Others
Individual performance-related pay	60%	29%
Team/collective bonus scheme(s)	60%	12%
Team and individual recognition	100%	12%
Company pension	100%	71%
Restaurant	100%	53%

"The quality of customer service has been strategically allied to our reward and recognition strategy."

Lesson 1: Reward and Recognize Customer Service Performance

In his most famous article, the distinguished American reward professional Steve Kerr referred to the common folly of "rewarding 'A' while hoping for 'B'" (Kerr 1975). The high-performing organizations in our research made extensive use of performance-related rewards, both with fixed and variable pay plans, in cash and kind, and rewarding individuals and teams, to reinforce their customer service goals.

One-third of UK employers relate base pay progression wholly to individual performance, and 52 percent operate staff bonus schemes (CIPD 2005). Yet in our research study, all the best locations operate various forms of cash and non-cash recognition and the majority use performance-related base pay and bonuses, compared to just one or two of the comparator organizations. For example, the battery of performance rewards at student accommodation provider the Unite Group include individual and team bonuses, gifts, thank-you letters and an annual "Oscars" ceremony.

Typically, the amounts are not huge but the recognition afforded is extensive. According to a line manager at Kent County Council's service center: "If you want to acknowledge something straight away, it's easy to get a bunch of flowers, or a bottle of wine, or take them out for a meal. It's little things, but things that are in the control of the manager, so it happens instantaneously and everyone knows why."

A customer team member at Torfaen Council in Wales noted of the annual awards ceremony: "I know everyone who has gone has enjoyed that they have been nominated and noticed ...recognized for the work they do."

By avoiding Kerr's misalignment, every successful organization in our study used measures of customer satisfaction and service quality in its reward and recognition schemes, while the remainder put much more emphasis on the volume of transactions and staff productivity. As a manager at Impulse Leisure described it: "The quality of customer service has been strategically allied to our reward and recognition strategy. Staff is aware that their customer service is continually assessed through a variety of methods. All of these are fed into the performance-related pay scheme."

In fact, the reward and management processes focus overwhelmingly on the customer in the five top organizations, and their employees told us that this was a most-valued aspect of working there. Torfaen employs upward feedback to this effect, as customer service head Gloria Evans describes: "Through their teams, all staff have input into our customer service plan, allowing them to take ownership of it. The weekly team meetings are an open communications process and all staff suggestions are considered."

Since these processes were introduced, staff turnover declined to negligible levels, and the number of lost calls in the Council's center fell by 62 percent, leading to Torfaen itself being recognized, winning the Institute of Customer Services' prestigious Frontline Team of the Year award.

Lesson 2: Service Your Staff as well as Your Customers

Prof. John Purcell from Bath University concluded his extensive research on the links between people management and business performance with the observation that "it is not enough to have potentially performance-enhancing HR policies and practices — what matters is the way they are implemented and perceived" (Purcell 2003).

A manager in Scottish Water's customer service center made exactly this point to us in our research: "Involving people (is key) ...because to have that customer responsiveness you have to be able to trust the people on the ground to respond."

The best organizations in our research recognized that what matters in delivering excellent service are staff perceptions and management practices, rather than fancy policies and plans. However close the supervision, an employer cannot force high performance out of staff in a customer service environment. That smile must be genuine; they have to want to go that "extra mile." For example, the Kent County Council Employee Service Manager Carole Sharpe referred to an employee who stopped off on his way home from work to repair a customer's computer. Purcell indicates this "discretionary commitment" of staff is key.

The service staff in the organizations showed wide variations in their commitment levels and in their satisfaction with pay and recognition practices. As well as feeling their organization genuinely emphasized customer service, the more committed and satisfied staff believed they were treated fairly, consulted and involved in decision-making, and developed and well looked after by their employer.

Customer Service Manager Lorna Mapson told us how at Impulse Leisure "we listen to customers' opinions and act on them to give us a competitive edge." They also listen to staff by involving them in nominating the employee recognition awards regularly made at each site.

The sense of what Prof. David Guest refers to as a "positive psychological contract" — this feeling of fairness, trust and reciprocity that our Scottish Water manager described — is at the heart of the relationship between reward and HR policy "inputs" and customer service "outputs" (Guest 2004). The reward policy often referred to in our research study in respect to creating a sense of fairness, and which distinguishes the best-performing organizations from the rest, was the use of harmonized pay arrangements and single status benefits.

We calculated an overall score for each organization based on the commonality of both pay and benefits policies between managerial and customer service staff. The best-performing organizations scored notably higher, with an average 88 percent harmonization score for pay policies and 84 percent for benefits.

In today's flatter, customer-facing organizations, employees are less tolerant of arbitrary, status-based differences in how they are treated. As well as providing a good range of benefits, the best customer service organizations deliberately and systematically have moved further down the road of harmonization than other companies and strive to achieve equal treatment for their staff.

According to Manager Shane Speirs at the Unite Group: "We used to have differences for managers — holiday allowances and so on. But we realized as everyone is working hard to improve customer performance, we should all have the same benefits."

Similarly, at Kent County Council, Carol Sharpe told us that "our managers would feel quite strange and uncomfortable about receiving different and better benefits packages." At Unite Group, while all employees have individual and collective targets for customer

Involvement is an aspect of culture invariably predicting employee satisfaction and engagement.

service in their bonus schemes, managers also are assessed against employee satisfaction measures.

Scottish Water was created from the merger of a number of water authorities, and so the harmonization of pay, terms and conditions represented a complex and at times contentious exercise. According to the service center manager, however, "It's been intentional and time-intensive," with extensive involvement with unions and staff representatives to create the necessary trust and mutual accommodation.

"But the hard work from all has paid off," in respect to improved staff relations and customer service performance, according to the manager.

The Compass Group is an international provider of catering and related services with more than 200,000 employees. It has a business model based on exploiting these positive relationships. As Director of Development Tracey Robbins explained at a recent CIPD conference, Compass's strategic vision is to employ great people who deliver great service, creating great results. In addition to the financial and sales results, the company's performance scorecard also reviews contract retention, customer satisfaction, labor turnover and employee satisfaction data.

The company supports five values to achieve its goals:

- a "can do" attitude
- teamwork
- diversity
- quality and
- sharing in success.

Both customers and staff regularly are surveyed as to how those values are being delivered in practice. The effects in staff motivation and performance since introducing the approach are palpable. Labor productivity is up by 10 percent, labor turnover is down by 2 percent and job vacancies filled by internal promotions increased 22 percent.

Lesson 3: Manage the Culture and the Context

However wonderful an incentive plan design might look on paper, and however strongly aligned the measures and targets are with the organization's customer service strategy, if supervisors ignore employees who suggest ways of improving performance or tell them to get on with their job, then the plan will not have the intended impact in practice or performance. Context is key.

Torfaen and Scottish Water provided examples of how the high-performing organizations go to great lengths to create the context to maximize staff involvement and contribution. Weekly briefings and team meetings, quality and improvement groups, team-based and supervisory training and regular and 360-degree performance appraisal and feedback were evident across the high-performing organizations.

But across the whole sample of companies, employees generally gave low ratings to the extent to which they were involved in decision-making, and certainly lower ratings than the management interviews might have led us to believe. *Involvement* is an aspect of culture invariably predicting employee satisfaction and engagement. It has been ever since Elton Mayo carried out the famous Hawthorne experiments in the late 1920s (Mayo 1933). Other studies highlight how critical involvement is to achieving innovation in customer service strategies.

Our findings suggest that opportunities to learn how to improve customer service from the staff involved with it are being wasted, and the staff's commitment and performance are suffering as a result. Particularly in a call center environment, the availability of masses of performance data can sometimes reinforce a top-down, performance "push" approach from management. Creating an open and supportive context, where employees willingly commit to high levels of customer service, is likely to be more successful, according to our findings.

Guest's research found that in addition to perceptions of fair pay and employee voice mechanisms, job variety and training provision also contributed to a high-quality workplace — a place where staff displayed higher levels of work satisfaction and commitment, and lower levels of stress and turnover. This study revealed two other sets of HR policies associated with positive staff perceptions and performance that differentiated the high-performing organizations from the rest.

The first area is *career development*. The five best organizations apply career development policies supporting training to their staff, regardless of their level. Common components of these policies included:

- A number of levels or grades of customer service jobs, providing opportunities for staff to develop their competencies and be promoted into more skilled or specialized roles
- An emphasis on "growing your own" rather than external recruitment when selecting supervisors
- Providing training that gave staff nationally recognized vocational qualifications.

Such policies may have contributed to the surprisingly high average age (34 years) and tenure (six years) of the employees who we studied.

Less in evidence across the organizations, despite this age and predominantly female employee profile, and the notoriously stressful nature of some customer service roles, was the operation of work-life balance policies. Each high-performing organization operated such policies, and three provided workplace nurseries and crèches, while just three of the remaining companies had any policies.

The resulting practices included the following:

- "Flexitime," involving some flexibility over start and finish times and the ability to bank hours and take time off
- The availability of various contracted hours and voluntary staff movement between them; for example, allowing someone to move from full-to part-time work after having a child
- Career break schemes and term-time working arrangements and
- Various forms of child-care assistance such as an on-site crèche, or the provision of child-care vouchers.

Studies demonstrate that women still play the primary role in rearing children and therefore strongly value these aspects of flexibility and support. Therefore, the relationship between such policies and employee satisfaction and commitment demonstrated in our research was not surprising. Reflecting on witnessing the world's first on-site factory nursery school at the New Lanark Mills in Scotland in 1818, an American visitor observed: "This baby school is of great consequence for it enables the mothers to attend to their duties in the factory without concern for their families" (New Lanark 2004).

The sense from our investigations was that while the policies were important, it was the way the line managers in these five organizations operated the work-life balance policies — balancing business requirements, employee needs and fairness in the provision, and with a strong sense of reciprocal "give and take" between managers and staff at the informal level — that made the difference in employee attitudes and performance.

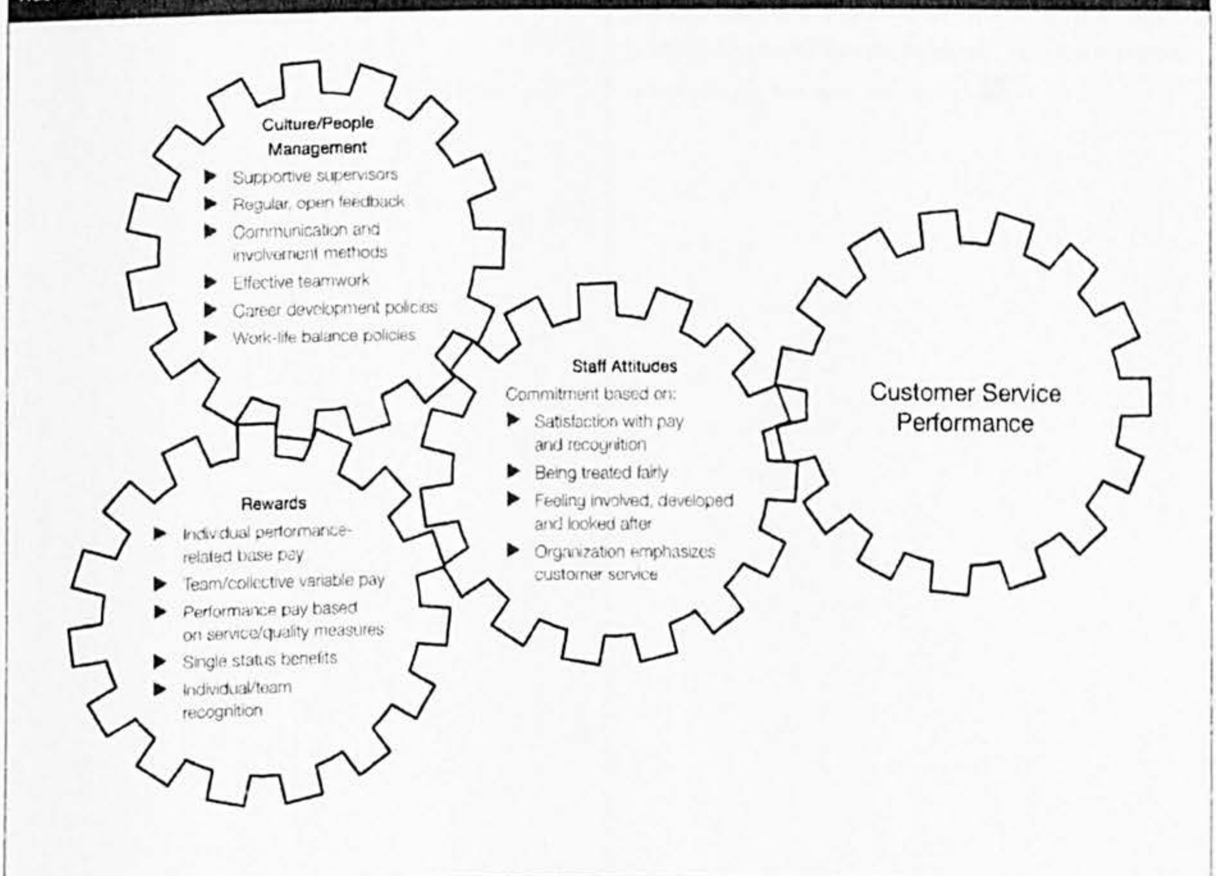
Conclusions on Rewarding Customers and Employees

Former *Financial Times* editor David Lascelles observes in his recently published history of British retail banking that throughout the frequent reorganizations and upheavals of the last 60 years, customer complaints and criticism have been a consistent and continuing theme (Lascelles 2005). For the solution, he quotes William Purves, former chair of global financial services group HSBC: "We think the customer is first, the staff second and the shareholders third. If you get the first two right, the third will come right as well."

We live in a world where such service businesses dominate the economic landscape. Management methods and styles developed in an industrial era — of hierarchy, close supervision and production-driven, pay-focused rewards — and designed by and for the "baby boomers" generation, are proving to be inappropriate for today's customers and employees.

Our CIPD and Aston University study of customer service activities in 15 organizations highlighted the prescience of Purves's observation as to the interrelationships between customer and staff attitudes and behavior at the heart of corporate success. He might have continued, however, to explain that reward, recognition and other HR policies play a vital part in creating and reinforcing these relationships and they are critical in understanding the success of the five highest-performing organizations in our research (Figure 3).

FIGURE 3 A Summary of the Relationships between HR and Reward Practices, Staff Attitudes and Customer Service



These five organizations displayed no obvious differences in business strategy, technology or customer service activities to the remaining 10. But their reward and HR policies distinguish them from the pack. They were twice as likely as the others to use individual performance-related pay, and made much wider use of both individual and team-based variable pay and nonfinancial recognition, as well as harmonized terms and conditions.

These organizations were, therefore, more likely to be satisfied with the pay and recognition they received. But for today's generation that is not enough. The commitment and performance these staffs displayed in their work were more broadly based than this. As Sally Hopson, a director of Wal-Mart's UK retailing business, Asda, explained at a recent conference, "people now want a job with life not for life ... people seek for meaning in their lives."

A variety of other management practices and HR policies regarding career development, employee involvement and consultation, performance management and feedback, and work-life balance were vital in creating the supportive conditions and context for employees to commit to serve the customer. They also helped create a strong sense that the entire organization "practices what it preaches" in respect of that service.

But it is the implementation and enactment of these policies by skilled and motivated leaders, managers and supervisors in these customer service organizations, and the warm, supportive and enabling environment that they create with them that enables these high levels of employee satisfaction and commitment. These levels of satisfaction and commitment, in turn, produce outstanding customer satisfaction and performance levels.

As the manager at Scottish Water's customer service center wisely observed to us in explaining its levels of staff commitment and performance: "It's not just about what you do, but how you do it." WJ

Resources Plus

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Reward Management: On the Line

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Successful organizations involve line managers in plan design and implementation and provide them with full support.

More than 50 years ago, management expert Peter Drucker wrote that the human resource (HR) function risked bankruptcy unless it addressed a fundamental dichotomy:

> There is constant talk in all Personnel Departments of the need to educate operating managers in managing people. But 90% of their budget, manpower and effort are devoted to programmes thought up, established and operated by the department. (p. 277)[1]

Throughout the past 10 years, changes in the role and structure of HR functions have meant that managers—particularly first-level, supervisory, front-line managers (FLMs)—have been taking on increasing responsibilities for the management of their people—appraising their performance, determining their pay and bonus awards, explaining flex plans and so on—with fewer, more distant HR professionals in support. Drucker's admonishment should have become even more relevant today.

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Yet despite an increasing amount of evidence demonstrating the vital role that FLMs play in implementing reward and HR policies successfully, and creating committed and high performance work teams, we don't seem to have taken Drucker's warning to heart. Many organizations have successfully developed reward strategies and leading-edge program designs, yet line managers often constitute the "Achilles heel" in the successful implementation of these strategies, frustrating their impact on organizational performance.

In this article we describe new research into the critical role that line managers play in reward management. After explaining the background and methodology, we profile some of the common difficulties that are being experienced, assessing their scale and nature.

Yet the case research in particular has provided some excellent examples of how individual organizations are successfully leveraging a strong, symbiotic relationship between their reward policy designers and programs and their application by FLMs, resulting in engaged and high-performing employees. We draw out the general lessons and tips from these cases.

We conclude that however excellent the design of compensation and benefits plans, reward professionals need to pay greater attention to the fact that, as an employee in the retailer Selfridges told us, "a good manager, who appreciates the work done, makes all the difference."

Theory and the Research

Ever since Drucker's allegations of management inadequacy and lack of HR attention, there has been research and debate on the reward and people management responsibilities of FLMs, be they the "forgotten supervisors" or "the lost managers."[2,3] The recent debate has centered on three issues.

1. The restructuring of HR functions and devolvement of people management responsibilities to the line. Recent studies suggest that more than one half of major organizations have implemented a variant of Dave Ulrich's HR model, involving the centralized provision of HR administration such as payroll, and of technical expertise in areas such as compensation.[4] Three of the five case studies featured in our research study were moving in this direction, involving in at least one case a substantial reduction in the total headcount of HR staff.

The line managers' responsibilities in reward and HR management, at least in theory, correspondingly increase. As U.K. bank Lloyds TSB, Senior Manager Compensation and Benefits Tim Fevyer explained this process to us: "The best place for making decisions about people's pay is where the majority of the information is, at the local level with the line manager." One of our case studies, the retailer John Lewis, has similarly expanded managers' responsibilities in performance management and pay and involved lower level section, as well as department, managers in these processes.

2. Research has shown that FLMs have become increasingly critical in generating employee commitment and high performance. Although many studies reveal statistical correlations between particular reward and HR practices and organizational performance, our own research investigating how these relationships operate concluded that "the role of line mangers in bringing HR policies to life was one of the most important factors explaining the difference between success and mediocrity" (p. 37).[5] Becker found strong support for the old adage that people join an organization but leave their manager, with employee commitment to the FLM often greater than to the wider organization.[6]

Specifically in respect of reward practices, Professor Michael West found that "line managers who are warm, supportive and enabling" use formal reward practices such as variable pay more effectively and thereby "encourage high levels of employee commitment and customer service."[7]

3. However, there also appears to be plenty of evidence of a policy/practice, espoused/enacted, saying/doing gap in HR and reward management, which is restricting the operation of these potentially powerful relationships. This is generally described in terms of line managers' lack of interest and training, work overload, conflicting priorities and so on. A recent e-reward survey found that 88% of HR managers believed their line managers were insufficiently trained and competent at performance appraisal,[8] whereas Guest's national attitude study found that only 37% of UK employees reported that their FLM motivated them to improve their performance.[9]

So just how widespread are these management problems in the field of reward? Are they primarily the result of lazy and incompetent line managers or increasingly isolated and unsupportive compensation and benefits professionals? What should we be doing to address them? We have been carrying out research during the past 2 years to help address these key questions. The research has involved two main components:

- a questionnaire survey of 535 organizations based in the United Kingdom, employing almost 1.5 million employees[10]

- in-depth case research in five U.K. organizations, involving interviews and focus group discussions with samples of first-line and supervisory management, as well as HR and reward staff, and with analysis of the pay and reward policies that were in operation[11]

The five organizations were selected to represent as diverse as possible a range of activities and experiences, spanning private and public sectors from financial institutions to retailers to government departments, employing everyone from professional knowledge workers and financial "rainmakers" to shop assistants and forklift truck drivers. The detail of pay and reward practices and the emphases on the different aspects of the package also varied considerably, ranging from substantial individual and team bonuses to

EXHIBIT 1

Barriers to the Effective Operation of Reward Strategies and Changes

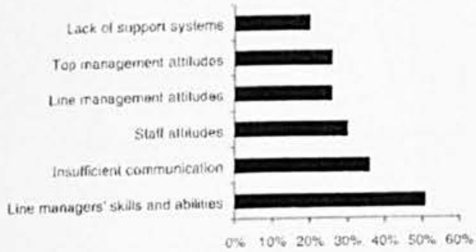
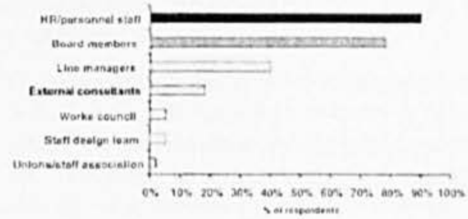


EXHIBIT 2

People Involved in Determining the Reward Strategy



"thank-yous" and small recognition awards. Nonetheless, some common findings emerged.

Findings

Our reward survey confirmed that this is a significant and widespread contemporary issue. The lack of line management skills and capability was rated as the single most important barrier to the successful operation of their reward strategy, and by more than 50% of the surveyed organizations (see Exhibit 1). Only one third of the reward professionals believed that their FLMs were sufficiently trained and capable in reward management.

Perhaps because of this and more surprising, whatever the rhetoric of devolvement of pay responsibilities to line managers, the survey found that FLMs were commonly given relatively low levels of decision-making discretion. On a scale from 1 (*no discretion*) to 4 (*a lot of discretion*), the average scores for salary decisions was just 1.85 and for bonus payments 1.79.

This was illustrated in the government department case study that was in the process of heavily centralizing its HR function. There the job evaluation score determines someone's starting salary on a structure of grades and pay spines, with HR closely controlling the allocation of any market, location and skill supplements. A system of merit pay increases operates; however, managers are forced to rate staff according to a fixed distribution of performance ratings, and a predetermined level of increase is set for each rating. FLMs can recommend someone for an individual cash bonus award; however, the final award is approved and set by a distant senior management committee.

This provides the perfect conditions, therefore, for line managers to abdicate their responsibilities and blame HR, and for HR to develop reward plans that don't meet the needs of each local unit. According to one manager, "I have to pick up the pieces . . . when some get the bonus and some don't, it can pull the team apart," while as an HR manager told us, "individuals don't hold it against the line manager as they know the decision rests elsewhere."

However, it is not surprising that line managers find difficulties in applying reward strategies and plans when they are rarely consulted and involved in their development (see Exhibit 2).

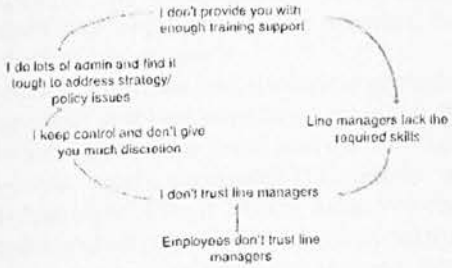
Ulrich's HR business partnering message is very much being applied by the function in the boardroom, with more than 80% of surveyed organizations consulting board executives during the development of their reward strategy. Yet only 4 of 10 consulted with operating or FLMs prior to implementing new and changed reward schemes.

When we asked the senior compensation and benefits staff in our case studies if, when they designed new reward plans, they took account of their delivery and how line managers could bring them to life, in most instances we were met with blank looks. Almost all provided some management training but admitted that the removal of HR staff from "along the corridor" to shared service centers had limited the level and quality of personal support for FLMs.

Our research therefore reveals something of a vicious cycle under way (see Exhibit 3). One of the key goals of restructuring is that HR functions should be devolving more pay and people management responsibilities to line mangers. Yet HR does not seem to be devoting enough resources to training and equipping line managers to handle these responsibilities, despite the increasingly rapid rates

EXHIBIT 3

The Front-Line Managers' Vicious Circle



of change in reward methods and the spread of more sophisticated and complex scheme designs.

Nor does HR seem to be designing reward systems that are easy for busy line managers to apply. The notion that the design of reward systems should be "user friendly" has evidently yet to catch on, although we expect it in other facets of life. Is this, we wonder, HR ignorance, or arrogance, or both?

Fearing mistakes and inequitable and inconsistent treatment of staff, HR are therefore severely curtailing the actual pay freedoms of FLMs on the ground, weakening their credibility with their staff and continuing to embroil HR in the detailed pay casework and administration that the reorganizations are designed to reduce to achieve stronger strategic focus and impact. Even where responsibilities have genuinely been devolved, the prevailing lack of training and support means that managers often felt "dumped on," with one hospital department manager describing HR as "the function that passes all its work on to you."

The case study research was designed to better understand the causes and experiences underlying our survey findings. And one final, overriding impression emerging from all these interviews and discussions was of a divorce between the formal pay and benefits systems in these companies and the broader and more informal reward environment.

For on one hand, line managers almost universally were critical of the complex, heavily constrained and time-consuming processes of pay setting, performance management and bonus determination, with regular references to "overengineered" and unnecessarily complex designs. On the other hand, we came across many instances of line mangers successfully using informal and often "social" rewards to generate motivation and commitment among their staff. One line manager in a distribution company with trade union–bargained, largely fixed pay rates and no variable pay told us,

> I have limited influence over rewarding performance, but there is more than one way to "skin a rabbit." So those in my team who have done well are rewarded in other ways—for example through secondments and access to training.

Flexible working and the discretionary allocation of free time was another commonly used informal reward method. In the distribution company an informal system of "job and knock" applied, whereby an individual or team who had completed their work would be allowed to leave early. In fact it was in those organizations with the least flexible and least FLM-influenced formal pay systems that these more informal rewards appeared to be being applied most comprehensively and successfully.

And of course, all of the organizations had access to informal recognition methods and "thank-yous." However, just about every manager interviewed admitted that he or she made too little use of these methods in the prevailing "hurly-burly" reality of operating life in their organization.

The generally depressing picture painted by this research is lightened considerably by the fact that in all of the case study and many of the survey companies, Drucker's wisdom and these shortcomings are being recognized. Training time and resources devoted to the operation and communications of reward schemes are on the increase, and we are seeing greater involvement of line managers and staff in the development and operation of pay and reward schemes.

So what are the general lessons that can be drawn from this research to genuinely generate the type of symbiotic relationship between reward plans and their management, the line and HR, and employee commitment and organizational performance that the academic theory postulates? In this article we briefly comment on three of the most important areas.

Implications and Lessons

Involve

First and most obvious, involve line mangers when you are developing and modifying your reward strategy, diagnosing the existing reward situation and developing new and modified plans. The increasing complexity of the legislative and tax environment may help to explain the "tyranny of expertise" by compensation and benefits managers that our research has revealed; however, they do not excuse it.

The most extensive and successful example of management and employee involvement in their reward strategy that we found was the John Lewis Partnership, a very successful U.K. retailer with 64,000 "partners" that is wholly owned by those managers and employees. The firm is in the midst of a major overhaul of its reward systems, with a new banding structure, job descriptions and competency and appraisal framework. It has extensively involved managers and employees at every stage, with joint consultation through the branch council, a project group formed of personnel staff and volunteers, and extensive and highly open two-way communications about the changes.

The new competency framework of six core behaviours, for example, was developed through staff focus groups, and as a senior manager told us, "people like it because it uses our language." The implementation program has involved an extensive and structured communications timetable, with individual discussions, support and review alongside the more general communications vehicles.

Support

When the life insurance business of Norwich Union introduced a new performance-related pay system for its call center staff, Reward Manager Sandy Wilson ensured that all FLMs received a minimum of 2 days' training and practice in its operation. As he explained, "Line managers need to live and breathe it, they need to own it and realize how important it is to the business strategy to make it work. If they don't make it work, we're finished." Moreover, after the first year of operation of the new scheme, an extensive review involving surveys and discussions with managers and staff was carried out to assess the success and workability of the new approach and draw out any modifications and improvements.

We also found many examples, including John Lewis and the Ministry of Defence, where training in reward and performance management skills and communications was incorporated into the regular management development program, rather than just being a separate, "bolt on" training course. Wiltshire County Council had recently introduced Manage2Lead, a program based on a framework of behavioral competencies that underpin the appraisal process and involves job and peer coaching, as well as action learning sets and seminars.

In a pharmaceutical company, a team of line managers received additional training in the operation of the pay review and performance management process. They, rather than HR, now act as the expert coaches who their colleagues can turn to for support and advice.

HR's support for the more effective operation of reward plans needs to involve more than just putting all managers through a training course or two. At Standard and Poor's (S&P) office in London, an active and well-resourced HR function supports the line implementation of the people and reward strategy in many ways. An HR manager will often attend the meeting between a team manager and his or her direct manager to finalize the annual ratings of their staff.

As well as supporting the fairness and consistency of merit pay and bonus awards, this has helped to ensure that the development and reward aspects of performance management are fully considered. Promotions, for example, are commonly used as a reward vehicle to successfully retain team members in the highly competitive labor market in the City of London.

S&P also operate a global online performance management system, PMP. As well as helping to remind managers and check that the process is actually being carried out, despite the odd moan from FLMs at their "inflexibility," generally we found line and HR managers appreciated the use of these online systems. They were felt to ease administration and generally support the smooth operation of the process as planned.

However, this seemed to be when online systems were used in addition to, rather than totally replacing, traditional face-to-face methods. John Lewis and the distribution company retain their on-site HR teams. And we even discovered one example where despite the centralization of the HR function and apparent removal of local HR support, the senior manager of one unit had retained a local HR presence by reclassifying the HR staff under an operations support group heading, thus keeping their valuable advice and support locally.

And in our contemporary fast-changing and crammed-full world, perhaps the greatest support that HR functions were providing to help line managers effectively operate their reward designs was that most precious of resources, time. At McDonalds and Diageo the HR motto is to "keep it simple" to minimize the time required to understand and operate any new reward schemes and changes.

Even where extensive changes are involved, HR functions seem to be increasingly confident in resisting senior executive demands for a "quick fix." Tim Fevyer at Lloyds TSB explains how their pay reforms were introduced over a number of years, at a pace the organization could manage and allowing the progressive development of line managers' capabilities.

Initially managers were given a merit matrix containing a fixed pay increase at each level of performance and position in range. In the second year the matrix contained ranges of increase to give managers some discretion, before moving the following year to managers having full freedom on individual increases for their staff within their total pay budget and overall pay policy goals (though still supported by data and advice, e.g., on market rates, provided by HR). And the major changes at John Lewis are not scheduled to be fully complete and implemented until 2010.

Reward

The areas considered so far have largely concerned formal pay systems, though the use of training and development as a reward-and-retention device has also been referred to. We have seen examples of online "total rewards," flexible benefits systems, which in some cases largely bypass line managers and give employees self-service enrollment options. The most successful organizations in our research, however, addressed total rewards in a different sense and very much engaging FLMs in the process.

This research, like many other studies, highlights the importance to employees of regular, nonfinancial and informal rewards. As Mary Kay Ash once put it, "The only things more powerful than money and sex are praise and recognition."

FLMs are, of course, the key source of these immediate, reinforcing and critical informal rewards. Yet to use them effectively, line managers need to be self-confident, willing to take risks and have an open and trusting relationship with their staff, skills that possibly even more than in the formal rewards area many FLMs are not overly blessed with.

The successful companies such as S&P therefore define their reward strategy in its broadest possible sense and support line mangers in building the sort of totally rewarding environment that is most conducive to high levels of staff retention and commitment. Considerable attention, as we have seen at S&P and John Lewis, is devoted to the effective operation of the performance management and appraisal system, which is positioned as a regular ongoing process equally weighted toward reward and development outcomes.

Recognition schemes are another common means of semiformal rewards that are used to generate this sense of belonging and achievement, and also to develop line managers' confidence and skills in the informal rewards arena. The compensation specialists can deal with the tax complications of vouchers and gifts and provide broad guidelines to avoid unfairness and abuse, leaving line managers to apply them to their and their company's benefit.

McDonalds in the United Kingdom has found that its most successful franchisees make the most extensive use of their centrally developed and administered recognition and awards programs, and most of our case study organizations employed similar schemes, ranging from the eponymous employee of the month to "goodie boxes." John Lewis runs a series of team quality awards every quarter, and its One Step Beyond program gives line managers the opportunity to reward high-performing partners in a personal way, for example with a bottle of champagne or a Saturday off.

S&P operates an ad hoc cash bonus awards scheme with individual sums of up to £5,000, as well an ACE program of gold, silver and bronze awards. Work/life balance is a critical component of the company's reward strategy, and it recently won an award of its own for being one of the top places in the United Kingdom where women want to work.

However attractive the rewards and awards on offer, these schemes are just the enablers. A pharmaceutical company rolled out a global recognition scheme in the United Kingdom, essentially allocating one half percent of payroll to FLMs to make awards to staff within a few limited guidelines. Yet after 6 months, the company discovered that the scheme was substantially underspent. Development workshops for FLMs introduced as a result found managers lacking the skills and confidence to single out individuals for awards, a deficiency now addressed and incorporated in all new FLMs' induction training. In reward management, with the right reward tools and sufficient attention and support to FLMs practice definitely makes perfect.

Reward Management and the Line

Describing the reward reforms at Tesco, the U.K.'s largest and most successful retailer, Group Reward Manager Richard Sullivan explained that

> The new broad banded structure provides line managers with greater flexibility to manage the pay of their teams. Now our line mangers have the freedom to reward performance, contribution and potential to produce the top class staff we need to enable Tesco to continue to succeed.

Sullivan is obviously well aware that as the canny HR director in one of our case study organizations put it, "HR proposes, but the line disposes!"

This research study highlighted that many organizations have paid far less attention to the deficiencies identified by Drucker all those years ago than Tesco. A focus on reward strategy rhetoric in the boardroom and the technical perfection of plan designs, and more recently on HR cost reduction, have severely neutered the effectiveness of many of those strategies and designs out in the reality of day-to-day operation in the organization, restricting their intended impact on business performance.

Correspondingly, our case studies in particular have highlighted that where HR and reward professionals understand, involve, support, skill and enable FLMs to create a totally rewarding environment at work for their staff, then this alignment of reward policy and practice is far more likely to result in a highly committed and high-performance workforce, with high business returns rather than "bankruptcy" the outcome.

Replicating Drucker's wisdom, our research has found a strong correlation between employee views of their line managers and their views on the adequacy and attractiveness of rewards. So when considering the relationship between reward practices and business performance, we recommend that compensation and benefits professionals heed the comments of one department manager at a major insurance company we spoke to: "It's the quality of team leaders that's important . . . it makes a huge difference."

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Reward Strategy: The Reality of Making it Happen

Duncan Brown
PricewaterhouseCoopers

Stephen J. Perkins
London Metropolitan University

"We deliberately didn't have a reward strategy, it would have been a nine-day wonder ... we let it evolve, step-by-step."

"The only reward strategies I like are the ones that work!"

(Commonly experienced comments by two respected HR directors)

For the last 20 years and since Ed Lawler's and Jay Schuster and Patricia Zingheim's seminal books on strategic pay (1990) and new pay (1996), concepts of strategic rewards and human resources management (HRM) dominated management thinking and practice in the United Kingdom. Going into the office and recommending a nonstrategic approach to reward would almost certainly be a career-limiting move.

Mercer HR Consulting's 2005 survey of multinational organizations found 85 percent claiming to have a global pay strategy in place, and Guy Vernon writes that "the relative simplicity of administering pay across national borders appears to lend itself better than other aspects of HRM to deliberate multinational strategy" (Vernon 2006). If only the reality was so easy.

The authors have been researching the state of pay and reward practice in the United Kingdom and among U.K.-owned multinationals. The authors have reviewed and carried out detailed surveys and research studies, most notably:

- The CIPD's Annual Reward Management Survey, which covers 535 organizations in the United Kingdom employing 1.4 million people (Chartered Institute of Personnel and Development 2006)
- Detailed case studies carried out in 20 U.K. organizations for a recent book on reward strategy (Armstrong and Brown 2006)
- A survey of international reward practices among 63 multinational organizations including the United Kingdom, continental European and North American headquartered companies, followed up by qualitative interviews in 16 of them, including BG, BT, Cadbury Schweppes, Shell and Unilever (Perkins 2006).

The emerging picture is different from that contained in the normative literature and the Mercer survey. And the secret about reward strategy that is emerging from beneath the slick conference presentations, glossy articles and consultant brochures is this: it's not working. Organizations are experiencing major problems in delivering on their reward-policy intentions.

This paper describes some most commonly experienced difficulties, which as the two respected HR directors quoted in this paper's opening illustrate, are leading to a new emphasis on implementation and workability. But reward strategies are not being abandoned; their potential value and impact in a human capital-driven economy are too great for that.

Instead, the authors are seeing a more realistic, pragmatic and evolutionary approach emerging, paralleling the more "bottom up" and emergent approaches which Professor Henry Mintzberg discerns in the field of business strategy (Mintzberg 1999). The authors describe four common characteristics of this "new realism" in reward strategy. While it may lack the boardroom appeal of the grand master plan and associated glitz, the approach appears to be much more likely in practice to deliver on the increasingly intertwined goals of high levels of business performance and employee engagement.

REWARD STRATEGY: THE PARADOX OF IMPORTANCE BUT IMPOSSIBILITY

All of the authors' research on reward policies and practice in the United Kingdom seemed initially to present a major paradox. On the one hand, heads of HR and reward said that in an increasingly knowledge- and service-based, skill- and talent-short economy, it is ever more critical that reward arrangements support the business strategy. Be it restructuring to address a massive pension-plan deficit at BAe Systems, or to put base pay management on a market-related footing at Aardman Animations, makers of the Wallace and Gromit movies, or attracting and retaining talent at Sir Martin Sorrell's WPP, appropriate reward practices are key to making business strategy happen.

According to John Marsden, HR director at the Honda Racing Formula 1 Team, "reward is constantly being reviewed to ensure it helps us achieve our goal of becoming world champions." All 500 staff members receive a monthly bonus based on their driver's placing in each grand prix, and a year-end lump sum depending on the team's overall position in the constructor's championship.

With "our business changing rapidly," explained Will Astill, reward manager at retailer B&Q, reward arrangements must adapt in response. Alignment with the business strategy is the priority goal for 79 percent of organizations in the latest Chartered Institute of Personnel and Development (CIPD) Annual Reward Management Survey, closely followed by rewarding and reinforcing high performance. Motivating employees and creating a total rewards environment come much lower down the "pecking order."

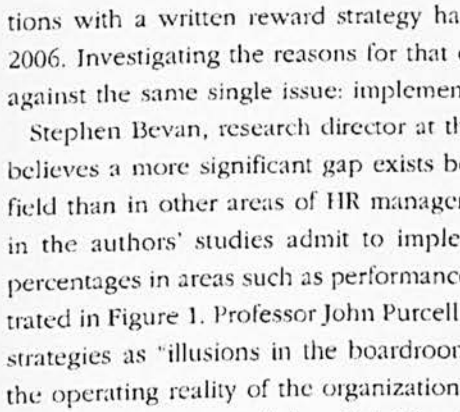
Yet on the other hand, reward strategies themselves don't appear to be happening. In that same CIPD survey, since 2001 the number of U.K. organizations with a written reward strategy has actually declined, to just 35 percent in 2006. Investigating the reasons for that decline, the authors consistently came up against the same single issue: implementation.

Stephen Bevan, research director at the U.K. think tank The Work Foundation, believes a more significant gap exists between rhetoric and reality in the reward field than in other areas of HR management. Around two-thirds of organizations in the authors' studies admit to implementation difficulties, with even higher percentages in areas such as performance-related pay. The most common are illustrated in Figure 1. Professor John Purcell at Bath University describes many reward strategies as "illusions in the boardroom," pristine plans with little influence on the operating reality of the organization.

The authors' research has highlighted some risks as well as opportunities of pursuing the traditional top-down, business-driven reward-strategy pathway: an overfocus on planning at the expense of practice and process; too much resource directed at design rather than delivery; an overconcentration in the HR function and the boardroom, rather than on front-line managers and employees; and too much concept and not enough communications.

Some organizations admitted that they had been overoptimistic in what could be achieved by changing pay arrangements, and how quickly change could be delivered. At times, the focus on internal business fit led to narrow-minded reward determinism, in one case implementing team bonuses when no processes measure team performance.

FIGURE 1 **Barriers to the Effective Operation of Reward Strategies and Changes**



Source: CIPD

One reward director described in great detail his bank's expatriate reward policies, and then admitted that in practice, the highly profitable corporate banking division largely ignored them and generally constructed its own deals for new recruits and transferees. Another said that despite its strategic reward principle of pay for performance, fewer than one-half of its employees globally actually participated in any form of performance-related pay.

Exactly the same criticisms have of course been levelled at traditional top-down planning approaches to business strategy. When Ram Charan and Larry Bossidy wrote a book about it, their title was pointedly, *Execution*.

REWARD STRATEGY: THE EMERGING MODEL

A strategic approach to rewards seems vitally important, yet fiendishly difficult, almost impossible to deliver. The authors' research illustrates how U.K. organizations are addressing this dilemma, involving a shift in the concept of what a reward strategy is and how it is practiced.

This is perhaps best illustrated in a research study of international reward and recognition practices (Perkins 2006). The authors' survey asked participants to define the level of influence which traditional components of the business strategy, such as increasing total shareholder returns and customer satisfaction, had on reward practices in their organization. The results are shown in the left-hand graph in Figure 2 on page 86, with the strength of influence shown on the horizontal axis, and number of organizations on the vertical.

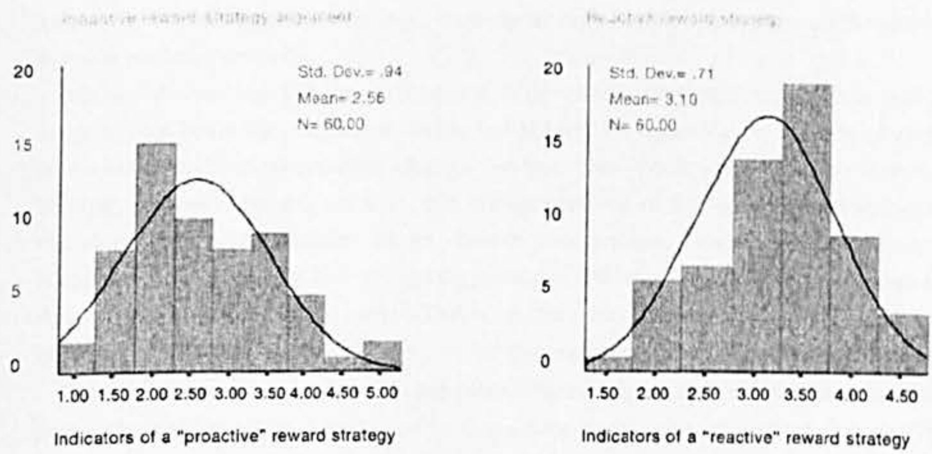
The authors then asked them to rate the influence of external and less controllable factors on rewards, such as the rates of price and wage inflation, external labor markets and the activities of their competitors for staff, as well as trade unions. The responses are profiled on the right-hand graph, and as can be seen, this more reactive approach appears to more strongly applied in more of the organizations.

The pattern emerging among U.K. organizations is therefore similar to that reported in a U.S. study of international compensation practice carried out by Matt Bloom and colleagues, a pattern described as "pragmatic experimentalism" in rewards (Bloom, Milkovich and Mitra 2003). The traditional, idealized reward-strategy model assumes business-goal directed and unified rational organizations, and presents a theoretical choice between globally integrated strategies or locally divergent practice. In reality, in the complex and socially constructed world of large multinationals, an opportunistic mix of the two exists, with reward management as a dynamic, flexible and emergent phenomenon. Crafted reward pragmatism rather than radical "new" designs seems to rule.

This parallels the shift that has been occurring in business-strategy thinking, with Henry Mintzberg defining strategy not as a plan, but as a process, "a direction, a guide, a pattern in a stream of activities" (Mintzberg 1999).

With Michael Armstrong, the authors term this emerging and emergent approach the "new realism" in strategic rewards, and in the remainder of this paper describe

FIGURE 3 **Global Reward Strategy: Comparing Influences**



four common themes that seem to characterize the more successful organizations in applying it.

REWARD STRATEGY: FROM PLAN TO PROCESS

In her redefinition of the concept of business strategy, Kathleen Eisenhardt describes how, in fast-moving and unpredictable times, inflexible and imposed, long-term business plans will never succeed (Eisenhardt and Sull 2001). Instead, strategies must be "simple rules" that engage and motivate employees to pursue and achieve them, whatever the inevitable, unforeseen shocks and adaptations required. Ollie Pekka Kallasvuo, chief executive of Nokia, concurs:

"Five to 10 years ago you would set your vision and strategy and start following it. That does not work anymore. The world is more uncertain and complex. Now you have to be alert every day to renew your strategy…to have flexibility and responsiveness and then find the right balance between the two" (Ibison 2006).

The HR and reward directors told the authors exactly the same thing. Formulation is easy, but implementation is hard. Organizations are therefore paying much greater attention to setting a clearer and simpler reward direction rather than creating detailed master plans, and then delivering and managing consequent reward changes through a more realistic, evolutionary approach. Paul Craven from GlaxoSmithKline explained, "Don't expect people to change overnight and don't try to force change." This accords with academic Annette Cox's advice to move away from the fixation with "best practice" to focus on "best process" in reward management (Cox 2000).

Peter Harris, reward manager at financial services firm Friends Provident, said "over the past four years, we have continuously reviewed and evolved our reward package" to meet the needs of the business and employees. Tony Hatton-Gore of

Arup recounted a 10-year process of strategic reward improvement in the global engineering and design firm at a recent e-reward conference, progressing through phases of building the foundations, moving to best practice and then implementing a more global approach.

Michael Armstrong, U.K. reward expert, believes that a written strategy "can still be helpful as a basis for communications, but should be regarded as a piece of paper that can be modified when needs change—as they will—not treated as tablets of stone." Strategy is about making choices, but taking account of the context and emerging developments helps translate those choices into actions, rather than remaining as idealized wish lists. Tim Fevyer, senior manager rewards, similarly explains that for the 70,000 employees at the Lloyds TSB bank, "we wanted to get away from adopting new initiative after new initiative...to evolve sustainable approaches to reward."

Contemporary reward strategies are often much simpler as a result with clear and straightforward goals to pursue, and because they avoid overengineered designs. The reward goals at the charity, The Children's Society, are to develop systems supporting its mission and corporate objectives: "we will move toward processes which:

- Recognize contribution
- Are transparent
- Are owned by line managers and staff
- Reinforce leadership, accountability, teamworking and innovation
- Are market-sensitive but not market-led
- Are flexible and fair."

Similarly, the ambitious reward-reform program at telecoms company BT has been driven by crystal-clear objectives in the areas of:

- Business linkage
- External market alignment
- Fairness and equality
- Reward for performance
- Clarity and transparency
- Choice and flexibility.

Reward and Employee Relations Director Kevin Brady described the new strategy as "a major exercise in change management" that involved "a lot of learning along the way." His message was clearly, "Let's focus on making it work as intended."

And though there is a greater focus on the change process, the authors are seeing less change for change's sake. At drinks giant Diageo, Nicky Demby said, "Reward schemes will not be introduced or updated without assessing whether there is a good reason...it must add value, rather than create work."

REWARD STRATEGY: FROM IMPOSITION TO INVOLVEMENT

An implementation focus is leading to greater attention being paid to the skills of line managers and to communicating with employees, the second major component of the new realism. In the CIPD's research, less than one-half of organizations involved line managers in the development of their reward strategies, yet it is they who make reward strategies happen. Professor Michael West's research, which was reported in this journal in 2005, shows that effective reward strategies in customer-service settings depend on "line managers who are warm, supportive and enabling, encouraging high levels of employee commitment" (Brown and West 2005).

At Norwich Union Insurance, 400 first-line managers received extensive training and support prior to implementing a new performance-related pay system. Sandy Wilson told the CIPD's Annual Reward conference, "line managers need to live and breathe it, realize how important it is to the business strategy. If they don't make it work, we're scuppered."

And in terms of the relationship between reward managers and the line, at BG this is handled as far as possible on "the basis of regular discussion rather than formal mechanisms" and rules and procedures. This dialogue helps to avoid a "tyranny of expertise," which in some companies has divorced reward practitioners from line managers, leaving the latter frustrated by rigid systems and procedures which they endeavour to subvert.

Tim Fevyer describes how at Lloyds TSB strong central control of HR management meant that rewards were seen as being "done to you," with no ownership in the businesses. Now the aim is locally owned change. Line managers make pay decisions "where the information is," with no centrally dictated pay adjustments or matrices. HR, like other strategic functions, provides the standards and framework, and then supports managers in creating a totally rewarding work environment for their staff, a common orientation evident in the authors' international research.

In the CIPD's research, fewer than 10 percent of organizations consulted with employees in developing their reward strategies. Yet staff communications and genuine employee involvement was overwhelmingly the focus of the authors' discussions with HR and reward directors. Extensive communications underpinned the two-year program of reforms to pay structures and benefits at BT. As Caroline Waters put it, "people have to believe they are going to be fairly treated, and being able to talk very openly to people about reward is a vital part of that." Progress in their reward strategy at Arup for Tony Hatton Gore has similarly involved "an awful lot of discussion and talking."

But as Waters' colleague Kevin Brady elaborated, it often won't all be plain sailing and a textbook-smooth journey. His advice was "don't underestimate resistance…not everyone is going to be happy," but still "engage, engage, engage … giving every opportunity to participate and contribute." This also means that "it's essential to get operational (management) ownership of the strategy…it's not an HR project, we're trying to shift the culture of the business." Strategy, be it business or reward, is not a simple, unitary process, and attention must be paid to the plurality of different stakeholders who can resist and frustrate the top-down imposition of policy.

In its U.K. business, rather than pulling the redesign lever on an unpopular pension plan, retailer GAP applied its marketing expertise to a new program of employee communications and saw scheme participation triple as a result. Reward success, as Tim Fevyer at Lloyds TSB explains, "hinges on the degree to which employees feel a sense of ownership."

REWARD STRATEGY: FROM ENFORCEMENT TO ENGAGEMENT

That belated realization helps explain the third trend, the reassertion of the needs and engagement of employees back at the heart of reward work. How often have readers been to reward conferences in the last decade and reflected on the obsession with "business alignment," yet heard little about how to motivate employees to give what John Purcell calls that "discretionary commitment" which drives the achievement of business goals in our modern service economy (Purcell 2003)? Reward strategies need to focus less on efficiencies and more on empowerment, contain less about cost and more about commitment.

The overall objective of rewards at Diageo is "to release the potential of every employee to deliver Diageo's performance goals." Financial services firms Nationwide and Standard Chartered can, like Sears, demonstrate clear relationships between their HR and reward practices, the levels of employee engagement, and customer and financial performance in their branches.

At Nationwide, for example, as Senior Rewards Manager Paul Bissell explained, increasing average staff-service levels in a branch by one year is associated with a 1-percent improvement in customer satisfaction, leading to an almost 2-percent increase in mortgage sales. At Standard Chartered, branches with staff who display upper-quartile levels of engagement achieve 74-percent higher growth in deposits and 3-percent higher revenue per employee than branches where staff members feel less well rewarded and engaged.

Contemporary reward strategies are increasingly focusing on creating compelling employment brands, with 28 percent of employers in the CIPD survey operating total-rewards approaches incorporating flexible and voluntary benefits. Sterile debates about the pros and cons of using performance-related pay "carrots" and "sticks" have been replaced by attempts to create the type of truly rewarding environment which is most conducive to employee commitment and high performance.

Companies placed in *The Sunday Times'* 100 Best Companies to Work For listing during the past five years have significantly outperformed the U.K. all-share index, and the wide range of financial and nonfinancial rewards these companies employ to engage their staff is obvious.

At Lloyds TSB, in a very competitive market for talent in the financial-services industry, the emphasis in its reward strategy is on creating a "compelling employment offer," one that is individually focused, tailored to employees' needs and expectations and more in tune with the needs of an increasingly diverse workforce. Lloyds TSB's total rewards package includes one of the most comprehensive flexible benefits packages in the United Kingdom, and it seeks to encompass all aspects of the work experience. Not only is the package varied and flexible, but the firm has identified five key segments of employees with clear differences in their motivation and needs, and any communications on reward are tailored to suit each segment.

Operating in the public sector but with more than 80 percent of its staff recruited from the private sector, the U.K. government's Central Office of Information has been the highest-placed public-sector organization in *The Sunday Times* listing for the past four years, as HR Director Emma Lockhead explained. Unable to compete on pay levels, it secures high levels of staff loyalty and engagement with a comprehensive total-reward approach encompassing 30 days of vacation for all staff, market-leading levels of maternity leave, extremely flexible working schedules and extensive support for career development.

REWARD STRATEGY: FROM BEST PRACTICE TO BEST FIT

Professor Manfred Kets de Vries at Insead describes the dangers of extreme management philosophies and believes that "effective management is all about balance" (Kets de Vries and Miller 1985). Also of interest is that, in terms of reward-scheme designs, much greater diversity is evident as employers tailor and blend the appropriate practices to suit their business, their context, their goals, character and culture. "Best fit" is thankfully replacing supposed "best practice."

While reward strategies in the 1990s at times drove the unsuitable and over-hasty implementation of extreme approaches, such as individual performance pay, today this tailoring, melding and balancing is the norm. For example:

- Only 13 percent of U.K. organizations are now basing pay increases solely on individual performance, compared to more than one-half relating them to a broader assessment of all-around contribution.
- 11 percent of bonus plans are wholly team-based, while 38 percent employ a mixture of collective and individual criteria.
- 16 percent using very broad bands, with most continuing to balance the needs for flexibility and fairness through marginally broader-banded pay structures, and with job families increasingly being used to provide flexibility within a common reward framework.

In their international reward strategies, like Bloom and colleagues, the authors' research found that organizations were often pursuing an opportunistic and hybrid mixture of global principles with local tailoring and variations, replacing rigid policies which, in reality, didn't operate in practice. The head of reward in a technology company subsidiary said that an "imposed" approach from headquarters meant that "we're saying one thing and doing another."

More successfully, the HR business partner in one multinational explained, "It's all about helping them (business leaders) to see what 'better' looks like" in reward practice and "improving execution." At Cadbury Schweppes, the authors were told, "We have not changed our character in 200 years." Greater consistency in reward processes was being pursued, as it underpinned "a successful business model going forward" with "everybody going in the same direction." That didn't, though, "mean exactly the same combination of people processes, but using the mix best suited to the circumstances of each particular business and country," while always endeavouring to "keep it simple."

Seija Vuori from Nokia explained at a recent Marcus Evans conference in Stockholm the "mid-Atlantic" reward philosophy that his company now employs, combining "thinking globally but acting locally." An integrated e-Hr system has helped support greater commonality of approach, with global incentive and stock plans, for example.

But flexibility and personalization within a total-reward framework are also key principles of the approach. In the United States, Nokia's changes have involved greater attention to teamworking in a traditionally individualistic culture, while at headquarters in Finland, the movement has been in the direction of greater individual differentiation. In making a success of these changes, Vuori emphasises those factors highlighted here as being key to the new and emerging approach to reward strategy: line-management commitment and support, change and project-management skills, and a positive and flexible approach to implementation, with heavy staff communications and involvement.

Clive Wright of Mercer HR Consulting sees in the international rewards field, "A greater variety of models of mobility being applied...the response now tends to be 'let's not allow the technical issues to interfere with meeting business needs.' More and more companies are being pragmatic."

Helen Murlis of the Hay Group in London succinctly summarizes it like this: "Reward strategy has to be characterized by diversity and conditioned by the legacy of the past and the realities of the future."

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- *The Best of Global HR: Five Years of International Articles from WorldatWork.*

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- T9: International Remuneration—An Overview of Global Rewards
- GR6: Variable Pay—Incentives, Recognition and Bonuses
- GR1: Total Rewards Management.

REWARD STRATEGIES FOR REAL

Truly strategic reward approaches are, therefore, not about supposed best practice, or quick fixes or wins. The sense of realism emerging in the application of the concept in the United Kingdom—with greater attention to implementation and managing changes, to employee involvement and engagement, and to ensuring long-term adaptability and sustainability—means that the full potential of rewards to reinforce high performance is far more likely to be realized in many more workplaces.

As a utility company line manager said, "Taking account of people's values is vital because to have that customer responsiveness you have to trust people to respond ... it's not just about what you do but how you do it." The authors described a shift in approach to strategic reward management, and it is summarized in Figure 3. The authors would be interested to hear if a similar shift in emphasis is occurring in North America.

Peter Harris at Friends Provident believes that the reward "changes we have made during the past four years have helped move the organization forward and personally given me the opportunity to make a positive difference." Realizing the sorts of measurable gains in commitment and performance that organizations like Friends Provident and Standard Chartered can demonstrate must be the ultimate strategic-reward ambition. ▮

FIGURE 3 **The Evolution in Emphasis in Strategic Reward Management**

	To
Business, business, business-driven	Aligning rewards with business strategy, employee needs and environment
Isolated initiatives	Integrated, balanced reward management
Focus on cash	Focus on total rewards and engagement
System: mechanistic, inflexible, complex	Process: organic, variable, relatively simpler
Pay progression: individual performance/service	Pay progression: contribution skills and knowledge
Planning	Practicing
Design: best practice	Process: best fit
HR control	Line/employee ownership
Inform (maybe), top-down telling	Communicate and involve
"'Big bang'" change	Evolutionary change
Guesswork/faith	Evaluation of initiatives and effectiveness
Elastoplast technology	Integrated HR and reward information systems

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Measuring The Effectiveness Of Pay And Rewards: The Achilles' Heel Of Contemporary Reward Professionals

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Measuring The Effectiveness Of Pay And Rewards: The Achilles' Heel Of Contemporary Reward Professionals

Duncan Brown, Director, Human Resource Services
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Organizations can use a 4-step process to initiate a truly evidence-based approach to evaluating and justifying their reward practices.

How effective are the pay and reward arrangements in your organization? Is your pay market positioning right? What would happen if you moved up to an upper quartile pay line? Do you have the right number of pay grades? What would happen if you had fewer or more? What's the return on the cost of your management and employee incentive plans, and what would happen if you switched them from an individual to a team emphasis? What would happen to performance if you halved or doubled the incentive opportunities? Are you getting any measurable return on the cost of your flexible benefits plans? How do rewards affect the levels of engagement and performance of your employees? In fact, do you have any evidence whatsoever that your pay and reward arrangements make any difference?

According to American columnist and broadcaster Dennis Prager, "Our scientific age demands that we provide measurements and statistics in order to be taken seriously."[1] This is especially so in business management, where in our current, increasingly challenging contemporary economic

Keywords: *reward measurement; reward effectiveness; human capital measurement; reward research evidence*

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climate, "competing on analytics" and "fact-based decision-making"[2], detailed "strategy mapping"[3] and "evidence-based management"[4] are being popularized as essential to organizational survival and success. Moreover, in an increasingly knowledge- and service-based human capital–driven economy, it is regarded as vital that companies pay greater attention to "measuring the contributions made by their talented people"[5] and using metrics, such as profit per employee, to monitor and assess corporate performance.

As the authors of the balanced scorecard put it, what gets measured gets done and "people cannot manage well what they are not measuring."[6] Performance scorecards are a widely used tool that companies employ, both to expand their corporate measurement systems from financial into nonfinancial areas, such as customer and people management, and to bring more measurement rigor into these domains. Barry Beracha, former chief executive at Sara Lee, reportedly kept a sign on his desk that said, "In God we trust. All others bring data."

Yet according to these and other respected commentators, still much of what goes on in human resources (HR) and reward management fails to satisfy Beracha's measurement test. Pfeffer and Sutton describe a "knowing-doing gap" in which "for the most part managers looking to cure their ills rely on obsolete knowledge . . . the challenge is to ground decisions in the latest and best knowledge of what actually works."[7] Pfeffer[8] is particularly critical of low cost/low pay retailers, arguing that higher levels of staff pay and benefits on the shop floor ultimately generate higher returns for the employer.

Fact-Free HR and Reward Management

Stern claims that many HR decisions still "get made on the basis of imperfect information. . . the latest fad."[9] He cites Davenport's examples of how analytics can improve human resources management (HRM), helping to identify "how much personnel contribute to or detract from the bottom line and how salary levels relate to individuals' performance."[10]

But despite the very obvious costs of pay budgets, incentives and benefits plans, the spread of sophisticated HR information systems and shared service centers, the widespread adoption of balanced scorecards and near-universal pay benchmarking, very few organizations seem to have any concrete evidence to evaluate or justify their reward practices.

Bevan criticizes the "HR rhetoric/reality gap" that this lack of evidence creates between the intended goals and actual effects of many HR policies.[11] He believes it is "widest in the area of reward management" which is "heavily driven by fads, me-tooism and history."[12] Milsome concurs that "when implementing new reward practices, organizations often disregard facts, act on ideology and casual benchmarking." There is, she claims, a widespread lack of quantitative measures of impact and effectiveness, citing the example of merit pay, which "became popular for reasons of ideology, fashion, acts of faith . . . the evidence that it may not work has been largely ignored."[13]

So just what is the current state of the measurement of reward effectiveness? Is it quite as bad as these commentators claim, and if so what is stopping the application of evidence-based management to our discipline? Is measurement worth the effort? Most importantly, what is the evidence base to demonstrate the effectiveness of specific pay and reward practices and how can organizations make realistic improvements in this area? These issues are addressed in the remainder of this article.

Limited Improvements

Twenty years ago, HR director Mike Langley[14] carried out a study of the effectiveness of sales compensation plans in 20 organizations in the United Kingdom. Only three of them had any evidence that their plans and the changes they had made to them had had any impact on sales performance, and even in these cases it was inconclusive.

"It's been our most successful launch ever; of course the sales commission plan has worked!" remonstrated the marketing director of a large telecoms group I once advised. But the product in question was free to existing customers of the company and supported by a major television advertising campaign. The sales agents in their call centers were essentially acting as order takers, but the volume of demand was driving their earnings levels to more than 250% of local market rates. Relative to the product pricing strategy and advertising investment, the commission plan almost certainly had little or no impact on the sales performance.

Many compensation professionals have regularly experienced examples of:

- being faced with generalized "truths" about rewards that have little foundation in research evidence ("Of course sales staff have to have incentives!"), highlighted by Pfeffer's[16] famous demolition of the myths of performance-related pay;
- practices that are justified purely on the basis of history ("But we've always had this type of pension plan, it would be very unsettling to change it.");
- strong research evidence that is routinely ignored in how companies operate their reward practices, as originally highlighted by Stephen Kerr[17], such as the delay in payments from annual bonus plans relative to the employee actions generating them, thereby weakening their incentive effects, or the increasing prevalence of numerous and complicated performance measures in executive incentive plans, when research shows that the focusing effect of a few simple measures can be considerable;
- being forced to make reward changes by a new senior executive because they saw it work in their previous company or read about it in a business article, even though much of the evidence suggests that successful reward plans are highly context-specific;
- boards refusing to accept proposals for new and original reward initiatives because competitors do not have them and so they are perceived to be too risky, despite the fact that strategy is all about competitive differentiation.

Survey evidence suggests that instances such as these are probably diminishing and the situation is improving, if slowly. The Chartered Institute of Personnel and Development's (CIPD) regular surveys of reward and HR management in the United Kingdom provide a good picture of practice across some 500 organizations.[18] They indicate that more organizations are attempting to assess systematically the effectiveness of their reward practices and changes to them. Ninety percent of companies claim they make at least some effort to do so. Almost two thirds attempt to assess the impact of rewards on the business strategy, which a majority feel is improving, even though they are less comfortable with the evidence base for proving this.

In terms of the methods for making such assessments, most now use data drawn from staff attitude and opinion surveys, compare with benchmarking data drawn from other companies and draw on the increasing range of human capital data available internally in their organization, for example from new recruit questionnaires and exit interviews, and labor turnover and absence statistics. (See Exhibit 1).

As the latter measures illustrate, companies are also using a more comprehensive range of information and indicators to assess effectiveness, most commonly including attrition rates, levels of staff satisfaction/engagement and length of service data. (See Exhibit 2.)

In a large U.K. financial services organization, one of the key metrics that the chief executive focuses on is employee turnover in the first year of employment, as analysis has shown it to be a major cost issue for the organization and detrimental to customer service. With every 1% fall in turnover producing savings of more than £5 million, investments in areas such as improved induction processes and early enhanced pay progression are clearly easier to justify. The CIPD surveys suggest that the cost of labor turnover per employee has increased by a third in the past 2 years,[19] and Navarro and Bass[20] estimate the direct and indirect costs of absence can amount to 15% of payroll.

Yet what is worrying from these wider survey data is that there has been little growth overall in the past 3 years in the use of these assessment mechanisms, and only a minority of organizations are using financial and business data to assess their reward policies. Less than a quarter use business data, fewer than a fifth conduct financial cost-benefit analyses of their reward changes and attempt to calculate the economic value added, and only 10% of companies can actually put a financial cost on their labor turnover.

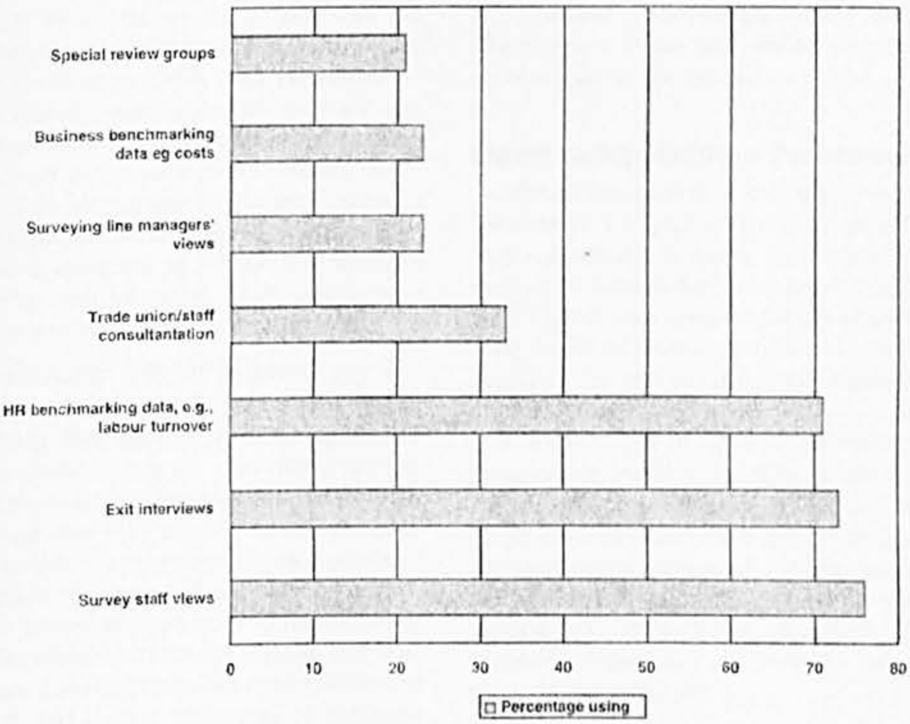
A recent study for the U.K. Department of Health by researchers at Greenwich University[21] looked at seven organizations that had introduced new pay and grading structures. It found not only a virtual complete lack of evidence to indicate whether or not the stated objectives for the changes had been achieved, but also skepticism amongst the HR and compensation managers involved about the value of "hard" success measures.

Some took the view that an absence of negative reaction (e.g., strikes) indicates success. The researchers believed that such was these managers' psychological investment in the changes that they would have had difficulty admitting their goals had not been met.

Moreover, there is little evidence that the more contemporary and most popular reward initiatives

EXHIBIT 1

Popular Methods Used to Assess Reward Effectiveness



Source: Chartered Institute of Personnel and Development

today have any sounder basis in research evidence than more traditional practices. Schuster and Zingheim, for example, are critical of many "best place to work" initiatives for simply escalating employment costs through increasingly zany and expensive benefits, with no demonstrable impact on performance.[22] Martin is similarly scathing of the contemporary emphasis on "the big idea" of employer branding, which he claims is based on some highly "questionable assumptions about human capital and woolly thinking."[23] He refers to the lack of evidence as to how employer branding is supposed to work, and if it does work, in what contexts it is likely to be most effective.

The Measurement and Evidence Gap

Given the contemporary focus on quantitative measurement and analytics, and the large amounts of data now being generated by the increasingly sophisticated HR information systems in organizations, it is interesting to pose the question as to why there has been so little apparent improvement in the overall state of the evidence and rationale for reward practices and changes. Indeed, one might argue that too much information and human capital data have replaced the traditional problem of lack of quantitative measures as a barrier to the effective evaluation of reward effectiveness.

A straw-poll among colleagues suggests the following as possible contributory factors to the measurement malaise:

- lack of time and resources to evaluate, even though stronger evidence of effectiveness might lead to greater resources being allocated to the reward management function;
- lack of training and skills in statistics, finance, quantitative methods, research and other relevant disciplines in the HR community, although it might seem that this would be less true about compensation than other HR professionals, given the

finance background of some of them and general requirements of most;

- sheer laziness, if professionals are not pushed by others to do it, although HR functions are undoubtedly coming under more pressure to justify their existence;
- the academic/practitioner divide in HR and management more broadly, which means that many potentially useful research studies are hidden away in lengthy research journal papers, written in impenetrable jargon and designed to further the author's academic career rather than having any serious practical relevance or impact.

It is undoubtedly difficult to assess pay and reward practices in many settings. A wide range of variables and factors, many of them intangible, are generally involved. There are also many success and effectiveness criteria available, so it is difficult to choose, and they may actually come into conflict. For example, if a company closes its defined benefit pension plan and reduces pension contributions into a new defined contribution plan, it can easily calculate the financial savings. But how does it assess this relative to the demotivation of existing staff and loss of attraction of potential new recruits that such a change might cause?

Another problem is that organizations can rarely carry out controlled research studies and "experiment" with different approaches to pay and rewards and compare their effectiveness when people's livelihood and standards of living may be at stake. It is also difficult to isolate pay and rewards to assess their effects. For example, performance management, communications and a whole range of factors, as well as the plan design, will affect the success of performance-related pay initiatives. Changes in pay are also typically accompanied by changes in associated HR processes, with job evaluation exercises, for example, often accompanied by changes in job content and organization design.

These were some of the major difficulties that the head of rewards for a major U.K. bank referred to when I discussed possible improvements in measurement processes and techniques with him. Of course, he said, he would be interested in these, but the difficulties would be formidable. Plus, he felt that the board were largely concerned with rewards for their top executives and, despite the millions of dollars of pay costs for other staff, if there were no obvious problems he was not under pressure to show a return or improvements in how that money was invested.

So is it worth the effort to overcome these difficulties and more systematically measure the effectiveness of pay and reward practices? And if so, how can we go about doing this?

Impact on Organizational Performance

Measuring, assessing and improving the effectiveness of HR pay and reward practices have major potential benefits for employers in our ever-more knowledge- and service-based economy. People now represent more than half of the total costs of many companies, but also the source of the vast majority of any growth in their market values.

A wide variety of research studies carried out around the world have demonstrated relationships between a "bundle" or "basket" of HR and "high performance" work practices and organizational performance, in settings ranging from the U.K. National Health Service to quoted U.S. companies. And these practices invariably include important dimensions of pay and rewards. For example

- Guest et al. include individual performance-related pay and profit-related bonuses as 2 of their 18 HR management practices associated with lower levels of employee turnover and higher levels of profit per employee among 366 companies; they conclude that "the effective deployment (and reward) of human resources offers one of the most powerful bases for competitive advantage"[24];
- Thompson found that certain human resource practices that build skills, motivation and ability, including share ownership schemes, broad bands, competence-based pay, team rewards and incentive pay were associated with higher organizational performance in the aerospace sector[25];
- In a study of 25 customer service organizations, Brown and West reported links between employee engagement and customer service performance; they found that employees were influenced by reward practices, such as variable pay and recognition awards, as well as the management culture in involving them and showing concern for their well being.[26]

EXHIBIT 2

Measures Used to Evaluate the Effectiveness of Reward Policies and Practices ($N = 534$)

	Percentage of Respondents				
Measures Used to Evaluate Effectiveness	**All**	**Manufacturing and Production**	**Private Sector Services**	**Voluntary Sector**	**Public Sector**
Turnover rate	82	84	80	81	85
Staff satisfaction	53	54	57	35	52
Appraisal and performance management	47	54	47	51	41
Profit	34	41	47	7	6
Length-of-service distribution	33	33	31	30	39
Vacancy rate	32	24	23	44	57
Workforce composition	32	23	23	40	58
Time taken to fill vacancies	31	30	30	40	32
Customer satisfaction	30	26	38	30	19
Reward budget costs	30	35	33	23	21
Competency/skill level of staff	26	28	31	35	13
Job offer refusal rate	23	20	27	26	17
Measures of staff contentment	21	20	21	23	18
Sales growth	19	23	27	5	4
Productivity per employee	19	27	20	14	9
Economic value added	15	16	20	7	5

Source: Chartered Institute of Personnel and Development

In fact, Combs et al's meta-analysis includes 92 studies from around the world showing a link between high-performance HR practices and organization performance. They identify three sets of influential HR practices—those that increase skills, empower employees and improve motivation—and pay and rewards can have an impact on all three of these, not just the latter group.[27]

A number of organizations, such as U.K. financial services organizations Nationwide and Royal Bank of Scotland (RBS), as well as the retailer, B & Q, have replicated such results internally and shown powerful reinforcing linkages between their pay and reward practices, employee engagement and their corporate financial performance. But there are too few of them.

Far too many employers, as Brown and Armstrong describe, are still pursuing an unmeasured and undifferentiated, low performance-impact, "follow-the-herd" reward strategy, engaged in a constant and fruitless search for the nirvana of supposed universal best practice.[28] UK employee attitude studies also reveal surprisingly low levels of overall employee engagement by international standards, and pay management and recognition are typically important contributors to this (e.g., see Truss[29]).

So the failure to evaluate and measure is not just helping to create Bevan's rhetoric and reality gap between the policy statements of great and totally rewarding workplaces and the reality experienced by many employees. It is also creating a significant gap for many employers between the shape of their current reward practices and investments, and the improvements in employee engagement and performance that could be achieved if those investments were better directed and managed.

PricewaterhouseCoopers' Saratoga databank of human capital information has some interesting macrolevel findings, concerning the significant productivity gap between the United Kingdom and the United States.[30] The data show that average compensation levels in North America in 2006 were almost twice the average in Europe. Yet the business return on those costs in North America, as measured by the human capital return on investment (ROI), was \$1.52 per compensation dollar, compared with just \$1.14 in Europe. Just imagine the massive performance impact, and impact on the function's reputation, to be achieved if the HR function could increase the return on every dollar of the employer's compensation costs from 14 cents to 52 cents.

So how can reward professionals go about assessing and improving the effectiveness of their pay and reward arrangements?

Assessment Process

In a comparison of those few companies that seem to carry out reward measurement and assessment well, it is striking to observe that there is apparently no universal set of reward data and metrics that they used. The successful organizations seem to use quite different measures for these purposes.

This very much supports the conclusion of the U.K. government task force on human capital reporting chaired by Denise Kingsmill, which summarized the arguments and concluded that there was no single set of human-capital measures that could be used to assess the quality of people management in every company.[31] The measures have to be tailored to each sector and organization.

But, although they use different criteria and measures of reward success, these companies do all share a common prioritization of the importance of evidence-based reward management, and all use a similar process to effect it. Below is a 4-step process to promote more effective, evidence-based reward management:

- Set the broad reward strategy goals and direction, which defines the scope of reward in the organization, what effectiveness means and how the organization will measure it.
- Carry out a reward review. Assess your current reward policies and practices against these criteria, using both general research evidence and situation-specific research evidence, where possible; identify key issues and agree on actions to address them.
- Pilot and evolve changes to improve the extent to which the reward goals are being met, the criteria satisfied and the measurements of success improving.
- Continue to measure, monitor, review and adapt the rewards.

Each of these 4 steps is now described and illustrated, along with some practical tools to help to make progress.

1. Set the Goals and Success Criteria

Cynics might argue that all strategic reward principles and goals are simply variations on the traditional "holy trinity" of compensation: recruit, retain and motivate. Others see no point in setting what they regard as unachievable reward goals that directors and employees can simply use to criticize the failings of the HR function when they are not achieved.

Yet the whole point of being strategic about reward management is to set out how reward can best support the organization's success, establish the criteria to assess success, and to make changes and improvements to close the gaps. This is the only way to avoid that depressing cycle we have seen with so many "new" reward ideas: the initial piloting and success in certain companies, followed by wholesale copying and adoption with wildly unrealistic expectations in a wide variety of settings, followed by failure to deliver, disillusionment and rejection, and then leading to the search for the next reward miracle cure.

When a large telecom company implemented a series of major and sometimes controversial reward changes between 2003 and 2006, it did so on the basis of a very clear set of reward goals, namely

- clarity and transparency,
- business linkage and reinforcement,
- external market focus,
- performance-related and differentiated pay,
- fair and equal rewards and
- personal choice and flexibility.

This agenda drove the changes to grading and pay structures, pay reviews and total rewards, and was used to assess their effectiveness).[32] Subsequent employee surveys revealed that the vast majority of managerial and professional staff affected by the changes understood and supported them.

In an international utility company, each of the strategic reward principles is associated with a number of measures and standards. These are used by the corporate compensation function to assess the extent to which they are being achieved in each of the businesses, as illustrated in Exhibit 3. As part of a formal human capital reporting process, each year the businesses are required to report on how they have implemented the principles and addressed any shortfalls.

A large professional services firm uses six reward principles. The meaning of each and the measures of delivery are clearly stated alongside. One principle to support its comprehensive business proposition is to take a one-firm approach to

EXHIBIT 3

Goals Establish the Success Criteria: Reward Strategy Principles and Measures in an International Utility Company

Principle	Standard
Strategy driven	• Key business goals evident in reward policies and practices • Defined reward strategy and goals • Success criteria for reward policies established and monitored
Performance related	• Some type of contribution/performance-based pay schemes in operation • Flexibility in total pay costs in relation to business performance • Employees feel that performance is recognized/rewarded
Flexible	• Evidence of reward changes as required and any legacy issues being addressed • Ability to respond to local market pressures • Business managers do not feel constrained

reward as far as possible to improve internal mobility and promote fair treatment. This principle is being delivered and demonstrated through a firmwide flexible benefits package, the harmonization of overtime arrangements and current move to consistent eligibility for variable pay across the firm. Another of the principles is "openness and honesty" in reward, which has led to simplification in the design of bonus and incentive plans and is assessed primarily through specific questions in the firm's annual engagement survey.

Similarly, a global pharmaceutical company has for many years had a principle of performance-related pay (PRP). But it was shocked to find that less than half of its employees globally actually had some form of PRP. This figure is now reported on each year by its subsidiaries and the corporate reward function is monitoring the steady growth in the proportion of its workforce who are covered. As Kaplan and Norton say, what gets measured tends to get done.[33]

Exhibit 4 illustrates the generic "10 C" criteria that an organization can select from to assess the effectiveness of its reward arrangements. Although complexity and a potential conflict of criteria are undoubtedly barriers, what is more concerning at present is how few of the criteria most organizations use, beyond the ubiquitous one of market competitiveness.

But how can a company select which reward principles and success measures to initially focus on and prioritize in what can often be a dauntingly wide reward agenda? Exhibit 5 shows one of the tools that can be used for this purpose in workshops with company executives and HR staff. It lists some commonly employed goals for pay and reward arrangements, and a company can of course add any specific to the organization.

Executives are invited first to rate which of these objectives is most important on a scale from 1 (*unimportant*) through 10 (*of critical importance*). This helps to reveal the degree of consistency in executive views on important objectives. But then they should also assess how effectively each of these goals is currently being delivered in the organization, from 10 (*very effective*) through 1 (*completely ineffective*). Often, the effectiveness is rated differently by different executives, highlighting variations in reward delivery across the organization. But the importance/effectiveness gap also reveals priority areas for attention.

In a rapidly growing pharmaceutical company, reinforcing business goals, strong pay-performance relationships, market alignment, cost effective/efficient processes, and transparent/well communicated rewards came out as their highest ranked goals, with a fairly high degree of consistency in ratings. Given a number of recent international acquisitions, not surprisingly there was more variation in the range of current effectiveness ratings, with market alignment, reinforcing company values and cost effectiveness getting the highest average scores.

In terms of the importance/effectiveness gaps, indicating potential scope for improvement, the widest were reinforcing the achievement of business goals, facilitating staff mobility/a one firm approach, and pay for performance. These findings helped to determine the objectives and success measures for the new reward strategy and to agree and fund the program of work for the compensation function over the next 12 months. New

EXHIBIT 4

A Framework for Reward Strategy and Effectiveness Work: The "10 Cs"

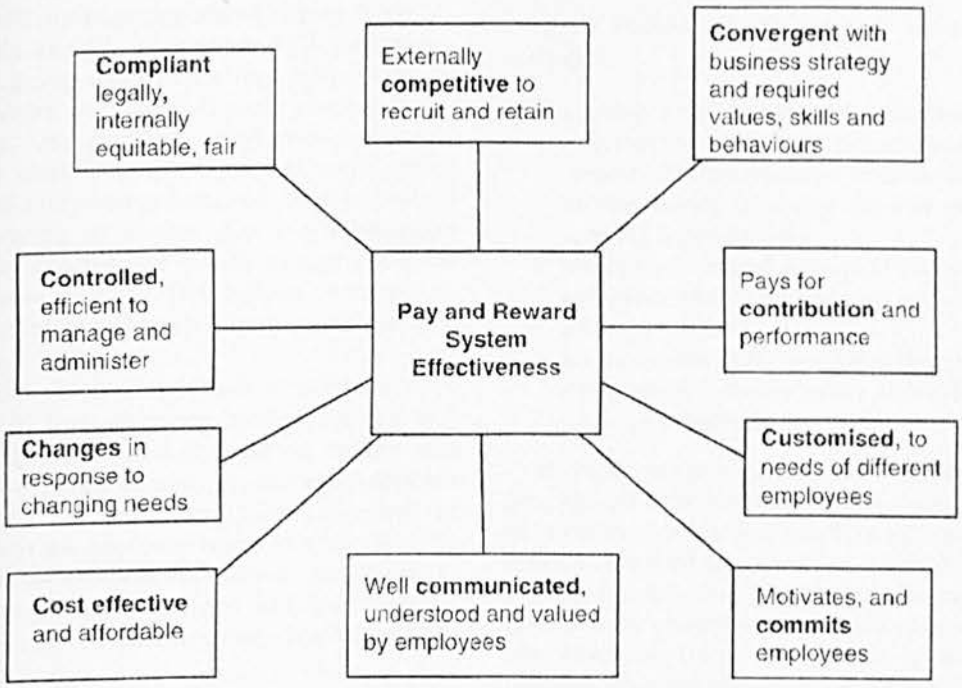


EXHIBIT 5

Common Reward Strategy Goals: How Do You Rate?

Objectives	**Importance**	**Effectiveness**
Reinforce the achievement of organization goals	______	______
Recruit and retain staff of the required caliber	______	______
Facilitate international staff mobility	______	______
Strong relationships between pay and performance	______	______
Reinforces organizational values	______	______
Motivating for our employees	______	______
Cost effective	______	______
Well communicated and understood by employees	______	______
Managed effectively in practice by line managers	______	______
Efficient to operate/maintain	______	______
Flexible, to react to change	______	______
Others (please list)	______	______

Note: Scale 10 = high, 1 = low.

and harmonized incentive plans are at the top of their agenda.

2. Conduct a Reward Review

A formal review process is generally best and about one fifth of U.K. companies have a specific reward review group or committee to audit their reward arrangements and assess effectiveness against their reward goals and principles. This might involve an in-depth initial review or a regular assessment of any existing rewards and proposed changes.

The thinking behind the reward review in a major UK retailer, according to their reward manager, was "The desirability of adopting a strategic approach: it wasn't a case of let's follow the 'best practice' nor adopting the latest fads and fashions. Taking what someone has done before will not push you ahead of your rivals."[34]

Ideally, as well as reward and HR professionals, the group will include line colleagues and also involve consultation with employees. At another UK retailer, employee volunteers became members of the central team, which reviewed and then redesigned their pay structure, helping to ensure that the subsequent changes reflected the needs of and could be understood by staff. This helped to maximize the chances of successful implementation and operation.[35]

At a U.K. drinks company, a committee staffed entirely by line managers meets quarterly and reviews any potential changes to reward and other HR arrangements to ensure they meet their needs and are understood and supported in practice in the business. Again this significantly increases the chances of successful implementation of any reward changes and the intended improvements in effectiveness being delivered in practice.

An effectiveness review generally involves

- gathering information and evidence on existing practices,
- making assessments of the effectiveness of the delivery of reward goals and pay and reward practices,
- agreeing on key reward issues to address,
- considering possible options and changes to improve the delivery of reward goals,
- agreeing on the optimum changes and improvements and planning their implementation.

The information to make this assessment can come from both internal and external sources. At the just-mentioned retailer, the internal reward investigation involved

- consultation with all major internal stakeholders, which included running 20 focus groups comprising representative samples of employees,
- a full audit of the existing reward investment and its focus,
- an examination of existing performance-related base pay and incentive arrangements and
- the listing and examination of all financial and non-financial rewards provided to any of their employees.

Their analysis of the external environment included

- a study of the changing labor market,
- a literature review of prior research on reward effectiveness and reviews of studies on the reward strategies used by high performing organizations,
- two commissioned surveys of 200 people to examine external perceptions of the firm as an employer and
- an extensive pay-benchmarking exercise using retail industry salary surveys from a range of providers.

In respect of external information, an organization should look not just at benchmarking its remuneration levels and practices against similar firms, but should also consider external research studies regarding the effectiveness of reward practices and the conditions that make them more or less effective. There is a wealth of academic research material on rewards lying largely ignored that could help to assess and improve in-house practices, and to answer some of those opening questions posed in this article. This can be illustrated with regard to some of the main components of pay and rewards.

Competitiveness of pay levels. A number of research studies point to the detrimental effects of paying below market median rates.[36] But there seems to be no readily available studies that conclusively demonstrate that adopting a market pay position above the median actually achieves improvements in business and HR metrics that would justify the extra costs involved.

A research study by one consultancy found that reward policies had more impact on a company's growth in value than other aspects of HR management.[37] Yet competitiveness of base pay explained just 0.2% of that growth, with pensions, group and individual incentives, total reward designs and stock ownership having a much more significant impact. So much for the desired upper quartile gold-standard that we still see in the reward goals for many organizations.

For a number of clients I have been relating survey details of sector pay levels and practices to their human capital measurement benchmarking information. Initial unpublished analyses across a number of sectors reveal the expected strong correlations between organization size and pay levels. But there is an absence of any relationships between actual market positioning of pay levels in companies and business and human capital performance criteria such as total shareholder returns, added value per employee, staff turnover and absenteeism rates.

Despite the earlier noted criticisms of *total rewards* and employer branding initiatives, there is some evidence that a well-marketed total rewards offer makes a company more attractive to new recruits and so reduces the requirement for high pay levels. The Conference Board found that the increase over their current pay levels required to attract candidates was on average 22% for organizations with poor employer brands, but fell to just 11% where there was an attractive, well-publicized brand.[38]

In the *benefits* field, there is a history of studies suggesting that the provision of pension and benefits plans helps employees to feel that they are working for a good and fair employer, which affects their loyalty and willingness to stay. More recently a number of research studies on flexible benefits have shown that they can increase employee perceptions of fairness and "procedural justice" and have an impact on intrinsic motivation. Barber, Dunham and Formisano, for example, found that the introduction of flex in a financial services company increased employees' satisfaction with their benefits package.[39]

The burgeoning research literature on employee engagement does indicate that this is a potentially powerful vehicle through which reward arrangements can have an impact on individual and organizational performance. And although many of the studies, such as Brown and West,[40] suggest that the total rewards context is critical to creating a totally rewarding and engaging employee experience, these studies also highlight the importance of pay and financial rewards in generating, or destroying, employee engagement.[41]

In terms of *job evaluation* and pay and grading structures, research studies suggest that no one system or number of grades is generically better or worse than another, although some studies such as Thompson's do produce evidence in favor of flatter structures and broader bands.[42] The size and spread of the organization, its culture and management style and a whole host of variables, research suggests, will determine the optimum approach. But the organization should still be asking two sets of questions in this area and gathering the evidence in its review to answer them.

First, what is the track record and evidence that the job evaluation system used or proposed actually has any basis in research evidence to demonstrate that it works? The system of work levels now used by a number of major companies was originally developed after years of extensive internal research within Unilever. Its central job measurement criteria, based on the factor of time span of discretion in jobs, was originally developed by Elliot Jacques more than 40 years ago.[43]

Second, what is the rationale for the pay structure the company uses as opposed to an alternative? The U.K. Equal Opportunities Commission guidelines on constructing fair and nondiscriminatory pay structures stresses the need to model different banding and grading options to compare the actual impact on jobs and ensure that predominantly female-held jobs are not disadvantaged by the grade cutoffs.[44] This helps to build a justification and evidence-base for the pay structure you finally select.

Bonus and incentive plans. Bonus and incentive plans are perhaps the aspect of reward where there has been most academic research, but also the most controversy over the motivational power of money. Ever since the famous Hawthorne studies at General Electric in the 1920s, the debate as to the impact of financial incentives has been fierce, illustrating the difficulties in measuring and evaluating the success of reward programs.

The revelation last year that the Papacy was introducing performance pay for its administrative staff may be enough justification for the true believers.[45] But as Beracha says, most of us want some evidence. As we have seen, at the macrolevel studies demonstrate that high performing companies tend to make greater use of cash incentive plans and also employee share plans. General profit sharing and all employee share plans appear generally to help to increase productivity, employee satisfaction and reduce voluntary turnover,[46] although the effects are shown to be heavily dependent on the associated operation of effective communications and employee involvement mechanisms.

A raft of research and case studies do suggest that cash incentive plans can positively affect organizational and personal performance. One major U.K. study found that organizations with incentive plans had an average 17% higher productivity and one half the employee turnover of those without.[47] At the personal level, Wood, Atkins and Bright found that bonuses increase targeted and delivered performance levels, partly through focusing people on key goals, as well as the monetary incentive.[48]

Scott et al. describe gain sharing as one of the "hidden secrets" of successful reward management.[49] Bullock and Lawler's study of 33 gain-sharing plans found the productivity gains resulting from their use ranging from 4% to 25%, with a success rate of more than 75%.[50]

There are of course many individual company case study write-ups of incentive plans and plenty of examples of problems and failures as well as successes. Professor Simon Burgess's large meta-analysis of research on incentives from all over the world, draws two main conclusions.[51] First, "employees do respond to cash incentives" but, second, "often in sophisticated ways, that may or may not benefit the organization."

And this is why, although external research can help to inform a reward effectiveness review, researching and looking for evidence within the organization is critical. For most of the external academic research supports a contingency, best fit, "it depends" model of reward effectiveness rather than the universal best practice, "this approach always works and this one never does" approach. This means that compensation professionals need to assess and develop arrangements which best fit the culture, structure, character and other HR processes in their own organization, rather than simply copying what others are doing or has worked somewhere else.

Money and Graham, for example, found that performance pay arrangements were highly motivating for the U.S. research workers in their study, but generally not for the same type of research employees in Japan.[52] And organization-specific as well as cultural factors also affect reward success. Ryan and colleagues found that high financial rewards did have a detrimental effect on intrinsic motivation in what they characterized as a high control organization culture.[53] But financial and nonfinancial motivation increased in parallel in organizations with a high communications culture. Each organization has to work out the most effective mix of reward policies and practices for its own setting.

3. Pilot and Implement Changes

Critiquing the organization's current arrangements using internal and external data and considering and agreeing to potential improvements may look like a lengthy process. But the really difficult task then starts, which is implementing, delivering and demonstrating the planned successes and improvements as a result of the changes. Ninety-two percent of the participants in the CIPD's 2007 reward management survey reported that implementing their strategic reward changes was either difficult, very difficult or near impossible.[54] Reward evaluation and review needs to take account of the processes of changing and particularly communicating rewards, looking at the current state in the organization and planning and monitoring process improvements.

The external research in this area is unambiguous: Managerial involvement and employee communications are absolutely critical and possibly the most important factors in successfully making reward changes and operating reward practices. But organizations generally devote far too little time, resources and attention to them. A previous *Compensation and Benefits Review* article examines the line manager issue in more detail, with more than half of U.K. reward professionals reporting that line managers are the biggest barriers to the success of pay and reward arrangements, with poor employee communications running it a close second.[55]

Bowey et al.'s study to identify the type of performance pay scheme that was most successful reached the same conclusion as many subsequent studies, finding that "the degree of involvement and communications during the process of design and operation was more important than the design of plan" in explaining success.[56]

In respect of base pay restructuring, Armstrong and Brown similarly found that organizations which had rated their changes as less than effective were far more likely to also report that they had devoted too little time to the development of communications materials, training managers and staff, and to feasibility studies and program testing than those where the changes were effective.[57] More resources simply have to be devoted to improving reward communications if we are to improve the standards of reward management and the impact of rewards on performance in our organizations. In a recent WorldatWork study, 56%

of organizations reported that their base pay communications are not effective, and 43% reported that few of their employees understand how their reward links to business performance.[58]

Employee attitude surveys may be widespread in contemporary organizations, but in my experience these are often weak on the reward questions. When changes are being considered or made, it is often best to use bespoke focus groups and questionnaires. The analysis of survey results also needs to become more sophisticated, so that we get underneath the overall level of satisfaction or engagement to really understand what is driving these levels and the variations in them across the organization.

In a public sector organization that was considering the introduction of a performance-related base pay system, for example, the managers feared a negative reaction from employees. But an analysis of a specific rewards survey of staff found that it was only a minority of generally older employees concentrated in one division of the organization who feared the move. So the communications and implementation strategy focused on allaying these concerns.

The scientific method is one of experimenting and testing different hypotheses to advance the state of our knowledge and understanding. Building understanding, support and trust among employees is also one of the reasons for piloting any major reward changes. Pfeffer and Sutton cite Gary Loveman, CEO of leisure group Harrah's as a model example. They report that "there are three ways to get fired at Harrah's: steal, harass women, or institute a programme or policy without first running an experiment."[59]

Despite this, piloting is a tough case to argue in many of today's time-pressured organizations, with senior managers sometimes feeling that piloting a new reward plan betrays a lack of confidence in it. But it undoubtedly helps to ensure the successful implementation and operation of reward changes.

In a financial services company, for example, a full two-day pilot exercise was carried out with managers in the marketing department prior to the introduction of a new base pay review system. On some aspects, such as external pay market data, the organization found that the managers did not want as much information as it had provided and were happy to trust HR's expertise and judgement. But in other areas, such as how to conduct a positive appraisal with a low-performing employee, managers wanted much more training and support from HR than the company had planned. The new system was implemented and received far more effectively as a result of the learning drawn from this pilot.

4. Measure, Review and Adapt

According to Tim Fevyer, senior manager rewards at Lloyds TSB, more organizations "need to evolve sustainable approaches to reward" over the long-term, rather than an approach of "flavor of the month, adopting new initiative after new initiative."[60] Evaluating and improving reward arrangements is of course a continuous process, not a "quick win." It is vital after changes have been made to set up assessment processes, put clear performance measures in place and monitor performance and progress against them.

The best companies at reward evaluation are not differentiated from the rest by having more information, data and metrics. Initiatives, such as balanced performance scorecards, have meant that there are increasing amounts of data in organizations about not just the financials but also about operating processes, employees and customers, even though it is often not well integrated. As the CIPD studies show, there is also a wide range of potential measures to select from.

However, these companies seem to identify and focus in on a relatively small number of key human capital measures and integrate these into their management and reporting processes. So this information is really well used by HR to improve the designs of their practices and by line managers to improve the rewarding experience of their staff.

This again is consistent with the work of Scarborough's and Elias on the effectiveness of wider human capital measurement and management.[61] This describes the powerful relationships that can be created between the measurement of human capital information, its use and the external reporting of it. (See Exhibit 6.) This information is now being used externally by a number of companies to help demonstrate to potential recruits, as well as investors, that this would be a good organization in which to invest and grow their own personal human capital.

The law firm Cameron Mckenna used its annual human capital report to show how it has successfully addressed the problems of high turnover among legal secretaries though a series of changes in their rewards and working conditions.[62] The report also describes that more that 50% of partners in the firm were recruited as trainees, a useful and probably attractive statistic for ambitious and career-oriented law graduates.

The successful companies are also linking different reward effectiveness variables to produce and demonstrate genuine links between rewards, employee engagement and business performance. I have compared the perceived value of various aspects of reward can be compared with the actual financial value for a number of companies. (See Exhibit 7.)

Although the patterns vary between organizations, employees generally undervalue the actual cost and value to them of certain rewards, such as long-term incentives or defined benefit pensions. But they correspondingly overestimate the cost of certain benefits they value highly that are comparatively cheap for employers to purchase in the market, such as life insurance.

Flex plans in many settings have this objective of trying to maximize the perceived value of rewards at a given actual cost to the employer. The skill is either to improve the perceptions of the undervalued rewards or remove them and to try and move as many aspects of reward as possible above the diagonal line, where most cash rewards sit.

In one company for example, the board proposed removing executive and employee share plans because of the changes in their accounting and tax treatment. But I found that a survey revealed that the staff had a very high appreciation of the value of these plans and so the board agreed that reward savings should be made instead in other areas.

Organizations such as Nationwide and RBS are carrying out regular monitoring and review of a wide range of employee, HR and business data to assess, adapt and improve the effectiveness of their HR and reward arrangements. Thus Nationwide, for example, knows that employee perceptions of fair pay affects their reported levels of engagement, which in turn affects customer perceptions and financial performance in their branch network. They carry out an annual review of their rewards policies.[63]

The Royal Bank of Scotland has found that those employees who make use of their flexible benefits plan are more likely to stay with the company than those who do not. They analyze their attitude survey results by various business

EXHIBIT 6
Human Capital Measurement: A Self-Reinforcing Process

Source: Scarborough and Elias

and demographic criteria to identify common groups of employees. The groupings are then used to target reward designs and communications more effectively, so as to enhance different employees' perceptions and engagement levels.

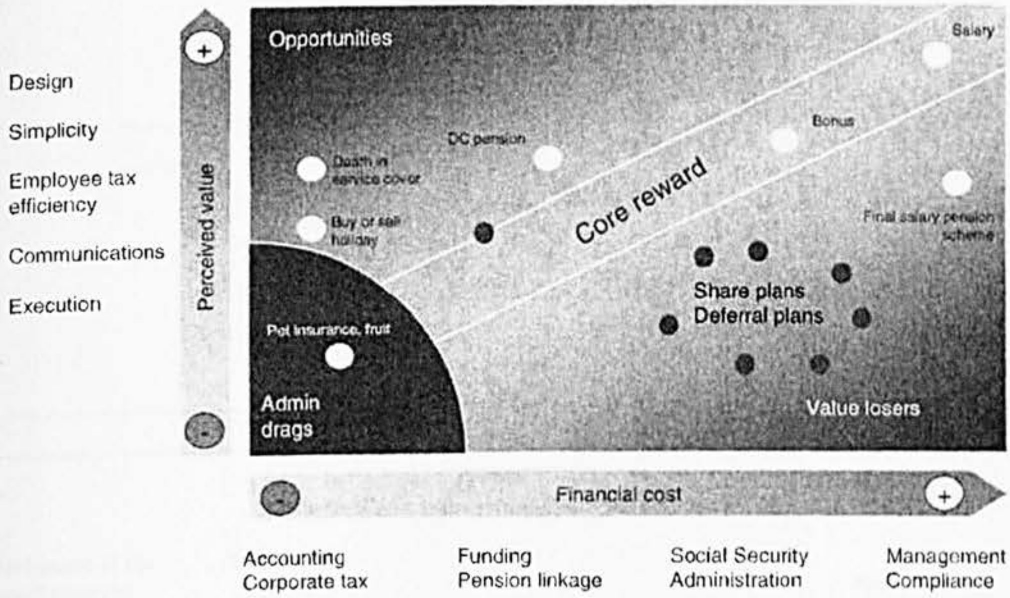
At the major retailer discussed earlier, the reward manager explains that their rewards review has highlighted that "engaged employees give better service: this means that customers become more loyal and increase their overall spending, thereby boosting profits." With this type of evidence it is not surprising that one of the key measures used in the assessment of managers and to determine their bonuses is the level of employee engagement in their stores.

Case Example: Standard Chartered Bank

Standard Chartered Bank employs more than 70,000 people in 1,700 branches and offices across 70 countries. The bank's approach to managing human capital consists of three distinct steps: First, understanding the sum total of talents, knowledge and skills of employees; second, developing the ability to grow and apply these productively to achieve the organization's strategic intent; and third, measuring, reporting and taking action on key people metrics.

The approach to measuring human capital in turn has three dimensions: Measuring the efficiency of the HR function (e.g., looking at the ratio of HR professionals to total employees); measuring the effectiveness of people processes, such as reward and development; and measuring their impact or return on the investment in people.

EXHIBIT 7
Systematically Comparing Reward Cost and Value



Data for all of the bank's employees is held in one HR information system, and it is reported on a consistent basis from their HR Shared Service Center in Chennai, India. The focus is meaningful analytics, rather than simply data that are easy to generate.

According to Dr. Tim Miller, the Director of People, Property and Assurance for the bank

> Measuring our Human Capital is more than just about the metrics. It is about capturing meaningful information at all levels of the organization to drive business performance. Every manager is expected to understand and implement process improvements based on robust data.

Since 2005, Standard Chartered has used a human capital scorecard which reports on key trends linked to the achievement of business goals. These include how well the bank is growing the quantity and quality of its talent pipeline, retaining its best performers and talent, and monitoring strategic imperatives (e.g., diversity and inclusion). This information is used as one input into reward plans, where appropriate.

Employee engagement is also a key component of Standard Chartered's approach to building a strong culture underpinned by effective people processes to drive business performance. Since 2000, the Bank has been using the Q12 survey, developed by Gallup. In 2002, it introduced an additional 10 questions to assess the work climate and 3 to ensure effective follow through on action plans.

Among these questions, the Bank asked employees their opinion on the following statement: "Overall, my fellow employees are fairly rewarded and recognised based on the contributions that they make." A review of the data at country level reveals correlation between the responses and engagement scores, although this analysis does not indicate causation.

Research conducted by the bank has demonstrated its own powerful links between engagement and business outcomes. It found that consumer branches in one of its markets with upper quartile levels of engagement delivered 74% higher deposit growth and 16% higher profit margin growth than branches with lower quartile scores. Such information is now used within its Strategic People Agenda process, which is a formal review whereby each business and function head meets with the Group Chief Executive and Group Head of HR to discuss their people processes and plans and how they support the delivery of business strategy. This also includes

EXHIBIT 8
Starting and Improving: Methods

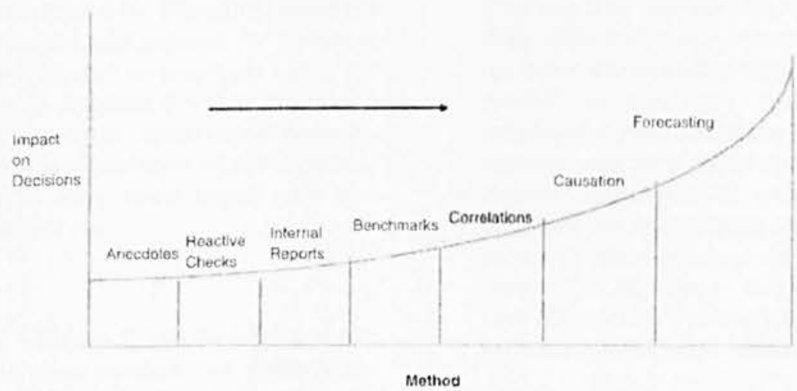


EXHIBIT 9
Starting and Improving: Example Measures

Effectiveness of the Human Resources (HR) Function	Effectiveness of People Processes	External Effectiveness	Return on Investment/Impact
• HR cost metrics	• Size of talent pool	• Customer perceptions	• Links between engagement and performance
• HR service levels	• Retention of employees and hipos	• Employer of choice/brand perceptions	• Return on incentive plans
• Cost/FTE	• Absenteeism rates	• Views of recruits and potential hires	• Return on human capital investment
• Pay and employment costs	• Engagement scores	• Market positioning, particularly on variable pay	• People element in balanced scorecard
• HR internal scorecards			
• Payroll efficiency			

Note: FTE = full time employees; hipos = high potential employees.

an evaluation of talent pipelines, succession plans and top team profiles.

Dr. Miller emphasizes the role of reward as one of the levers helping to create this high performance, high engagement culture:

> Our commitment to our employees is to develop them, recognize their contribution and reward their success. Through our reward practices, our employees should be motivated to focus on business and personal objectives, deliver and sustain outstanding performance and encouraged to act in line with the Bank's values.

Organizations can look at such powerful examples of HR and reward measurement and information, but the key question this raises for many of them is how to move from their current situation to a more comprehensive and effective approach.

The answer is to start simply by agreeing to a few core reward effectiveness measures and gathering data on these and reporting on them internally. Then the organization can progress to taking part in some external benchmarking and see how it compares with others on these criteria.

It can then move on to look at business and financial and a wider range of HR data, and start to analyze the relationships between them based on current and historic data, ultimately using the information to model and forecast the effects of potential reward changes on employee and company performance. Exhibits 8 and 9 illustrate a typical progression in the methods of measurement and some actual measures which organizations can use as they build experience and expertise in this process.

Conclusion

According to Milkovich and Bloom, "a better blend of research and practice can advance the state of the (rewards) field and demonstrate the critical role that compensation plays."[64] This article argues that the lack of evidence for and evaluation of pay and reward practices is a critical blind spot for our profession. It is holding back advances in the field and creating dangerous knowing/doing, policy/practice and rhetoric/reality gaps in reward management, damaging the returns delivered by the major investments that organizations make in their employees' compensation. We simply have to get better at raising and answering the types of question posed in the opening paragraph.

Angela Wright at Westminster University admits that "this research (into reward effectiveness) may seem like a lot of work, but if people are the organization's greatest asset then surely some more solid evidence of what reward practices add value and what do not is vital management information."[65]

This article sets out a 4-step process to help organizations overcome the barriers and make progress in this field of assessment and evaluation, and illustrates it with tools and examples of techniques and the benefits of using them. It is not easy and never can be fully achieved. Evidence-based reward management has to be part of our regular day-to-day activity, rather than a one-off review or end point.

It also cannot just look at reward designs, but the assessment needs to address the three levels of effective reward strategy:

- *Reward policies:* Do they reinforce the achievement of business goals? Do they deliver value for money? Are they integrated with the HR strategy? What is the return on compensation spend?
- *Reward practices and designs:* How well are they working, are they fit for purpose? Are they coherent and well-integrated? How do they compare with the market to recruit/retain? Do they meet the needs of our employees? How do the costs and perceived value of programs compare?
- *Reward processes:* How well implemented/operated are our current reward programs? How well communicated are they? What's the employees' experience and views of them? How effective are our line managers and how well do we implement reward changes?

We must support each other on this journey, and bear in mind the words of famous English playwright Oscar Wilde, who in *The Importance of Being Earnest* advised us all to beware of those "who know the price of everything and the value of nothing."

We need to know both.

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Employee Engagement

What is the Relationship with Reward Management?

Peter Reilly
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IES HR Network

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Contents

Context: Developing Ideas of Strategic Reward

In the early 1990s, compensation experts such as Ed Lawler (1990) and Jay Schuster and Pat Zingheim (1996) introduced the concept of 'new reward.' The ideas around this concept may not seem revolutionary now, but the notion that rewards could be strategic and should be business-aligned was less commonplace then. Lawler's belief that rewards could lever organisational change in some ways still seems radical, especially against the background of recent survey evidence that two-thirds of organisations in the United Kingdom do not have a reward strategy (Chartered Institute of Personnel and Development 2008).

Despite Lawler's view that an organisation's pay approach should be distinctive, (not a 'vanilla, me-too' approach to remuneration management), many organisations still prefer to be in safe sectoral 'convoys', a phrase coined by Arrowsmith and Sissons (1999), describing how most organisations tend to handle reward in the same way — a 'safety in numbers' approach avoiding the risk of being seen to be doing something different.

Part of the context for the 'new reward' writers was that they were building on the recently emerged strategic human-resource management (HRM) literature (Beer et al. 1984). Its emphasis on seeking behavioural change in the workforce as a means of driving organisational performance chimed with the idea that properly designed reward systems would encourage employees to buy into the organisational imperatives and be motivated to raise their contribution levels. The emphasis on individualism and flexibility in their reward ideas, of skills-based pay, performance-related pay and variable pay reflected the decline in collectivism.

Ironically though, the focus on business alignment and strategic fit often led rewards professionals to place correspondingly less emphasis on employee needs and motivations when developing their new and altered arrangements. The business imperative, simply understood, permitted little room for considering how rewards strategy would impact individual employees.

Many heads of compensation today only deal directly with rewards for the most senior staff in their company, and some from a finance or general business background have no knowledge of behavioural or motivational theory. This lack of focus on employees also may help to explain the poor implementation and success rates with many reward strategies, leading to the more recent reaction in the UK against the concept altogether and the declining incidence evident in the Chartered Institute of Personnel and Development (CIPD) survey (Brown and Perkins 2006).

So where should strategic reward thinking and practice go next, and should the importance of employee needs and motivations be reasserted alongside of business alignment?

Employee Engagement and Reward

Employee engagement itself is a fashionable topic in HR circles, producing six million web hits on Google, and with many grand promises emerging from consultancies offering to 'improve performance by up to 30 per cent with highly engaged employees'. Yet the relationship with reward is an underemphasised, underleveraged and still, to an extent, misunderstood area.

What is employee engagement and why is it important?

Before proceeding, employee engagement needs to be defined. The term 'commitment' is long established in academic circles and motivational research, and stretches back for a century, but this terminology is generally being replaced in business by 'employee engagement'. It has become popular because:

- Research by organisations such as IES, Hewitt and Gallup helped define and promote the concept.
- With the growth of a more service- and knowledge-based economy, discretionary action by employees is evermore critical to organisational performance. Work such as the Sears study (Rucci et al. 1998), that has been replicated in the UK by organisations such as Sainsbury's (Barber 1999) and the Royal Bank of Scotland (Ashton 2007) and in analogous research in the public sector by the Canadian government (Heintzman and Marson 2005), shows the importance of front-line employee behaviour to customer satisfaction and financial/organisational results.
- Work on the different motivations of generational groups (Baby Boomers, Generation X and Generation Y) and of different occupational and income groups, demonstrated that in a more diverse and complex workplace, it is far more important to devote time to working out just how to maximize the contribution of all these various types and groups of employee (see Wolfe 2007, for example).

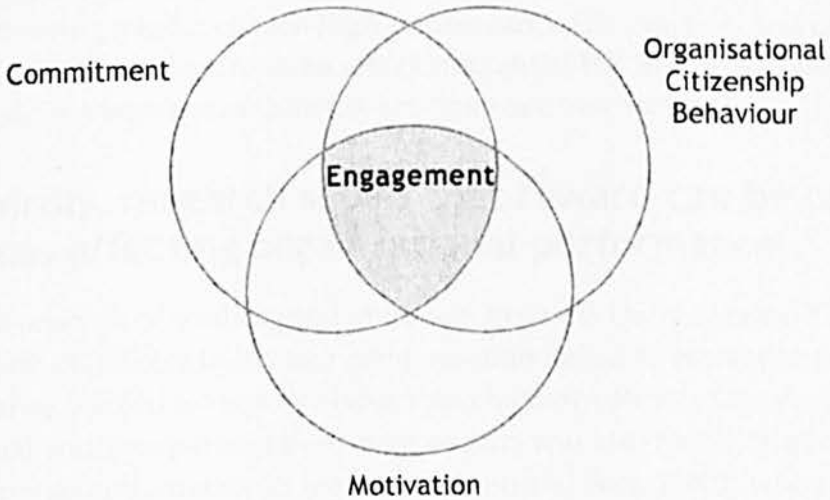
- The term 'employee engagement' appears to the authors to have more descriptive force and face validity for employers than terms such as satisfaction, commitment and motivation.

The Institute for Employment Studies (Robinson et al. 2004) built a definition with employers to be of practical use as follows:

> *Engagement is a positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the organisation's benefit. The organisation must work to nurture, maintain and grow engagement, which requires a two-way relationship between employer and employee.*

This definition is designed to ensure that employee engagement does not suffer from the failing of one of the elements in 'commitment', specifically, 'structural' commitment, which describes those that are committed to the organisation as they feel they have no choice. Moreover, employee engagement also only includes those citizenship behaviours that work for the organisation's positive benefit, not just those for the benefit of immediate colleagues. It is, thus, a broad concept, as Figure 1 shows.

Figure 1: A Model of Engagement



Source: IES (2004)

So, according to IES's research model, an engaged employee:

- believes in the organisation
- works to make the organisation better
- understands organisational context and the 'bigger picture'
- respects colleagues and helps others
- is willing to 'go the extra mile'.

Employee engagement is important to employers as an increasingly voluminous bank of research indicates that these sorts of behaviours (such as taking initiative, wanting to develop or aligning actions with organisational needs) deliver a range of organisational benefits including:

- lower staff turnover, that is, engaged employees are 87 per cent less likely to leave (Corporate Leadership Council 2004)
- better attendance, that is, engaged employees have lower sick leave (Chartered Institute of Personnel and Development 2007)
- improved safety (Vance 2006)
- higher productivity/performance, that is, the engaged employees perform 20 per cent better than the average (Gibbons 2006)
- improved customer service (Salanova et al. 2005).

What is the relationship between engagement and reward?

The previous section offers evidence that, first, employee engagement can influence organisation performance. But secondly, reward and HR practices similarly can exert influence on organisation performance. This is demonstrated, for example, by Combs, Liu and Hall's (2006) meta analysis which includes 92 studies showing a link between high-performance HR practices and organisation performance. They identify three sets of influential HR practices: those that increase skills, empower employees and improve motivation.

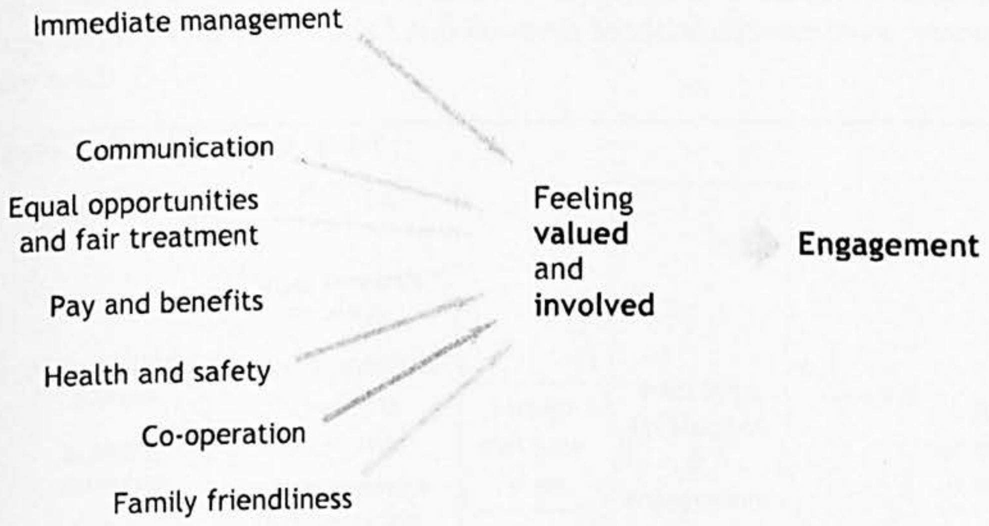
And thirdly, research shows that reward can be one of the practices affecting organisational performance

In a meta-analysis of studies predominately from the United States, Kling (quoted in Bosworth 2005) concluded that compensation linked to worker or firm performance seemed to improve labour productivity. Reward for performance (individual and group-based performance pay) was also found, inter alia, to drive organisational performance in work by Ashton and Sung (2002) who looked at a wide range of research. Guest (2003) includes individual performance-related pay and profit-related bonuses as two of his 18 HRM practices associated with employee commitment and high performance. Thompson (2000) found that certain human-resource practices that build skills, motivation and ability, including share ownership schemes (programs), competence-based pay, team rewards and incentive pay are associated with high organisational performance.

So what about the relationship among HR practices, reward and employee engagement? A wide range of evidence indicates that reward does affect employee engagement. This includes the following:

- Pay and benefits were one of the variables contributing to employee engagement in research by IES in the UK's National Health Service (See Figure 2).
- 'Fair pay' was a key element influencing employee commitment in the Canadian government service-performance chain (Heintzman and Marson 2005).
- Connecting pay to performance has the greatest effect on discretionary effort compared with a range of other factors (Corporate Leadership Council 2004).
- WorldatWork's research indicated that performance related pay has a particularly strong impact on the engagement of an organisation's top performers (2004).

Figure 2: Engagement Diagnostic Tool: National Health Service



Source: Robinson et al. (2004), Institute for Employment Studies

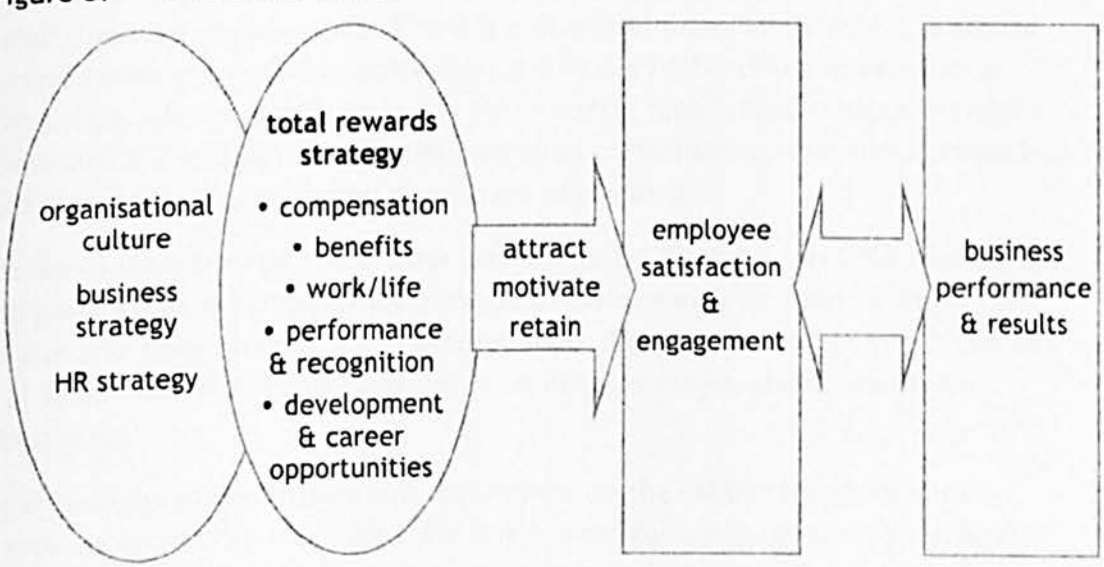
Also, data support the view that getting rewards wrong negatively impacts performance. For example, CIPD research (2007) listed inadequate aspects of the 'pay package' in the top three factors contributing to work disengagement. Poor communication of rewards may also result in employee dissatisfaction if the 'knowledge of pay model' (LeBlanc 2002) works in reverse.

So this new, emerging model of strategic reward and employee engagement would suggest that:

1. Employee engagement delivers organisational benefits.
2. Appropriate reward practices and processes, both financial and non-financial and managed in combination, can help to build and improve employee engagement, and that badly designed or executed rewards can hinder it.
3. Moreover, reward is one of the bundle of HR practices that is also associated directly with high organisational performance.
4. Besides using remuneration to attract and retain, organisations should design approaches to reward that are likely to promote employee engagement and thereby lead to superior organisational performance.

Lawler's original one-directional strategic reward model progressing from business strategy, to HR strategy, to reward policies, to employee behaviour, can therefore be extended to encompass multi-directional relationships, with employees and the total rewards context they perform within becoming much more central. WorldatWork's Total Rewards Model illustrates these relationships very well.

Figure 3: Total Rewards Model



Source: WorldatWork Journal, November 2008

A Complex Relationship to Practice

So far so good, but the problems with taking these ideas forward into practice are that, first, despite the overwhelming evidence of the influence of reward on organisational performance, there is still the a question of what is meant by 'reward'. Secondly, there is not a simple tie up among reward, employee engagement and organisational outcomes. However simple the 'rewards → engagement → performance' links appear to be in consultancy literature, there are several dimensions to this complex relationship which make it much more difficult to practice than to theorize about.

The definition of 'rewards' is problematic. Different pieces of research have selected different pay elements. There is a cluster of financial incentive practices associated with engagement/motivation and hence high performance, such as performance-related pay. But there is also a strong recognition component and a more indirect, if still significant relationship to performance, with practices such as employee-share ownership and non-financial rewards.

Since the famous Hawthorne studies carried out by Elton Mayo (1933), debate has taken place about the importance of the financial rewards on offer to employee attitudes and performance. Many studies show that the monetary aspects can be just as influential as the non-financial in driving employee engagement and performance.

Unsurprisingly, many writers and researchers on the subject turn to the total rewards concept when discussing the link to employee engagement, precisely because it can combine the incentive and particularly the non-financial aspects of rewards, including the use of flexible working and other total reward practices (Leary-Joyce 2004).

As to complexity of the reward/employee engagement/performance chain, 'rewards' even in its broadest definition, is usually present not on its own as a driver of engagement or of organisational performance, but as part of a 'bundle' of HR practices. In Towers Perrin's Global Workforce Study (2007/8) for example, the top four workplace conditions driving engagement were: improving skills/capabilities, job autonomy, organisational collaboration, and involvement in decision making. In a study of 25 customer-service organisations, Brown and West (2005) reported links between employee engagement and firm performance, with employees influenced by reward practices such as variable pay and recognition awards, as well as the management culture in involving them and showing concern for their wellbeing.

There is also evidence (Kling 1995, for example) that the sum of the parts is greater than the individual elements. This means it is difficult to separate a specific reward practice and expect to transform organisational performance, or measure its distinct impact.

Moreover, rewards' influence varies by group of employees and organisational setting. Crudely put, commodity traders or sales people are more likely to be motivated by high financial incentives than research scientists or government workers.

Certain forms of rewards are likely to be more consistent with certain business strategies. Thus a cost leadership strategy may suggest tight performance management and pay focused on meeting quantitative targets. Different remuneration strategies would be appropriate where innovation or creativity is critical to business success.

And many of the positive research studies on engagement focus on professional and customer-service firms such as banks and retailers. It may be that, in other types of firms, such as those operating in business-to-business markets, the links between engagement and performance are not so clear or direct. A recent unpublished consulting study in the head office of one of the UK's best-performing companies for the past decade found only average levels of employee engagement.

Complicating the picture, in many environments, the key to positive employee attitudes lies in fairness and procedural justice — the process by which reward is introduced and managed — rather than in the level of the award and distributive justice (Laventhal 1980). For example, the Compensation Round Table (2006) presented evidence that pay fairness (particularly process fairness) is 25 times stronger a predictor of employee commitment than pay satisfaction.

Similarly, the perceived 'fairness' of the reward is related to its acceptance, as posited originally by Adams (1963). The Towers Perrin study (2007/8) suggests that employees are generally more concerned with fairness and equity than with absolute levels of pay. Despite the huge amount of effort and resource put into external market surveys and matching, rewards professionals must ask themselves if internal equity is more important to employee engagement than market competitiveness in many contexts? The reviving interest in job evaluation in the UK might suggest so.

Finally, pay knowledge and understanding can lead to satisfaction with reward and then to work engagement, according to the research conducted by the LeBlanc Group for the WorldAtWork. This study concluded 'increasing pay and performance knowledge has such a positive impact on pay satisfaction that organisations may be able to offset modest base-pay increase budgets by simply being more transparent about how pay is determined' (2002).

This research suggests no 'reward silver bullet' that, if fired, will mean employees will be automatically engaged and performance benefits will flow. Similarly, no 'best practice' approach exists that will lead to positive results; a one-size-fits-all reward practice is misconceived. Rather than following sectoral convoys, organisations should be experimenting to identify what drives employee engagement in their organisation, (and this may vary by employee group), and what part reward plays in driving engagement (again, potentially varying by employee group) and how this links to their existing business strategy.

So the strategic HRM and 'new reward' schools were correct in terms of emphasising the need for a best fit rather than best practice approach. But that best fit cannot just be with the business and strategic goals of the organisation and top management wishes. It needs to reflect the needs, characteristics and culture of employees.

The Steps to Practice an Engagement-Based Model for Strategic Rewards

Reflecting the need to return to a more employee-centric view, applying this new engagement model for strategic reward should involve the following five steps.

First, begin with a deep examination of the present strategy, organisation and culture and discover how the organisational leadership would want it to be in the organisation. This should be followed by developing an understanding of what brings people to work, keeps them with the organisation and motivates them to perform while there. This information can be garnered from recruitment interviews, induction data, intention to leave surveys, exit questionnaires, focus groups, attitude surveys, etc. A picture can then be established on the drivers of engagement (and disengagement), and how that might vary by grade, gender, ethnicity, age and length of service. Figure 4 provides the Institute for Employment Studies standard employee engagement questions.

Figure 4: Standard Employee Engagement Questions

- I speak highly of this organisation to my friends.
- I would be happy to recommend this organisation's products/services to my friends and family.
- This organisation is known as a good employer.
- This organisation has a good reputation generally.
- I am proud to tell others I am part of this organisation.
- This organisation really inspires the very best in me in the way of job performance.
- I find that my values and the organisation's are very similar.
- I always do more than is actually required.

- I try to help others in this organisation whenever I can.
- I try to keep abreast of current developments in my area.
- I volunteer to do things outside my job that contribute to the organisation's objectives.
- I frequently make suggestions to improve the work of my team/department/service.

Source: Robinson et al. (2004), Institute for Employment Studies

This discovery process means using a properly researched survey where one can be certain that the answers to a defined set of questions will reveal levels of employee engagement, and then analyzing the results systematically, using appropriate statistical tools. It is the authors' experience that most standard attitude surveys are weak in their questioning on rewards, so you may need to improve these or carry out a specific survey.

As an example of a reward strategy review, consider the case of UK retailer B&Q. As part of a detailed reward strategy review, B&Q not only carried out a full audit of the current reward investment and its focus, but also held in-depth discussions with staff from different levels and locations organised into 20 focus groups. And externally, they not only carried out a detailed industry pay benchmarking exercise, but also commissioned two surveys of 200 people each to examine external perceptions of B&Q as an employer and place to work (Armstrong and Brown 2006).

Second, having constructed an engagement model, look at the number of different 'deals' that apply in the organisation and what the significant components might be. A comparatively low-paid ancillary staff position might exist. This presents a straightforward transactional deal — decent earnings or appropriate working hours for turning up and working conscientiously. By contrast, knowledge workers based at head office or in a research function might have a relational deal — they would be engaged by the chance of a career, to do interesting tasks and work in a suitable work environment in exchange for high discretionary effort and a regular flow of ideas and innovation. The mix will depend on workforce composition. At a major UK bank, (based on in-depth attitudinal research), staff have been classified into five groupings based on a mix of demographic and work variables. Reward communications are now tailored to suit the different characteristics of each group, and an extensive flex package is operated to suit the varying characteristics and needs of their employees.

Third, design and amend reward programs to leverage these different aspects of engagement for the various staff groupings. Thinking in this way leads toward the implementation of a 'real' total rewards approach. Rather than adopting it as an empty fad or simply copying other companies, total rewards brings together all the reward elements (pay and non-pay) that engage staff in your setting. In most organisations, total rewards will be segmented to take account of key employee differences. This demands not the unthinking standardization of reward practices that is currently in vogue, but their differentiation. It means individual PRP for some, team reward for others, and other forms of pay progression and recognition, not incentives, for a third group. Business and cost parameters will, of course, also be important in determining changes, as well as how and when those changes are made.

Fourth, when development is complete of new or amended reward arrangements designed to improve employee engagement generally in the organization or for specific groups, these can be implemented and their effect and levels of success measured. Online survey tools give a quick and relatively inexpensive means of monitoring and adjusting things to positively influence employee engagement levels. However, as earlier steps pointed out, HR must know why it is asking the questions (how do they relate to the reward strategy), the correct questions must be asked to elicit meaningful answers, and the results need to be analyzed by employment group/personal characteristics. Further understanding can be gleaned by holding focus groups to probe responses in more depth. Another alternative or parallel approach is to use the HR contact center/help desk to check on employee understanding and satisfaction of new reward policies or practices. This can also indicate the effectiveness of reward initiatives through the eyes of employee customers.

Fifth, given that bundles of HR practice are likely to deliver the best results, a holistic approach to reward and people management is required, integrating HR practices in a purposeful way. This means executing total rewards so that it connects to the organisational brand and how employees are attracted to the organisation. It means looking at the link between pay and performance management, not in a mechanistic way but in a form that lifts employee performance. It also means not neglecting other people management practices, such as work organisation, the degree of autonomy, and management style, that influence employee productivity and form the wider context for reward.

Conclusion: Engaging Reward Professionals

Engagement isn't a particularly new fad. As David Sirota points out in his introduction to *The Enthusiatic Employee* (2005), there's little new in the thinking on engagement to add to what Elton Mayo wrote about, using different terminology, 80 years ago. But as he explains, Mayo's wisdom has not been well-applied, and it needs to be re-interpreted for the different, post-industrial workforce and economy.

Employee engagement is a critical driver of organisation performance in the modern era and the contribution of reward to this relationship is insufficiently understood. This lack of understanding represents a real opportunity for many rewards professionals. By paying greater attention to how rewards can be designed to fit with the needs and character of employees in pursuit of higher levels of engagement, the opportunity presents itself to build the virtuous circles of total rewards practices linked to employee engagement.

Authors

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Appendix: Engagement Case Studies

A Business Software Consultancy and Disengagement

This UK company comprises of mobile business software consultants who work around the country undertaking project work, often based at the client's workplace.

These employees' experiences of HR policies were mixed, perhaps because of their frequent absence from base location. For example, only a half received an appraisal in the year that the research was conducted, and only a quarter had a development plan.

Recently, a new senior management team "streamlined' reward, withdrawing a number of benefits and what were perceived to be expensive allowances, especially relating to remote working.

The company undertook an employee-engagement survey and one-third of the questions elicited a majority negative response. One-half of the sample felt that the company was on a downward slope. Particular concerns were expressed around long hours, working away from home, organisational change, pay and benefits and a lack of feeling valued, involved or respected. One-third of the respondents declared their intention to leave the company. Pay and benefits was the leading rationale. Better remuneration and restoring the allowances for living away from home were, unsurprisingly, the two issues at the top of their list of areas requiring corporate improvement.

This illustrates the dangers of ignoring the psychological contract between employer and employee. The company no doubt took a rational decision to cut 'excessive' allowances. The employees' response was more emotional as their allowances were a symbolic, as well as actual, recognition of their disrupted personal lives.

Practicing an Engagement-Based Model for Strategic Reward

Royal Bank of Scotland

Royal Bank of Scotland is one of the United Kingdom's largest financial service providers with more than 4,000 offices in 30 countries servicing 35 million customers. Its strategy is to generate superior sustainable value for shareholders by adding value for customers and through employees. The bank has a clear employee proposition designed to attract, retain and engage the best talent, and the extent to which this is delivered in practice is measured throughout its workforce with regular attitude surveys.

The bank's Head of Reward Trevor Blackman explains, a total rewards approach is critical to delivering on this proposition and the components include:

- Empowering staff and providing challenging work, with clear performance goals and role requirements
- High-quality management
- Market-competitive base-pay levels and bonus opportunities designed to reward high performers at the top of the market
- A wide range of benefits and flexible working options called 'RBSelect,' which is offered to 100,000 of their employees.

According to Blackman, reward is not the only factor which they have found correlates with employee engagement. A clear focus on the customer and particularly the influence of a good manager is more significant. But whereas a single manager can only influence the engagement of their team, RBS have found that reward influences engagement across the whole organisation. And it is not just pay levels and bonuses impacting engagement. Blackman and colleagues have found that engagement levels increase by up to 20 per cent where an employee takes three or more RBSelect options, and these staff are also less likely to leave the organisation.

Moreover, RBS have demonstrated a strong relationship between employee engagement and sales performance, and also with levels of customer satisfaction, in their branches, adding to the means by which rewards can influence performance. Branch managers' performance in terms of employee engagement as well as customer satisfaction is, therefore, as critical as financial results in their assessment and development.

RBS is currently engaged in work designed to better define and understand key segments of their workforce from an employee engagement point of view, so they can better communicate and more accurately target specific employee groups.

Nationwide Building Society

Nationwide is the UK's largest building society with more than 16,000 staff and assets of more than £120 billion ($175 billion USD). It is regularly voted at a high position in great and best place to work surveys in the UK And as Head of Reward Paul Bissell explains, the organisation's application of the service-profit chain concept through its 'Genome' project has been a critical driver of their rewards approach.

Through its own research and work with the University of Bath, Nationwide demonstrated links between employee and customer satisfaction and financial performance in their branch network. Of most interest to Bissell is that five factors have been found to explain more than one-half of the relationship between employee engagement and customer satisfaction. These are pay transparency and fairness; length of service; coaching, resource management and the firm's values.

Using this model, Nationwide predicts that, for example, a three-percent improvement in employee perceptions of these five areas in a branch increases customer commitment by one per cent.

Employee engagement is assessed annually through its all-employee Viewpoint survey, with additional six-monthly samples, and findings feed into the HR plan, rewards and performance management processes.

Nationwide operates a broad total rewards approach designed to maximize employee commitment which encompasses five elements: reward, development, leadership behaviours, the quality of the work and the environment. Their reward principles directly tie in to the organisation's values.

Nationwide operates a sophisticated flexible benefits package, 'YouChoose,' with online administration and communications, and offers extensive flexible-working opportunities. Other key aspects of the package include base pay at the market median but variable-pay opportunities taking total cash up to the upper quartile, pay increases related to assess personal contribution, and a group-wide recognition program linked to the Society's values as a mutual.

Bissell particularly emphasizes the importance of reward communications in a more complex environment in building the links to engagement and performance. As he says, staff can only appreciate their package if they know its true worth and understand it.

Reward Strategy: Time for a More Realistic Reconceptualization and Reinterpretation?

By

Annette Cox

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This article focuses on organizations' continued struggles to design and implement successful and credible reward strategies. We argue that a major and neglected factor that accounts for this is how reward strategies are designed and executed with insufficient attention given to employee preferences for different types of reward. We argue that this is both a problem of process in the way reward systems are designed and a problem of how models of reward strategy are built. Developing more effective reward strategies requires a better understanding of holistic rewards and greater attention to line management roles in their implementation. © 2010 Wiley Periodicals, Inc.

Introduction: The Struggle With Strategy—What Forms Does It Take?

North American–inspired concepts of pay and reward strategy have become influential in some parts of Europe (in particular, the United Kingdom) and regarded increasingly as normative "best practice." This article is a general review of organizations' continued struggles to design and implement successful and credible reward strategies. We argue that a major and neglected factor that accounts for this is how reward strategies are designed and executed with insufficient attention given to employee preferences for different types of reward. We argue that this is both a problem of process in the way reward systems are designed and a problem of how models of reward strategy are built. We reject, however, the notion of being able to make systematic comparisons between single models of "European" versus

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U.S. human resource management (HRM). In part, this is due to the diversity of practice across European nations but also due to limited evidence on individual reward management strategies and practices in many European countries, beyond analysis of collective bargaining strategies. In itself, this illustrates one of the major differences in national and legislative contexts that shape reward practices in the United States and many European nations. We therefore draw selectively on findings from empirical research addressing the topics in this article in a variety of countries, acknowledging a degree of bias in reliance on U.K. literature, where U.S. approaches to reward have gained a rather greater foothold to date than other European countries.

We first explore the evidence that documents organizations' difficulties with making and implementing reward strategies and their dissatisfaction with the outcomes. Second, we turn our attention to reasons why this situation has arisen. We review how reward-strategy formulation is commonly conceived and outline deficiencies in some of the popular approaches. Third, we address what theories of human behavior from economics and psychology that dominate in the reward field can contribute to our argument. Lastly, we argue that existing research suggests that paying closer attention to employee reward preferences and line managers' capabilities may lead us toward using concepts of total and particularly nonfinancial, rather than financial, rewards and consider the implications for how other forms of reward can be delivered. This would enable adoption of a more realistic, emergent, and employee-focused model of reward strategy.

Difficulties With Reward Strategy and Dissatisfaction With Outcomes

Ambitious performance-oriented, pay-focused, and business-aligned reward strategies derived from North American concepts and thinking have dominated the normative literature and supposed "leading-edge" reward policies in multinational organizations for the last 20 years. They are also subject to increasing attention in parts of Europe, including new member states (Broughton, 2009). Much attention has been devoted to U.S. writers such as Lawler (1990), Zingheim and Schuster (2000), and Ulrich (1997), as well as U.S.-parented consultancies and American business and reward journals. Vernon (2006) argues that pay is one of the easier HR practices to incorporate in a multinational strategy, backed up by evidence showing that 85% of multinationals state they operate a global pay strategy (Mercer HR Consulting, 2005). Yet the outcomes of the approach have been often been less than impressive, and a counter-reaction appears to be emerging. We begin by reviewing the evidence on the inputs to and outputs of the reward-strategy process, in order to identify the key problems U.K. organizations have faced in creating and implementing their reward strategies. First, we consider organizational plans and intentions to develop reward strategies and then what the consequences and outcomes are of their attempted implementation.

Developing a reward strategy at all is a challenge for many organizations. Given the centrality of reward to the employment contract, one would expect widespread attention being given to formulating and implementing appropriate strategies. However according to the U.K. Chartered Institute for Personnel and Development's (CIPD's) recent annual reward management survey of nearly 500 organizations (2007, p. 3), only 35% have a written reward strategy. Moreover, 91% of managers surveyed believed that implementing a reward strategy was difficult or extremely difficult (CIPD, 2007, p. 3). Reported problems center on external environmental and regulatory changes, coupled with perceived resistance from line managers. This is consistent with research that shows slippage between the adoption and implementation of reward strategies. Poole and Jenkins (1998) found repeated evidence of gaps between espoused pay strategies and actual pay policies in a large survey of managers. D. Brown and Perkins (2007), for example, compare the influence of a business-driven set of factors on reward practices, such as the desire to increase returns to shareholders and customer service levels, with external and uncontrollable factors such as wage inflation and trade union activity, amongst more than 50 multinational organizations. A largely reactive, externally influenced, response-driven approach was more strongly influential in explaining reward practices in more of these companies than the long-term, business goal–directed, strategic approach. Notably, at this point in the design process, concerns about meeting employee priorities do not feature, which we suggest is indicative of management's ignorance of problems that will occur later.

Bloom, Milkovich, and Mitra (2003) found a similar pattern in the reality of North American reward practice, a pattern they describe as "pragmatic experimentalism" in rewards. The traditional idealized reward-strategy model assumes business goal–driven and directed, uniform rational organizations, with a theoretical choice between globally integrated reward strategies or locally divergent practices. In reality, like any other strategy-enactment process, reward management is dynamic, flexible, and emergent in the complex and socially constructed world of large multinationals. Milsome guards against simplistic adoption of fads and trends, arguing that "when implementing new reward practices, organizations often disregard facts, act on ideology and casual benchmarking" (2006, p. 1355). Strategy is supposed to be about choice and competitive differentiation, which is undermined when reward practices are simply benchmarked and copied unthinkingly.

Admittedly, there is some statistical evidence of positive associations between some forms of pay system and organizational productivity and performance. In particular, group-based pay systems such as profit-sharing and employee share ownership plans seem to fare well in evaluations (S. Brown, Fakhfakh, & Sessions, 1999; Doucouliagos, 1995; Kraft & Ugarkovi, 2005; Kruse, 1993; Weitzman & Kruse, 1990; Wilson & Peel, 1991). But managers continue to express widespread dissatisfaction with the effectiveness of pay systems and their outcomes, and in general, there is limited research evidence to support the relative success or failure of particular reward-strategy approaches and their constituent policies.

Suff and Reilly (2004) provide a detailed review of the perils and pitfalls of variable pay systems and Suff, Reilly, and Cox (2008) review in detail the many problems found in implementing individual performance-related-pay (IPRP). Even in financial service companies, which possess some of the characteristics most likely to support IPRP, Lewis (1998) found significant negative effects of pay systems on employee motivation and performance. Cox (2005) carried out a comparative case-study analysis of three types of variable pay system. The managers involved reported that the pay systems did not have as much impact as they had hoped and, in many cases, had created damaging side effects—for example, on teamworking. Towers Perrin's survey (2000) of nearly 500 companies in Europe reported only moderate satisfaction from managers with the effectiveness of pay systems in motivating employees and found low levels of satisfaction with the reinforcement provided to organizational values. One factor behind this is undoubtedly the difficulty of measuring pay-system impact, which Corby, White, and Stanworth (2005) point out stumped many managers and deterred them from even attempting the process. In some cases, this is likely to be because their effects may be heavily diluted and difficult to map, as in the case of group-based pay systems, where the connections between type of reward and employee attitudes and behavior are indirect (Wilkinson, Marchington, Goodman, & Ackers, 1994) and may be slow to take effect.

Even ardent supporters of the power of compensation to improve employee behavior use rather temperate language when they scrutinize the evidence systematically. Werner and Ward (2004) conclude from a literature review of a large number of articles in mostly U.S. journals that: "The research on motivation shows that individual incentives are positively related to work motivation, but the strength of the relationship is overestimated and it may reduce intrinsic motivation in certain specific situations" (p. 213). Burgess and Metcalfe's (1999) meta-analysis of research on incentives from all over the world leads them to conclude that "employees do respond to cash incentives" but "often in sophisticated ways that may or may not benefit the organization" (p. 4). In the United Kingdom, Brown and Nolan more damningly put it, "research literature on the consequences of cash incentives is generally . . . repetitive and disillusioning" (1988, p. 351).

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There are numerous reasons that have been put forward to explain managerial disappointment with pay-system outcomes. Large volumes of research evidence have been produced that have scrutinized failures in technical elements of scheme selection and design, and there is a plethora of models for managers to follow to try to align the strategy-reward-performance connection. Far less attention is given to the possibility that managers may often use pay in the hope of achieving behavioral change in employees when it would be possible and perhaps preferable to use alternative and additional techniques to reward and incentivize them.

Gerhart and Rynes (2003) confront the problem that the focus on pay may be counterproductive. They point out that some research suggests that individuals who place a higher relative value on pay may have characteristics that make them undesirable for many roles. For example,

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they may be more risk seeking and have a tendency to low organizational commitment. Blinder's (1990) advice for the general employee population is that "changing the way employees are treated may have more impact than changing the way they are paid" (p. 7), but this appears to have fallen on deaf ears. So if it is likely that managers are spending too much time trying to incentivize employees with financial rewards and agonizing over the design of bonus schemes whose effectiveness may be limited, why is this? We suggest that there are three answers, which we examine in turn.

First is an obsession in connecting reward strategy to business strategy, which has been the Holy Grail of reward since the early 1990s. Second, research that might point us in a different direction away from financial reward to influence employees is systematically ignored due to the dominance of particular disciplines within management and business. Third, identifying, prioritizing, and implementing alternative methods of influencing behavior to financial reward are even harder for managers than wrestling with the minutiae of pay-system modeling, and they often appear to lack the skills to create a totally rewarding context that can help to engage their staff and encourage high performance.

Are Employee Views Neglected in Formulating Reward Strategies?

In assessing how much employee priorities inform reward systems, this discussion recognizes that very different approaches are taken across Europe. Countries in mainland Europe with a strong tradition of collectively negotiated reward settlements (in some cases required by law) offer opportunities for employees to influence indirectly both pay levels and the design of pay systems (Broughton, 2009). But while collective mechanisms may serve as a counterbalance to unfettered management prerogatives and be an accepted and respected method of reward determination in some countries, it is not clear that they accommodate the reward preferences of individual employees. This is important because of lessons from organizational psychology about the need to meet individual preferences in designing reward systems discussed later in this article. However, we have to note that employee expectations for involvement in reward systems are likely to be influenced by national cultures. Employees in countries with more collective orientations to decision making may not expect or want direct involvement, but they may expect managers to make decisions that will meet their needs. In countries without strong collective bargaining, employee involvement in reward-system design is often missing, with fewer than 10% of employees contributing according to one U.K. survey (CIPD, 2006). Not surprisingly, the CIPD found that 30% of organizations subsequently reported staff attitudes as a barrier to the successful operation of the reward strategy (CIPD, 2006).

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Even where employees are offered voice in relation to reward, it tends to consist of two narrow types. First is the consideration of employee preferences, which refers to their choices within a heavily circumscribed system, exclusively consisting of material and mostly financial rewards. Even research exploring cultural variations in attitudes to reward also seems remarkably fixated on comparing perspectives on pay systems in different countries (Mamman, Sulaiman, & Fadel, 1996). This work asks about "within-system" preferences that offer the opportunity to influence design of scheme, but not the choice of scheme itself.

There is nevertheless a long history of research that shows that even this limited consultation on reward-system design and implementation makes a major difference (see, for example, Bowey, Thorpe, & Hellier, 1986, and Cox, 2000 for further discussion). Interestingly, exceptional instances where employees have had real choice, such as Kim's (1996) comparison of gainsharing schemes where employees voted on the introduction with ones that were implemented unilaterally, showed the higher sustainability and success of schemes where employees had influence. However, it is currently difficult to create a convincing case that greater employee consultation about types of reward would make systems more effective, since managers currently afford limited amounts of voice to

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employees, which in turn restricts the parameters within which analyses of reward preferences can be made.

Developing Reward Systems—What Theories Do Managers Use?

A primary cause of the neglect of employee preferences for different types of reward is the way in which reward-strategy models are constructed. The rest of this article reviews two approaches (the classic contingency models and the total reward approach), explains why the former predominates, and details the implications. Figure 1 shows one version of a total reward matrix.

Just how far do employee preferences and orientations expressed in the total reward approach figure in the development of reward strategies that are designed to support business strategies? An examination of the input "boxes" on most contingency models of reward strategy reveals a list of the usual suspects, in terms of factors that managers should consider. Business-strategy considerations, as in Lawler's (1990) original conceptualization of the business strategy driving reward strategy and practice, which then determines employee behavior and performance, invariably predominate. Factors typically include the nature of the product market, technology, market position, age and size of business, sector, organizational structure, work organization, and sometimes organizational culture. The closest they typically come to incorporating analysis of employee views is vague references to the "labor market."

This also usually translates into the assumption that reward packages should not deviate too far from what competitors are offering. This is in line with what Boxall and Purcell (2003) call the "table stakes" view of HRM strategy, that for some components it is essential to conform to sectoral norms. An investment bank will not recruit and retain employees if it offers the reward package of a high street retailer. But it does not go any way toward identifying whether those packages contain rewards that are most valuable to employees or will have most impact on their behavior. Lewis, Saunders, and Thornhill (2004) argue that Lawler (1995) acknowledges through the importance attached to matching reward to organizational values that employee values are, by implication, included. However, this seems a rather questionable assumption. Werner and Ward (2004) are more skeptical and note the paucity of research investigating how organizational culture influences the development of reward systems.

The current attention devoted to total rewards approaches and using rewards to influence employee engagement might indicate that this emphasis is changing and that more attention is being paid to employee views, needs, and wants. Even in common models to develop a total reward strategy (O'Neill, 1995, p. 110), employee views and preferences do not generally appear at all within the "workforce demographics" category. Discussions of total rewards in companies often seem to focus very narrowly on flexible benefits arrangements, which, again, are often implemented in a provider-led, relatively generic and packaged way, offering employees relatively narrow choices as to the makeup of their rewards.

The now-burgeoning research literature on employee engagement and total rewards reinforces the need to consider employee perceptions, as well as all aspects of their work environment that impact on those perceptions and make it more likely that they will display

FIGURE 1 Total reward dimensions (adapted from CIPD, 2007)

Extrinsic	Pay (cash and bonuses)	Benefits (insurance, holidays, etc.)
Intrinsic	Work environment (intrinsic job interest, working with colleagues, leadership, autonomy)	Learning and development (training, promotion, secondments, etc.)

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the high levels of discretionary commitment that underpins high performance. But as Reilly and Brown (2008, p. 43) argue, often there is little empirical or even theoretical basis for much of the organizational activity on employee engagement, and the link with reward practices is "an under-emphasised, under-leveraged and still misunderstood area." D. Brown and West's (2005) study of customer service organizations, for example, revealed that this broader rewards context is critical to creating the totally rewarding and engaging employee experience, which is associated with high levels of customer service delivery. It included aspects such as positive line-manager behavior, employees feeling involved and respected, and flexible working and career development policies, which were all displayed more strongly in the highest-performing companies.

So why are employee views and nonfinancial rewards still given such short shrift in much of the reward-strategy literature? Part of the reason for the failure to consider non-financial reward may lie in the way reward management is theorized. Perhaps the most dominant academic discipline in the field is economics. As a discipline, it is powerful in its status, dominant among those that senior managers have studied, has a particular parsimonious and narrow set of accepted research methods, and tends to make to some harsh assumptions about human orientations to reward. Milgrom and Roberts (1992), for example, adopt a view of human motivation that is akin to McGregor's (1957) negative Theory X perspective. In an influential textbook, they depict individuals as homo economicus who is rational and "self-seeking with guile." This leads to the tendency that Gerhart and Rynes (2003, p. 48) note of economic approaches to studying pay to assume it is the "only incentive."[1] This is dangerous precisely because of the power that economics has as a discipline within the management and business field, illustrated by the comment of the well-known U.K. pay consultant Helen Murlis that "economists make more noise than psychologists" (personal communication). This tendency may be reinforced by the increasing influx of finance and accounting professionals into senior reward roles, with the expertise to design and model the prevailing, complex executive incentive plans, but little knowledge of the behavioral sciences or motivational theories.

The restricted range of acceptable research methods in the economics field can also limit the boundaries of problems and questions that economists are prepared to consider in relation to reward. Gerhart and Rynes argue that economists are less interested in studying people's likes and dislikes in relation to reward because they are "too difficult to measure" (2003, p. 55). Even more worryingly, academics from different disciplines show a marked reluctance to collaborate with each other to research reward processes and outcomes. And the problem of discipline specificity in studying reward processes is noted by Werner and Ward (2004).

Economists, finance professionals, and managers would benefit from paying closer attention to work in psychology. The contribution of studies in the field of psychology that have implicitly or explicitly criticized pay for its (lack of) motivational impact is well known but appears to have had remarkably little impact on the actual design of reward systems. Here the content theorists of motivation have the most relevance. Alderfer (1972) and McClelland (1987) do not even address pay in their categorizations of motivating factors, focusing instead on priorities such as achievement, power, and affiliation. While not mentioning reward explicitly, Maslow's (1954) model of ascending needs in order of priority encompasses reward as a necessary condition for the satisfaction of security and physiological needs such as food and shelter, functioning as a "hygiene factor" in Herzberg's model. Reward might also contribute toward the achievement of status but offers little assistance toward achieving social bonds or fulfillment of personal potential and development of individual talents. The weaknesses of financial reward are challenged most explicitly by cognitive evaluation theory (Deci & Ryan, 2002), which notes problems with all extrinsic motivational tools that do not support intrinsic individual perceptions of their own competence and autonomy in executing tasks.

Herzberg (1968) famously claimed that pay functions only as a retrospective reward that prevents dissatisfaction, rather than possessing the potential to create positive feelings of satisfaction that are held by other management tools. Vroom (1964) is one of the most respected process theorists of motivation, but the content implications of his framework are almost always overlooked. A close reading of his work shows that the notion of valence or value of the reward to the individual, upon which the rest of the framework hangs, has a qualitative as well as a quantitative dimension. In other words, managers need to be asking about what kind of reward as well as how much of it they should be offering to employees.

More recently, two very significant bodies of work have developed that have much to offer in situating financial rewards in a broader suite of management tools. First, psychological contract theory, developed by Rousseau (1995) and others, explores the mutual expectations that organizations and employees hold about each other's inputs to the employment relationship. Many empirical studies in this field have analyzed the relative importance

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of different forms of reward and their impact on employee behavior, with evidence broadly stressing the importance of mixed strategies. Second, the growth of organizational justice theory has placed much greater attention on processes by which decisions about HRM policies are made. Strands in this literature emphasize both the importance of employee involvement in reward package design (Folger & Konovsky, 1999) and the relative importance of different forms of intrinsic and extrinsic reward (Cox, 2005; Greenberg & Colquitt, 2005).

So why have psychologists had so little impact on reward practice? The rest of this article addresses two potential explanations. First, managers may not believe the research and be attached to a different set of beliefs about motivation. Second, managers may have heard the message but regard the consequences for managing employees as unpalatable. Managers may be attached to beliefs in the power of reward as a motivator for a number of reasons. Pay is an appealingly easy reward mechanism and has obvious characteristics that have contributed to its popularity apart from provision for basic needs. It is visible and easily quantifiable, and while individuals may have a greater or lesser degree of attachment to it, none are likely to have negative preferences, unlike, for example, job mobility, frequent long-distance travel, or particular patterns of working time. The underlying presumption that money motivates is embedded in the operation of executive pay markets where large bonuses are likely to be powerful in steering and shaping behaviors. It is easy to make the assumption that what motivates managers will motivate employees.

Reliance on money may also serve to de-emphasize the importance of managers themselves and their behavior in motivating, or rather demotivating their staff. U.K. research studies on engagement often paint a picture of comparatively low levels of employee satisfaction by international standards, with nonfinancial factors playing an important role. Truss et al. (2006), for example, found that immediate line-manager behavior was the most important factor explaining low levels of employee engagement among the sample of U.K. employees, with the lack of development and recognition also significant influences.

Managerial decision-making processes have also been shown to be limited by bounded rationality leading to the use of heuristics or shortcuts in reward-system design. This can lead to path dependence in decision making about rewards. Cox (2005) and Corby et al. (2005) show that faith, hope, and personal beliefs about reward shape both the use of reward systems and how they are evaluated. In particular, this notes a tendency among executives to assume that what motivates them will motivate the rest of the workforce and an assumption that if pay systems are found wanting, this is due to problems of design or implementation, rather than a willingness to consider the possibility that alternative forms of reward might be more appropriate.

In addition to managers deliberately or inadvertently ignoring research evidence, the evidence base they use also requires improvement. This is especially important for establishing differences between the impact of different kinds of reward and relative preferences held among different groups of workers. Gerhart and Rynes (2003) argue that very few studies exist that had made a distinction between satisfaction with pay compared to satisfaction with other job dimensions to influence employee attitudes and behaviors. Ambrose and Kulik (1999) undertook a weighty review of the area and referred to a number of studies in which employees and managers consistently attach relatively low levels of importance to financial rewards. Employees may seek, value, and respond to rewards that are not directly financial but involve quite different outcomes such as career development or training opportunities, meeting working time preferences, personal recognition, and gaining a sense of meaning from work. D. Brown and Purcell (2007, p. 30) quote Mary Kay Ash's comment that "the only things more powerful than money and sex are praise and recognition."

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Recent work on the concept of employee "engagement" by both the Institute for Employment Studies and the CIPD in the United Kingdom has shown that pay and benefits do not tend to appear as the most important items in predicting positive employee behaviors, although little research has been located that explores this concept in the rest of Europe. Robinson et al. (2007) show that feeling involved in and valued at the workplace, together with job satisfaction, are the most important elements here. Ambrose and Kulik's review also reports some evidence to show that praise and recognition from supervisors had positive effects in improving employee performance across a variety of occupations, but go on to note that research into this kind of reinforcement theory is in its infancy (1999, p. 266). Once employees are recruited, Hansen, Smith, and Hansen (2002) emphasize a sharp distinction between the function of reward and recognition in organizations, using the work of the motivation theorists to underpin them. They argue that reward systems function as control mechanisms and will only yield minimally compliant behaviors, whereas recognition mechanisms are more likely to reward exceptional effort appropriately.

Underpinning much research in this area is a repeated confusion between the different functions of pay. Rynes, Gerhart, and Minette (2004) argue that we are in danger of underestimating the importance of pay as a motivator, suggesting that employees make different assumptions about peer preferences versus their own and tend to report socially desirable, nonavaricious preferences in job characteristics.

In order to grasp both the variety and similarity of reward preferences across an increasingly diverse workforce profile, employers will need to consult and involve employees there more carefully and extensively.

However, their review of a considerable amount of self-reported employee data focuses on employee preferences about pay relative to other job characteristics at the point of recruitment and does not capture the relative importance of pay versus other factors as a means of extracting more effort once the individual is doing the job. This is important for organizations wishing to make the link from reward mechanisms back to business strategy because we need to understand the impact of reward on employee in-role performance, rather than abstract preferences expressed prior to taking up a job. Much more research is required to tease out the impact of different forms of financial and nonfinancial reward on employee behaviors in the workplace, and in particular in relation to motivation and retention.

Problems and Challenges in Identifying and Satisfying Employee Reward Preferences

There are two key challenges if reward professionals are to address the challenge of taking employee reward preferences seriously, which is essential if they want to implement their reward strategies more effectively: (1) how to customize reward systems across an entire workforce and (2) how to ensure managers deliver both the financial and nonfinancial elements of the package as intended in practice. In order to grasp both the variety and similarity of reward preferences across an increasingly diverse workforce profile, employers will need to consult and involve employees there more carefully and extensively. The typical U.K. employer's attitude or engagement survey usually has a few questions on reward, but they generally reveal little meaningful information about the role and potential of financial and nonfinancial motivators. It is likely that there is an element of fear of the kind of response that employers may receive, which deters them from undertaking this kind of exercise. But it might be helpful for independent research to investigate this area; Gerhart and Milkovich (1992) notice the implications of a lack of guidance for managers, as they cannot tell into which elements of HRM they should invest the most time and resources. It is arguable that lack of information about employees' relative responses to different kinds of rewards represents a serious deficiency in the HRM literature, which researchers should address with alacrity. However, assuming that innumerable configurations of reward preferences are identified among a workforce, employers are then confronted with the dilemma of how to aggregate this information. It would be necessary to segment staff into groups that are sufficiently large for the transaction costs of delivering common rewards to be

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manageable but sufficiently small to ensure that diversity of preferences are accommodated. The process needs to be affordable, and employee expectations about the degree of choice require managing. The difficulty of reward-system design that takes employee perspectives into account more fully is therefore considerable.

At present, flexible benefits are one option that can lead to accommodating employees' reward preferences more effectively. In the past decade, employee choice and preferences about reward have slowly been taken more seriously, as illustrated in the growth of "flexible benefits" schemes (Towers Perrin, 2000). There is some doubt as to whether the flurry of interest and promotion of these schemes by consultants has actually yielded much take-up in Europe. In the United Kingdom, the CIPD reward survey reports only 8% of respondents have adopted such schemes (2007, p. 27), though they are more prevalent among larger organizations, Vodafone being an example (IDS, 2007). There are, however, interesting, if still limited, examples of employers engaging in closer dialogue with employees about reward choices. The Nationwide Building Society is quoted by the CIPD (2007) as having developed a "forced choice" survey of employees to establish how they prioritize different elements of reward. At present, though, this is only confined to employee valuations of different forms of benefits. While flexible benefits can offer employees some degree of choice over tangible rewards such as holiday, pensions, and personal insurance, they do not and cannot meet all the reward expectations that employees might have.

A broad conceptualization of reward is more holistic but challenging to implement. Zingheim and Schuster (2000) acknowledge it in their concept of "total reward," which includes intrinsic as well as extrinsic factors. It offers greater potential to incorporate the nonfinancial dimensions of reward that employees report finding so valuable. There is theoretical and empirical support for the need for a total approach, reflected in research that finds both shared and divergent reward preferences across European countries. For example, evidence from a survey of low to intermediate skilled workers in six countries found that autonomy and peer and customer pressure were universally influential on levels of effort exerted, while pay incentives were important to generate changes in levels of effort. However, pay was much more important to French employees, while for Greek staff performance monitoring was a more salient factor (Pouliakas & Theodossiou, 2009). Other international work has indicated greater differentiation between employees from different countries with respect to their preferences among nonfinancial rewards, coupled with a generalized preference for skills-based reward systems (Chiang & Birtch, 2005).

Appreciation of the significance that employees attach to nonfinancial attributes of work is not yet widespread. There is very little empirical evidence about the application of total reward systems or indeed the direct involvement of individual employees in the choice of rewards in a European context. In the United Kingdom, only 41% of organizations surveyed by the CIPD think of rewards holistically by using a total reward approach (2007). It is unsurprising that total reward philosophies are not more prevalent, since providing meaningful work and supportive workplace cultures with lots of praise and recognition demands continuous management, with involvement from a greater number of people, in a way that implementing a new bonus scheme does not. Delivering the other components of employee aspirations is much more complicated because the outputs are often intangible and long-term. Achieving career development, for example, requires identification of employees' goals and needs, ongoing support from line managers, and learning interventions. These kinds of strategies may also not be attractive to organizations that have historically tended to rely on "transactional"-type psychological contracts for the transient sections of their workforce. These have predominated in some parts of the retailing, catering, and hospitality sectors, for example, which have also accounted for a large proportion of new jobs created in U.S. and European economies. In front-line service roles, the focus of the employment relationship was traditionally simply confined to the wage-effort bargain, and only in the past decade or so have some parts of the sector sought to gain competitive advantage through front-line staff. For those organizations wishing to create intrinsic reward mechanisms, a major difficulty is the role of line managers.

There is voluminous evidence that illustrates the difficulties of delivering HR and particularly reward strategies and practices through busy operational managers, who may have imperfect understanding of and commitment to people management processes. In relation to reward, Purcell and Hutchinson (2007) have shown that, like their employee customers, line managers are generally marginalized by HR and reward professionals in the reward-strategy development process and may have little training in implementing and administering the "sharp end" of reward systems. But if the total reward perspective is a valid one and emphasis needs to shift from simply operating pay and appraisal systems accurately and fairly to ensuring that each employee feels valued and involved in workplace decision making, then line managers have a significant challenge to confront and organizations need to educate and involve them much more in reward-strategy design.

Much recent restructuring of HR departments along the lines promoted by Ulrich (1997) has led to the removal of local HR support roles and the transfer of much of the people management responsibility onto line managers, in order that HR staff can devote more time and resources to their more value-adding and strategic role. Reward strategies and systems are more likely to be developed by a centralized team of experts who may be remote from operational experience of the organization. And, indeed, the implications of thinking about reward and engagement preferences is that line managers are the best-placed people to deliver praise and recognition and encourage staff career development, to create that totally rewarding context. The key question is do they have the skills and support to do this?

In relation to this, Brown and Purcell (2007) report that many line managers in their study admitted making insufficient use of informal rewards in the day-to-day pressures of organizational life. But they also found many managers struggling with the increasingly complex and inflexible formal pay systems developed centrally and often administered online by HR departments, with little attention paid to the situation or needs of those managers, who really are the people who can make their pristine reward strategies happen in the realities of organizational life. They note the potential of line managers' creative use of informal and social rewards to plug the commitment and motivation gap that formal reward systems have not managed to fill. They give the example of a line manager who rewards high-performing team members with secondments and access to training. Some line managers also appeared to be working around inflexible reward systems by using their discretion to offer access to flexible working time. HR and reward professionals might do well, they conclude, to spend slightly less time impressing the company board with their reward strategies and more time out with line managers and employees in the organization to improve the effectiveness of the delivery of those strategies. Of course, this objective requires balancing against the need to maintain status for a profession that has struggled to gain boardroom credibility.

Conclusions

For those who adhere to the top-down, pay-driven concept of reward strategy, this article should provoke and disturb. Its conclusion is that we need to think less rather than more about grand plans in the boardroom and temper our obsession with the use of financial incentives in the workplace, thinking instead about their optimal positioning in a suite of management practices. The evidence discussed shows the dangers of fixation with financial incentives as the default reward mechanism of choice, and with concepts of reward strategy that focus on planning rather than processes, concepts rather than communications, and intent rather than impact. The function of pay to recruit and retain staff is undisputed, but it must not be confused with broader total rewards mechanisms that will elicit engagement and higher performance from employees in their roles. Detailed analysis of the forms of financial and nonfinancial reward that have the most impact on employees in each organizational setting is required to investigate the relative significance of these different elements. We need to know how responses to different kinds of reward vary according to the demographic characteristics of employees—for example, by sectors and occupations, staff grades, age, ethnicity, and gender. Far better tools and methods for assessing employee attitudes and preferences for rewards need to be developed and more widely tested and applied, as greater workforce diversity means that the former one-size-fits-all assumptions are much less likely to satisfy entire organizations. This is especially important for organizations operating on a pan-European basis, where multiple influences of organizational and national cultures may contribute to shaping employee needs and expectations.

For organizations, the implication is that there needs to be a refocusing of pay and reward activity away from strategic business-aligned plans and complex pay scheme designs toward more employee and operationally focused work. There are no universal best practices or quick wins. Effective delivery of rewards through line management is going to remain an ongoing challenge, and reward-strategy implementation is about a broad range of activities over a lengthy timescale. It will not simply involve ensuring managers comply with centrally determined pay-system requirements, but depends on managers' personal capabilities in giving praise and recognition, supporting career development, and making accessible working time preferences, all areas where HR professionals should be providing guidance and support. This is the true meaning of a total rewards strategy, rather than simply implementing a flexible benefits plan. Neither is it the sole responsibility of managers to understand the implications of total reward; unions, compensation consultants, and employment tribunals alike need to pay more serious attention to nonfinancial forms of reward.

Compensation and benefits professionals might feel concerned about the potential marginalization of their role in this situation. But the challenge for them and specialist HR practitioners in areas like training and development is to determine how their function can maximize

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its contribution in delivering a total reward package that will elicit engagement and high performance from their employees. Focusing on organizationally specific alignment of reward policies with business priorities in a more flexible way by involving employees and line managers as customers of their reward systems could avoid the pitfalls of rigid and mechanistic contingency models. This could enable strategic ambitions of higher organizational performance through reward to be realized in practice in many more workplaces.

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Note

1. We gratefully acknowledge the point made by a reviewer of this article that among influential psychologists in the United States, there is also a tendency to overemphasize the power of money in designing reward systems.

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Employee Relations

Increasing the effectiveness of reward management: an evidence-based approach

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Increasing the effectiveness of reward management: an evidence-based approach

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Abstract

Purpose – This paper seeks to explore the reasons why many organisations do not evaluate the effectiveness of their reward policies and practices, examines the approaches used by those organizations which do evaluate, and develops a model of evidence-based reward management which describes how evaluation can take place.

Design/methodology/approach – The paper draws on a study of why organisations do or do not evaluate reward and an examination of what organizations taking evaluation seriously were doing about it. The study was based on a survey of 173 reward and HR practitioners and 13 case studies.

Findings – The survey found that only 46 per cent of respondents carried out a full evaluation. Other surveys have established that an even lower proportion evaluated. Those organisations which evaluate reward do so because they recognise that it is necessary to obtain value for money from their considerable expenditure on pay. Those who do not evaluate offer a number of reasons, but the most important was lack of resources or time. It was established that while an evidence-based approach was desirable there was no set pattern of conducting an evaluation.

Practical implications – Information about the evaluation practices of the case study organisations and the concept of evidence-based reward management as an approach to evaluation provide guidance to practitioners on how they can measure the effectiveness of their reward policies and practices.

Originality/value – The paper extends the pioneering research of Corby *et al.* to develop new insights into the process of reward evaluation.

Keywords Loyalty schemes, Pay policies, Evidence-based practice

Paper type Research paper

Introduction

A failure to evaluate pay and reward practices is a critical blind-spot for many of those involved in reward management. This was noted by Pfeffer (1998, p. 213) who wrote that: "Little evidence demonstrates the efficacy of rewards, although much evidence indicates that rewards and their design loom large in management attention". Gerhart and Rynes (2003, p. 1) commented that:

> Compensation is a complex and often confusing topic. Although compensation costs comprise, on average, 65% to 70% of total costs in the US economy and are likewise substantial elsewhere, most managers are not sure of the likely consequences of spending either more, or less on employees or of paying employees in different ways.

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The research evidence set out in this paper indicates that managers in the UK appear to be reluctant to evaluate reward. This holds back advances in the field and creates a harmful rhetoric/reality gap. Bevan (2006, p. 3) suggested that this is "widest in the area of reward management which is heavily driven by fads, me-tooism and history". We could find only two research studies that systematically addressed this issue (Corby *et al.*, 2005; Scott *et al.*, 2006).

The evaluation of training has received much more attention; for example, among others, Aragon-Sanchez *et al.*, 2003; Warr *et al.*, 1999; Yang *et al.*, 1996) and the industrial training boards in the 1960s (Kenney and Reid, 1986). A staged approach to evaluation was advocated by Hamblin (1974) and developed by Kirkpatrick (1994). The significance of return on investment as a means of evaluating training was highlighted by Kearns (2005). A more general "return on expectations" method which assesses the extent to which the anticipated benefits of any learning investment have been realised was advocated by Sloman (2007).

The lack of interest in the evaluation of reward contrasted with the considerable and continuing focus on training evaluation indicated that further research on reward evaluation was required. Our research question was: to what extent and why is reward evaluation carried out? On the basis of the research evidence available, we also wanted to investigate the possibility of constructing a model illustrating how the effectiveness of reward policies and practices might be assessed. This article is in four main parts:

(1) methodology;

(2) research perspectives;

(3) findings; and

(4) discussion and conclusions.

Methodology

We started out with no preconceived hypothesis concerning reward evaluation except that it was "a good thing" about which little seemed to be known. A literature review was conducted to establish what was known about the topic, identify existing theoretical frameworks and find out what other relevant research had been carried out. On the basis of this it was clear that, as noted by Corby *et al.* (2005), evaluation occurs in the context of pay systems whose characteristics vary considerably from organisation to organisation. Although some information on the incidence of evaluation and the methods used could be obtained by a survey, the research would have to rely largely on qualitative evidence obtained from case studies which could, however, be triangulated to a degree with the survey evidence.

A grounded theory approach which could be strengthened by this triangulation and used to develop common themes and patterns from the data provided by the survey and the case studies was therefore appropriate. As originally described by Glaser and Strauss (1967) this is an inductive method of developing the general features of a theory by grounding the account in empirical observations or evidence. We took note of comments made by Glaser (1978, p.2) who wrote that: "Grounded theory is based on the systematic generating of theory from data" and advised researchers to enter their research with "as few preconceived ideas as possible . . . the researcher's mandate is to remain open to what is actually happening". He also remarked (Glaser, 1978, p. 142) that the process "generates theory that fits the real world . . . and is readily modifiable".

Turner (1983, p. 1) pointed out that: "It offers a way of attending in detail to qualitative material in order to develop systematically theories about the phenomena which have been observed".

A survey of 173 HR and reward practitioners was conducted in 2009 by e-reward. The questionnaire covered the extent to which evaluation took place, why evaluation did or did not take place, the evaluation methods used and how effective they were.

In planning the case studies we took into account the comment made by Eisenhardt (1989) that the case study is a research strategy which focuses on understanding the dynamics present within single settings. The dynamics we wanted to examine were how and why evaluative data was collected and analysed by reward or HR practitioners and the ways in which this data was used. We also bore in mind the remark made by Mintzberg (1979, p. 585) that: "No matter how small our sample or what our interest, we have always tried to go into organizations with a well-defined focus – to collect specific kinds of data systematically". In the words of Eisenhardt (1989, p. 533) we wanted to "focus efforts on theoretically useful cases". When identifying the 13 case study organisations listed in Table I we noted the comment made by Pettigrew (1990, p. 275) that, given the limited number of cases which can usually be studied, it makes sense to choose ones where the processes involved are "transparently observable". Our aim was to achieve a reasonable balance between the sectors and to choose organizations which were either known to adopt sophisticated HR and reward practices (seven organizations with which the IES was familiar), or those which had indicated in the survey that they were involved in evaluating reward or at least planning to do so (the six organisations dealt with by e-reward). Face-to-face interviews were used in the IES organizations and telephone interviews in the e-reward case studies. The interviews were structured around the questions used in the survey.

Organisation	Main activity	Number of employees	Basic characteristics of reward system
ABCInt[a]	Electrical retailing	40,000	Broad-banded structure
AcServ[a]	Accountancy	11,000	Total rewards strategy
Childcare[a]	Children's charity	2,000	New job family pay structure
CountyCn[a]	Local authority	46,000	Six pay grades with "total contribution pay"
EnginEquip[b]	Engineering	10,000	Wide variety of locations and terms and conditions
FinServ[b]	Financial services	12,000	Broad banded structure
HotelCo[b]	Hotel group	4,000	Graded structure
IntbankCo[a]	International bank	70,000	Total rewards approach
PoliceAuth[b]	Police force	9,000	Five broad pay bands
RegCom[b]	Regulatory body	3,000	Four indicative incentive ranges
RestCo[a]	Restaurant chain	70,000	Total rewards approach
SM&D Co[b]	Manufacture, of office products	6,000	Currently implementing global broad-banded structure
TechCo[a]	Technology company	1,500	Developing new pay structure

Notes: [a] IES case study; [b] e-reward case study

Table I.
Case study organizations

Research perspectives
The literature review covered the research on evaluating reward in the two studies we identified. In the absence of other evaluation studies, more general research on the relationship between reward and performance was reviewed to provide some insight into methods of evaluation. Comment and research on the notions of evidence-based management and human capital management was also examined on the grounds that they were both about the gathering and analysis of data and therefore relevant to the process of measuring reward effectiveness.

Research on evaluating reward
Corby *et al.* (2005) conducted face-to-face interviews in 15 large, unionised organisations in England between 2000 and 2002. The study found that little formal evaluation of changes in pay and grading systems had been carried out and that managers expressed considerable scepticism about the evaluation process. Managers relied heavily on informal feedback and appeared to have little psychological incentive to evaluate. When they introduced new pay systems limited and piecemeal evaluation took place, despite the urgings of the prescriptive literature. Only two organisations evaluated the effects of the pay system on business performance. It was found that evaluations related primarily to the HR impact. Rather than spending time and incurring the cost of carrying out detailed monitoring, which would not provide conclusive results, managers often relied on anecdotal evidence. In terms of the typology set out by Kearns (1995), the main type of measure adopted for pay system evaluation was "we think it worked".

Scott *et al.* (2006) conducted a survey covering over 600 US respondents to establish if and how pay programme effectiveness was evaluated and what impact evaluation had. The most common practice was to calculate the costs associated with the programme and to discuss informally the impacts on bottom-line performance. The relatively small proportion of organisations which did evaluate base or variable pay specifically used attracting new employees, time to fill positions or impact on employee retention as criteria for base pay, and impact on revenues, profits and net worth and impact on productivity or cost savings for variable pay. Scott *et al.* (2006) concluded that the evaluation processes used by most organizations were inadequate and that the most powerful evaluation methods were seldom used.

Relating reward to performance
The literature on the impact of reward is extensive. Many of the studies, for example those referred to in the meta-analyses conducted by Guzzo *et al.* (1985) and Jenkins *et al.* (1998), were based on experiments. These often demonstrated a positive link between a reward practice and performance but the methodology was not one that could easily be replicated by practitioners on a regular basis. Other studies, such as those conducted by Hansen (1997) and Stajkovic and Luthans (2001), consisted of in-depth examinations of the relationship between reward and performance, but again, the methodology was beyond the scope of a typical practitioner. Such studies can demonstrate that reward practices have a relationship with organisational performance but they do not provide much guidance to reward specialists on which practices are likely to be effective in their context.

Two British studies illustrated methods of evaluation that can be used by practitioners. In their examination of the impact of performance-related pay in the

Inland Revenue, Marsden and Richardson (1994) used an attitude survey, and Kessler and Purcell (1992) relied on interviews in their review of performance-related pay. But the latter commented (Kessler and Purcell, 1992, p. 24) that:

> The complex range of factors interacting to determine organizational performance makes it difficult to isolate the impact of a payment system alone.

However, as Lazear (2000) showed, it is possible to evaluate the impact of an incentive plan when the outcome in terms of units produced can be easily measured.

Evidence-based management

It was assumed that an evidence-based management approach would provide a systematic basis for evaluating reward. As Pfeffer (1998, p. 196) pointed out; "Thinking about pay ought to be based on logic and evidence, not on belief or ideology". Rousseau (2006, p. 256) explained that: "Evidence-based management means translating principles based on best evidence into organizational practices". But she also pointed out that: "Evidence-based practice is not one size-fits-all; it's the best current evidence coupled with informed expert judgment".

The concept of evidence-based management was defined by Briner *et al.* (2009, p. 19) in more detail as follows:

> Evidence-based management is about making decisions through the conscientious, explicit and judicious use of four sources of information: practitioner expertise and judgment, evidence from the local context, a critical evaluation of the best research evidence and the perspectives of those people who might be affected by the decision.

Pfeffer and Sutton (2006) recommended the collection of external evidence from benchmarking (as long as this is not "casual") and the internal analysis and evaluation of relevant data, including information from pilot tests and experiments. Pfeffer and Sutton (2006, p. 70) remarked that evidence-based management:

> ... features a willingness to put aside belief and conventional wisdom – the dangerous half-truths that many embrace – and replace these with an unrelenting commitment to gather the necessary facts to make more intelligent and informed decisions.

An evidence-based approach as described above is clearly appropriate when evaluating reward. We describe its application to reward as evidence-based reward management.

Human capital management

Consideration was given to the extent to which human capital management techniques of measurement were part of reward evaluation in association with an evidence-based management approach. As defined by Baron and Armstrong (2007, p. 20):

> Human capital management (HCM) is concerned with obtaining, analysing and reporting on data which informs the direction of value-adding people management strategic, investment and operational decisions at corporate level and at the level of front line management.

Interest has increased recently in methods of measuring human capital and more organisations now have data which they can potentially use to evaluate HR initiatives. Indeed many may now have too much rather than too little data which could prevent them from evaluating reward effectively. Baron and Armstrong (2007, p. 62) stated that measures are not an end in themselves although they can "inform and test strategy, evaluate costs and assess the impacts of different actions". Selecting the right measures and collecting the data required is not always easy although, as Scarborough and Elias (2002) established from their research, it is not necessarily what organisations decide to measure that is important but the process of measurement itself.

There is, however, some consensus on what should be measured. The Accounting for People Task Force (2003, p. 32) identified six key measures which seem to be used most frequently by companies. These are:

(1) The profile of the workforce.

(2) Workforce turnover.

(3) Retention rates.

(4) Workforce absenteeism.

(5) Performance and productivity.

(6) Engagement.

Another typology produced by Kearns (1995) consisted of four levels:

(1) an act of faith – "we think it worked" which, as Corby *et al.* (2005) commented, amounts to no measurement at all;

(2) subjective/qualitative measures;

(3) objective measures of cost, quality and quantity; and

(4) objective "bottom-line" measures of profitability.

Findings

Our findings are described below under the following headings: the incidence of reward evaluation, why organizations do or do not evaluate, evaluation criteria, and the approaches used by case study organisations to assess reward effectiveness.

Incidence of reward evaluation

A number of surveys have shown that the extent to which reward evaluation takes place is limited. Our 2009 survey found that the proportion of the respondents who conducted a full and systematic evaluation of their reward practices was 46 per cent while a further 36 per cent claimed that they had carried out a part-review (this means that they focused on one or two approaches such as market rate surveys or equal pay reviews). Of those who had conducted a full or part-review just 54 per cent were satisfied with the results.

The CIPD (2009) reward management survey (520 respondents) established that only 32 per cent of them assessed the impact of their reward practices (this is a considerably lower percentage than in our survey which may be attributable to the fact that the CIPD survey covered reward management generally while our survey focused on reward effectiveness). The survey conducted in the US by Scott *et al.* (2006) found that 13 per cent evaluated base pay and 18 per cent evaluated variable pay programmes. The e-reward, 2009 survey of contingent pay revealed that a surprisingly small proportion of only 12 per cent of respondents evaluated the effectiveness of their individual performance-related pay schemes. The research conducted by Corby *et al.*

(2005) indicated that when they introduced new pay systems, managers on the whole conducted limited and piecemeal evaluation.

Why organizations evaluate

Our survey elicited a variety of reasons why those who evaluated reward did so. One respondent advised that it was essential to establish a direct link between reward spend and benefit to the organisation. Another respondent wondered why a company spending thousands or millions of pounds on reward would not try to understand the effect of such a large investment. Some respondents simply maintained that every organisation needs to know what is going on and should "give it a try", while others said that it at least provides a starting point to build from. Another respondent made the point that the process helps highlight the links between rewards and business performance and once this is clear, particularly for others in the organisation, much progress can be made. As a respondent explained:

> By building on a reward evaluation process, a company gains more tools to improve understanding of what is going on in order to enhance its contextual as well as empirical analysis capabilities.

The case studies revealed that the organizations most likely to conduct comprehensive reward evaluations were those in which a powerful tradition of human capital measurement existed (IntbankCo), or those with a highly disciplined and performance-orientated approach to measurement (RestCo) where, as the compensation and benefits manager put it: "If it moves, we measure it".

We also gathered some evidence that the recession and resulting cost issues had increased the pressure to demonstrate the return on reward spend.

Why organisations do not evaluate

The reasons for not evaluating given by respondents to our survey are shown in Table II.

Research carried out by Thompson (1992) into the impact of performance-related pay schemes identified another reason for a failure to evaluate, namely, that most employers did not have clearly articulated objectives for introducing such schemes against which they could measure subsequent success or failure. Corby *et al.* (2005, p. 21) noted that:

> Managers, having spent considerable time, energy and resources in developing and implementing a new pay system, are likely to have a psychological investment in its success and thus have little inclination to carry out any rigorous evaluation.

Table II.
Reasons for not conducting reward evaluations

Reasons given for not evaluating	Percentage of respondents
Lack of resources or time	48
Lack of information or data	19
Senior management indifference	15
Organization changes	10
Lack of analytical skills	8

Evaluation criteria

The criteria used by the 142 respondents to our survey who evaluated reward effectiveness fully or partly are given in Table III.

On average, respondents used either three or four methods of assessment, with a range of between one and 14.

The criteria used in four of the case study organizations which carried out evaluation formally are summarised in Table IV.

Three of the other case study organisations have a particularly thorough approach to measurement and evaluation. RestCo operates with a clear corporate dashboard of key measures related to people. The measures are regularly reviewed and refined, focusing more recently on 90 day rather than total staff turnover once this had been highlighted as a key issue and cost for the business. At IntbankCo the group head of reward feels that it is necessary to have a balance of measures and believes that it is the overall strength of their systematic approach which ensures that employees behave appropriately, manage risk properly and achieve the expected levels of performance. AcServe monitors a set of 13 key performance indicators based on each of its reward strategy principles.

Criteria	Proportion using (%)
Employee attitudes	75
Analysis of pay market positioning	72
Employee turnover	62
Assessment against reward strategy objectives	42
Financial costs	41
Business financial performance	40
Impact on employee performance/productivity	30
Length of service	29
Absenteeism	29
Other business metrics, e.g. sales; customer service	27
Vacancy rates	26
Job retention rates	12

Table III. Criteria for evaluating reward effectiveness used by survey respondents

Organisation	Evaluation criteria
FinServ	Appraisal results, staff turnover, customer feedback and employee attitude surveys. Merger preparation also involved consultation and engagement with key stakeholders
Hotelco	Customer satisfaction, staff attitude surveys, financial performance, appraisal data versus rewards received, external market pay, assessment against reward strategy objectives, appraisal results, impact of rewards on employee performance and productivity, career progression, reward spend, recruitment and retention rates, length of service, exit interviews, and sales
PoliceAuth	Staff attitude surveys, salary surveys, staff progression, career progression, skill sets of beneficiaries of promotion, appraisal results, distribution of ex-gratia payments and reward spend
RegCom	Equal pay audits, salary surveys, staff attitude surveys, length of service, "rookie" rates, reward spend, appraisal results, staff skills and competencies, exit interviews, career progression and staff performance

Table IV. Evaluation criteria used in four case study organisations

Corby *et al.* (2005) found that 13 of the 15 organisations they studied carried out staff attitude surveys. None of these organisations, however, specifically used that information to evaluate their pay system. Although labour turnover statistics were collected, managers seldom analysed them for the purpose of evaluation. No organisation used quantitative measures to evaluate the impact of the new pay system on employee behaviour, such as absenteeism rates, number of grievances, frequency/severity of accidents or number of employment tribunal claims, although they all collected statistics on at least some of these matters. Only two organisations sought to evaluate the impact of their new pay system on performance.

How reward effectiveness is assessed by case study organisations

A number of case study organisations provided insights on the overall approaches used by organizations to evaluate reward effectiveness and the issues they faced when they did so.

Overall approaches

The head of reward at RegCom believes that although metrics are important, it is the qualitative data that is the most constructive. The best way to understand what is going on is to get feedback from line managers. This information is gathered by surveying managers and asking them questions about various aspects of reward, while day-to-day interaction is also valuable. In particular, if there is a new reward initiative, the organisation wants to know what effect, if any, it has had, whether this has been positive and whether it has changed employee behaviour. Following the initiative the reward team will go directly to line managers in different parts of the business to ask if there are aspects of reward that are missing or inhibiting the performance of staff. In each case the team asks: "Where are we now? Where do we want to be?"

The head of reward and development in TechCo considers that reward system development is an evolutionary process that cannot just be determined on the basis of abstract reward principles nor by solely using "hard" quantitative measures of effectiveness. A subtler understanding of culture and change processes is at least as important as the technical design of reward plans if improvements are to be put into practice.

In FinServe the reward review includes consultation and engagement with key stakeholders – executives, senior managers, employees and the trade unions – to determine their views on the effectiveness of the existing reward packages. Specifically, what they value and what they do not value, what they would like and what they may have seen in other organisations that they think would be good. This is considered an important part of the review process to ensure that those affected both appreciate and understand any new reward arrangements. Further discussions via focus groups give the company a better idea of the potential options available, the impact on business areas and the implementation approach.

The following advice on reward evaluation was given by the head of reward at RegCom:

- The best starting point before setting any targets or measuring anything is to decide what the organisation wants to achieve.

- Once this has been decided, you should use as much data as you can and benchmark this against the market, before deciding where the company should be positioned.
- Take care when interpreting data such as high staff satisfaction scores and other perception-related measures – they could simply be reflecting generous, rather than effective, rewards.
- In some cases evaluation is not necessary – it is plain to see when certain elements of the reward system are working or not.
- It is your job to place evidence in context and try to interpret what is really happening and why.
- Some of the reward evaluation software packages available, although clever, tend only to use quantitative measures, so they do not take account of some of the other factors that might be at work. This is where you come in – to interpret and make sense of the grey as well as black and white areas.

Evaluation issues

One of the main issues facing organizations attempting to evaluate reward is the problem of linking cause and effect. Boselie *et al.* (2005, p. 75) referred to the causal distance between an HRM input and an output such as financial performance: "Put simply, so many other variables and 'events', both internal and external, affect organisations that this direct linkage rather strains credibility". Corby *et al.* (2005, p. 20) commented that:

> Managers were sceptical about the process of pay system evaluation. They were of the view that the link between a pay system and a given outcome – e.g. staff attitudes or service/product delivery – is well nigh impossible to prove.

Overall, the views of six of the case study organisations as set out in Table V were that it is difficult if not impossible to identify precise cause-effect relationships through evaluation. However, in two cases it was contended that a process of formal evaluation did bring them closer to understanding the impact of the rewards they offer.

Another issue mentioned by the head of reward at RegCom was the inevitable time lag between implementing a new reward programme and when the evaluation of its effect can take place. This means that it is not always clear whether the policy has been successful, as many other factors may have come into play, diluting or distorting the overall impact of the reward change. Furthermore, the interest from other involved groups in the new initiative may have faded or even disappeared as their attention moves on to other priorities. All too often results are not clear-cut and may be open to misinterpretation, especially given that staff feedback can be skewed negatively because generally people are quicker to complain about something they perceive as a problem than praise something they feel is working well.

Discussion

Our research has shown that while many organisations do not seem to be interested in formally assessing the effectiveness of their reward systems, or at least do not feel able to do so, a number are making the attempt using a range of criteria. But there are difficulties. Justifiable doubts can be expressed about the feasibility of linking cause to effect. For example, it may not be too difficult to measure increases in levels of

Organisation	Views on cause and effect
EnginEquip	While there is no guaranteed way to isolate the effects of various aspects of reward, evaluation is still a worthwhile process as it provides a closer understanding of what's going on. In fact, the numbers alone simply provide the starting point for analysis and it's from this point that the real conversations should begin
FinServ	While there are models that claim to measure the direct impact of key reward metrics on financial performance, it's doubtful if this is actually achievable. But if data illustrates improvements in employee engagement and customer service levels it would be reasonable to assume that this would help to improve results in terms of sales, profits and costs
Hotelco	There are many other factors that come into play, so it is not possible to truly isolate the connection
PoliceAuth	A link is not 100 per cent possible, but as our evaluation process has developed we have come closer to reaching this goal
RegCom	As a not-for-profit organisation, we cannot refer to some of the financial outcomes others are able to. A great deal of information comes from measures based around opinion, such as satisfaction, and when interpreting this sort of data it is necessary to take a step back and ask what it means. As a result, the belief is that a direct cause-effect relationship is not possible to discern, but the process is still valuable because it provides a lot of useful information that would not otherwise be known
SM&D Co	There are many other factors coming into play between the rewards provided and their effects

Table V.
Views of case study organizations on cause and effect

engagement following a reward innovation, and it may be reasonable to assume that higher levels of engagement were caused, or at least strongly influenced, by a change to the reward system. But it is an act of faith to link this to a performance improvement.

The research revealed other difficulties, particularly perceived lack of resources or time to evaluate, lack of data, and management indifference – a belief that the benefits of evaluation are not justified by the effort and cost involved.

Nevertheless, the arguments for a rational evidence-based approach to reward management seem to be powerful. It appears to be self-evident that reward systems will be better managed if decisions are based on fact rather than opinion, on understanding rather than assumptions, on grounded theory rather than dogma. But Corby *et al.* (2005) referred to the limitations of the rational managerial decision-making perspective. They cited Buchanan and Badham (1999) who argued that most significant decisions are the outcome of a social and political process only partly shaped by the evidence, which, they add, may be lacking -- at least in part.

These difficulties and limitations mean that it is hard to construct a model which convincingly prescribes the direction reward evaluation should take. It is tempting to believe that it is possible to develop one which consists of a succession of logical steps beginning at A and continuing through B, C, D etc. to the inevitable conclusion of a well-constructed reward system. The reality is that a process of evidence-based reward management is a much more varied and fluid affair. Our case studies showed that while the organizations concerned generally shared a belief in the importance of reviewing and assessing the effectiveness of their reward practices and most operated or are planning to introduce the processes involved, they use different criteria and measures of reward success, as well as different reward approaches.

However, based on the case studies, we have concluded that there are a number of common components to a process of evidence-based reward management, although these are applied in all sorts of ways; sometimes sequentially, sometimes not, depending on the needs of the situation. That is why we call them components rather than stages. The components we have identified are setting strategic objectives, conducting reward reviews of current policies and practices, measuring reward effectiveness, and using the data generated by reviews and measurements to evaluate reward outcomes as a basis for introducing new or improved reward practices.

Our model of how the components function in practice is shown in Figure 1. It appears to describe a sequential progress in the form of a continuous cycle from setting objectives and success criteria, through review, measurement, evaluation, and development activities to implementation and further review. This can happen in some circumstances, for example a review by outside consultants. But, as we established from the case studies, in practice the components are not necessarily specified or managed in an orderly sequence. They are closely interlinked and they may overlap. Objective setting, review and measurement affect all the other components, as does evaluation. They can take place at any time (or all at once) and they all directly influence the ultimate activities of development and implementation.

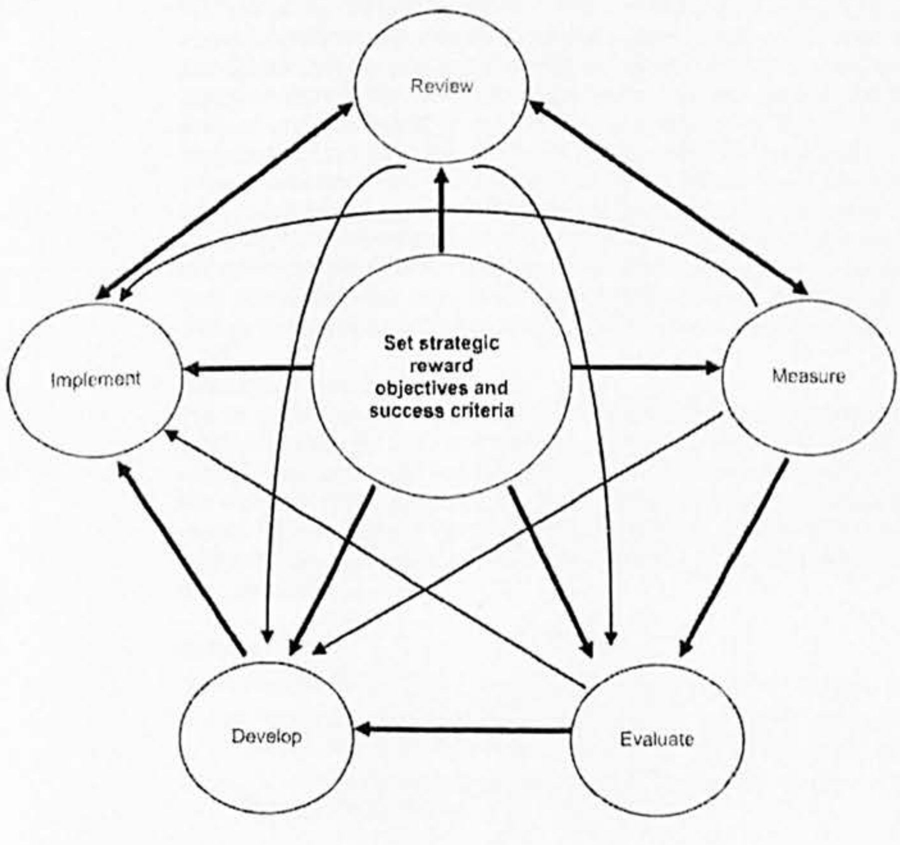

Figure 1.
A model of the inter-relationships between the components of evidence-based reward management

The model illustrates the complex and varied ways in which evidence-based reward management works. But we contend that an approach which makes appropriate use of these components will be helpful on many occasions. Using them appropriately means applying and linking the components in ways which fit the demands of the situation. It becomes a way of thinking that reward practitioners can apply by asking themselves:

- What are we trying to do here, what is important to this organization, how do we measure that?
- How are current reward practices helping or hindering what we are trying to do and what evidence do we have of this?
- How might reward changes improve the delivery of the desired outcomes?
- How can we best implement improvements and how can we show ourselves that they are working?

Conclusions

Bloom and Milkovich (1995, pp. 18-19) noted that:

> A blend of theory, research, and practice holds the promise of expanding knowledge about the forces and processes that shape compensation systems and their links with managers and organizations.

We accept the difficulties involved and the influence of social and political pressures n reward practices. But despite these difficulties, many of our case study organizations had found that the process of trying to improve evaluation had generated significant improvements in the understanding of what pay and reward practices are designed to achieve and the extent to which they are delivering this. It is certain that reward management practices would improve if they were more strongly rooted in evidence on what works and why. Our model of evidence-based reward is intended to provide a framework for doing this. It describes rather than prescribes. It is concerned with how the process of thinking about the review and evaluation of reward policy and practice is carried out but does not propose a universally applicable method of doing so. We are well aware from our experience and research that all organizations are different and that in each case approaches which fit their circumstances are required.

Limitations and further research

We recognise that our case studies did not involve in-depth analysis of the evaluation practices used by the organizations concerned although, coupled with the survey results, they generated sufficient information to provide a reasonably sound base for our conclusions on the process of evidence-based reward management as set out in the model. Further research is required in order to test the model in a range of employers. It might include pilot tests in which a reward initiative is developed and evaluated using the approach.

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European Rewards in an Era of Austerity: Shifting the Balance From the Past to the Future

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European Rewards in an Era of Austerity: Shifting the Balance From the Past to the Future

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Abstract

The author's contention is that just as our political leaders are realizing that, 4 years into economic depression, they need to combine their austerity approach with a new focus on investment and growth; so the balance of compensation and reward activities in our organizations needs to shift away from an extreme cost focus toward policies that more positively engage their employees and develop their talent. Using data from a comprehensive study of reward strategies and practices among 252 organizations based in 25 countries in Europe, he profiles a number of dimensions of this shifting balance: from low to added value pay, from fixed to variable rewards, and from a focus on technical design to paying more attention to reward delivery, emphasizing line manager involvement and more open employee communications. Making this shift will take courageous leadership in the current climate but will, he argues, of itself be a powerful force for reengaging employees and driving recovery in corporate and national economic performance.

Keywords

compensation, reward strategy, employee engagement, reward communications

> It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the season of light, it was the season of darkness, it was the spring of hope, it was the season of despair, we had everything before us, we had nothing before us.
>
> —Charles Dickens, *A Tale of Two Cities* (1859)

The Context: Cutback and Grow

In the context of continuing global depression and economic uncertainty, the world of reward management in the United Kingdom and continental Europe might seem from the headlines to be retaining its traditional, recessionary focus on cost reduction, with little apparent sign of Dickens's "hope" or "light." Forget retention and motivation, just batten down the hatches on your pay and benefits' budgets and costs.

"Staff morale hit as pay cuts and freezes continue," reported *The Daily Telegraph* in London in January[1]; "Pay cuts and wage freezes continue in 2012," according to a survey by the Irish Business and Employers Confederation[2]; and "Thousands protest against European Union Austerity Cuts" in pensions and welfare, as reported by the BBC.[3]

However, despite continuing market falls and fears for the future of the euro, the international economic debate about how best to emerge from this awful depression has taken on a new tone in recent months. Led by President Barrack Obama and supported by the new socialist French president Francois Hollande, the world's most powerful G8 (Group of Eight) leaders meeting at Camp David in late May 2012 emphasized in their joint communication "the imperative to promote growth and jobs" rather than simply addressing still-weak national balance sheets through continuing debt reduction.

Youth unemployment was a particular concern, and human resources (HR) directors that I speak to in Europe very much support the need for employers to help their governments in providing training opportunities and employment for young adults, however bad the financial climate.[4]

The United Kingdom's deputy prime minister, Nick Clegg, catching the mood in an interview with *The Financial Times*, "signalled a shift from lurid warnings about the debt crisis to a fresh emphasis on growth."[5] Clegg admitted that the U.K. government's heavy focus on austerity "can have a dampening effect on mood,"

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which is essential for growth, influencing our current "depression" in both senses of the word. The International Labour Organization argues that we are in fact in an "austerity trap," with a rising "risk of social unrest" unless governments do more to promote growth and employment.[6]

Both Clegg and Hollande used a twin-sided coin analogy to explain, as the latter put it, that "we need to pursue these two goals simultaneously, budgetary solvency and maximum growth."

In this article, I review the main trends in reward strategies and practices occurring among companies in Europe and argue that a similar, more balanced, twin-track approach, both cost- and growth focused, is emerging and is required. I profile several of the key shifts in the balance of reward management activities that we are seeing following the initial, cost-driven response to the economic recession in 2008/2009. These are primarily designed to deliver the improved employee engagement levels and "mood," which will be essential to fuel corporate growth as the economy, hopefully, recovers and "the best of times" return.

My data sources for this review have primarily been Aon Hewitt pay and reward surveys. Most notably, in late 2011, Aon Hewitt carried out an in-depth questionnaire survey followed by client discussions of strategic reward issues and trends, *Reward Fundamentals 2012*.[7] We gathered data from 252 organizations from different sectors across 25 countries in Europe to garner a comprehensive picture of the key thoughts, plans and experiences at the top of reward managers' minds right now. Figure 1 profiles the respondents and their organizations, which included well-known names such as BMW, Barclays, BP, Carrefour, Dow Corning, Microsoft, RWE, SAP and Toyota.

I also refer to the following:

- Aon Hewitt's global database of employee attitudes and engagement levels, which contains engagement survey information covering more than 3,000 employers and 9 million employees worldwide[8]
- Our annual European survey of corporate HR directors and their priorities and experiences, the 7th European HR Barometer[9]
- For comparative purposes, our equivalent study of reward practices in the United States, the 2012 Total Rewards Survey, which covers almost 750 organizations in North America[10]

From Cost Driven to Engagement and Talent Focused

The pressure on HR and compensation functions in Europe to cut costs and support the business in delivering improved efficiency and productivity is unrelenting. Our latest 7th European HR Barometer of HR director priorities shows that cost reduction is the most influential factor this year on HR and compensation policies and practices, and its importance has actually increased a notch compared with our 2011 study. Risk management and dealing with market volatility and recession and continuing internal restructuring and downsizing are also still in the top 10 most influential factors (see Figure 2).

But HR and compensation directors now face a dual "squeeze" in their efforts to support the challenging productivity and profit targets that boards are setting in support of positive growth in stock prices. Although the financial pressures continue, labor markets are starting to recover, and skill and talent shortages are emerging in many countries in Europe, particularly for highly specialized skills and the most talented, highest performing staff. As a growing minority of companies starts to rediscover and dust down their growth plans to expand into new product and overseas markets, a shortage of talent to fuel this growth is now the second most important factor influencing European companies' HR and reward policies.

To illustrate in the United Kingdom, the 2012 National Management Survey[11] carried out by the Chartered Management Institute found that 59% of employers have experienced problems in recruiting managers and 55% in retaining them in the past 12 months, up 10% on a year earlier. Globally, according to Manpower Group, one in three employers are reporting difficulties in filling jobs due to lack of available talent, including 42% of German employers and an increase of 9% in shortages over the past year in France.[12]

And just as our nation states have to cut their debts but at the same time invest in economic growth and jobs, so is this creating a "cost/talent crunch" for HR and reward functions in Europe. The "crunch" and the reward strategies organizations are adopting to address it are evident in the findings from our Reward Fundamentals research and specifically the overall reward priorities for the participants this year (see Figure 3). They are remarkably consistent across companies, countries and sectors.

Most obvious and not surprising is the need to support improved performance in the future and to recruit and retain the firm's highest performers and key talent. But also in the top five factors are the need to better leverage and more efficiently use the total reward spend, the major cost for most European employers, and to improve staff engagement and morale in a generally difficult economic and social climate throughout Europe.

Essentially there appear to be two main dimensions to this cost: talent dilemma that our organizations, as well as our governments, face. First, how do you recruit and hang onto your best, most in-demand and talented people when there is still little money available to fund salary increases and bonuses? And second, more broadly, how do you

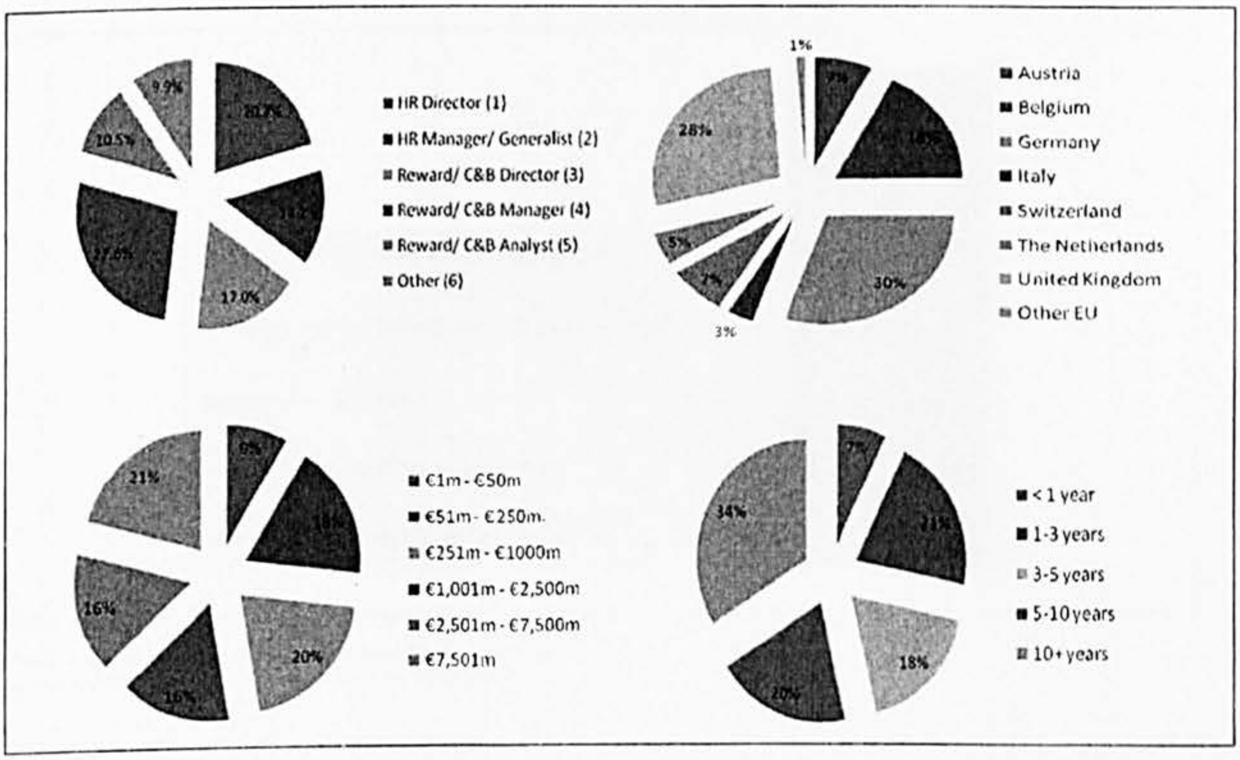

Figure 1. Reward fundamentals' research participant profile (n = 252)

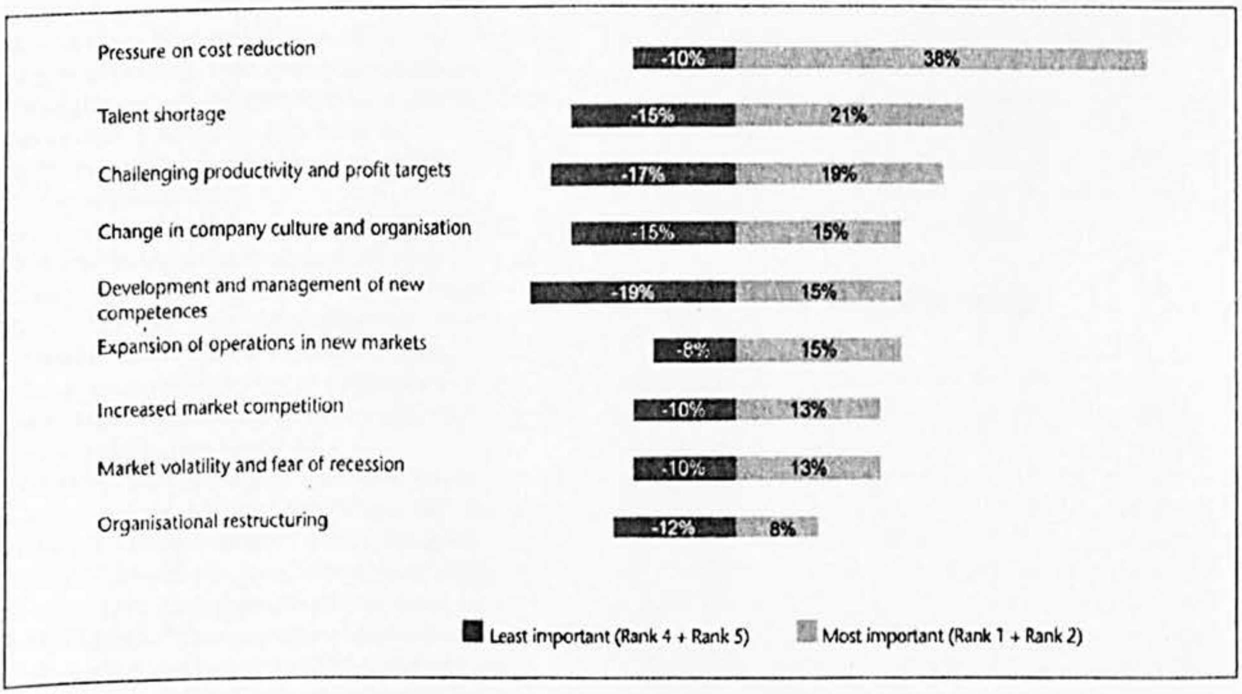

Figure 2. The dual cost: talent "squeeze" from the 2012 HR Barometer

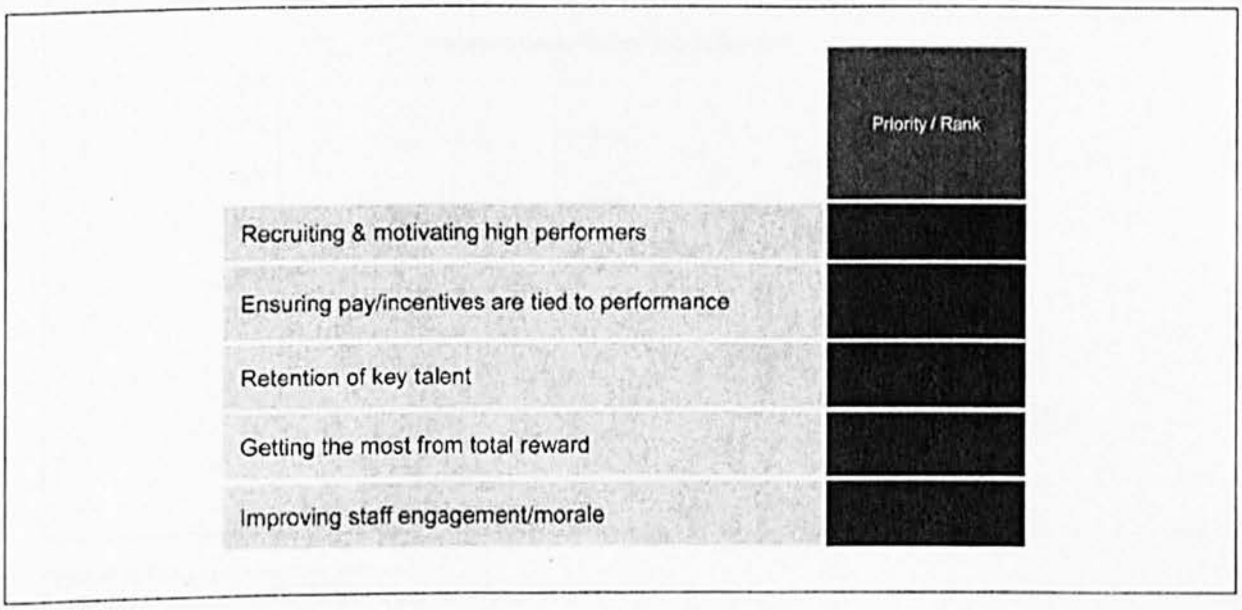

Figure 3. Reward strategy priorities for European companies
Source: Reward Fundamentals, Aon Hewitt, February 2012, n = 252

motivate and reengage staff after 2 to 3 years of widespread pay freezes and cuts?

According to Christopher Kinsella of the Chartered Management Institute, "We understand organisations are still struggling to provide general salary increases due to recession. But a company that does not work hard to retain its employees and invest in its people will find itself in a difficult situation."[13]

And from the point of view of engaging and motivating their staff to higher performance, the picture for many employers is the difficult situation that Kinsella cites. Analyzing the data from the engagement surveys that Aon Hewitt run for clients in Europe, during 2010 we found that on average, levels of employee engagement fell by a disastrous 4%, with declines evident at all levels in the organization (see Figure 4).

Our latest findings suggest that these levels have at least stabilized in Europe. Paralleling the European Central Bank's latest forecast of 0.5% GDP (gross domestic product) growth this year, the overall engagement score among our European clients increased into 2012 from 51% to 52%.[14] But employees' desire to "strive," to exert extra effort and engage in behaviors that contribute to business success, remains well below the levels evident in 2008 and 2009. And while employee engagement does emerge as a top reward priority for 2012 in the Reward Fundamentals research, with 78% of respondents seeing rewards as critical to building and sustaining engagement levels, 24% of participants in that study felt that their existing rewards package was failing to motivate and engage their staff.

Employers appear now to be recognizing this major business issue of the engagement recession. In terms of base pay management, their major reward cost, 20% of employers plan changes in 2012, and the pattern shows they are responding in two main ways.

From Low Pay to Added Value Increases

First, pay increases are back, and are gradually increasing across most of Europe. Aon Hewitt's latest salary increase survey[15] shows a big decline in the number of reported pay freezes (e.g., from 12% of the 224 U.K. participants down to none reported this year), and forecast awards for the remainder in 2012 are generally above the 2011 levels—for example, up from 2.5% to 3.2% for managers in the United Kingdom, 2.8% to 3.2% in Germany, 2.8% to 3.0% in the Netherlands, 2.9% to 3.7% in Latvia and even in Ireland up from 2.3% to 2.5% (excluding freezes).

As my Paris-based colleague Vincent Cornet put it recently at a conference of compensation and benefits directors in Brussels,:

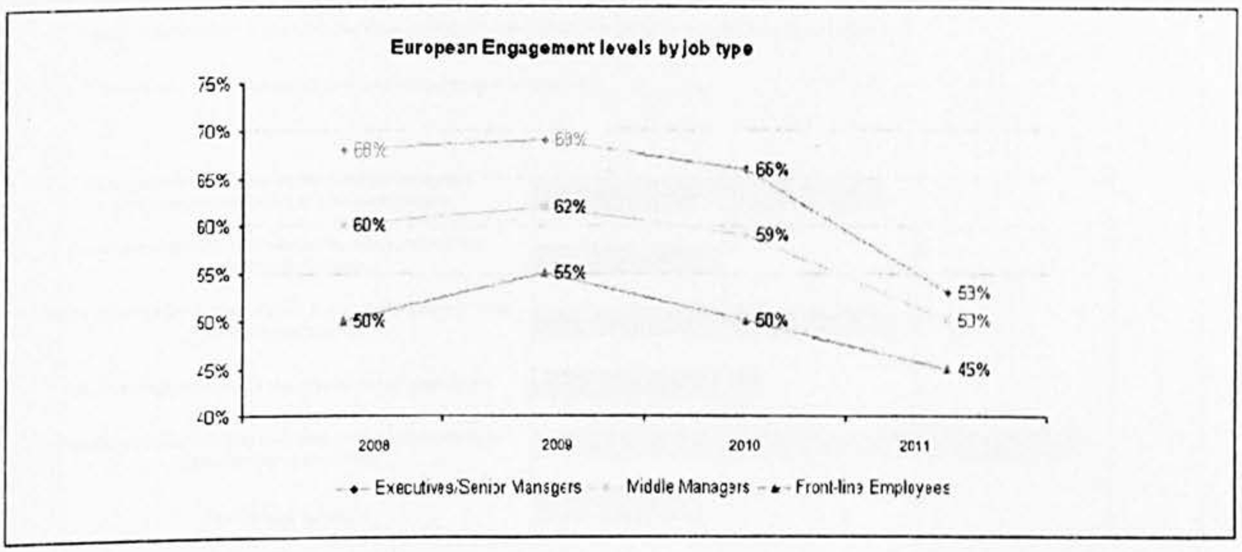

Figure 4. The engagement recession
Source: Aon Hewitt's Global Employee Engagement Database

> With the prolonged period of economic depression and continued austerity measures, companies are feeling the need to show a positive sign to employees . . . attempting to be socially responsible."

One of the solutions to "the austerity trap" identified by the ILO [International Labour Organization] is for governments to make "a careful increase in the minimum wage" and for employers to ensure that wages grow in line with productivity.[16]

Employers seem to be responding. The fast-expanding Intercontinental Hotels Group, which owns Holiday Inn, announced that it was adopting the London Living Wage of £8.30 an hour for its staff, well above the National Minimum Wage in the United Kingdom that they previously offered, providing more than 800 employees with a wage boost worth nearly £5,000 per annum. Have they gone mad in forgetting the essential focus on pay cost austerity? Isn't this commercial suicide?

Not according to IHG Managing Director Stephen McCall, who recognizes, as London Mayor Boris Johnson put it, that "not only does this foster a loyal and hard-working workforce, it can lift people out of poverty and give people a proper reward for their labour."[17] Growth in pay and jobs boosts the consumer confidence and spending, which are so essential in our service-based economy—or, as Deputy Prime Minister Clegg put it, combining "that mix of credibility on the economy and social fairness."[18]

We can see similar actions in the United States, where last year 18 states raised their level of minimum wages above the federally required minimum rate. The National Employment Law Project estimates that the extra $600 in workers' paychecks will add $366 million to the country's GDP and create more than 3,000 new jobs.[19]

A variety of research studies support the benefits of basing employees' pay on added value rather than just minimum cost. For example, Brown, Sturman, and Simmering[20] found that higher pay levels were associated with greater efficiency and also improved perceptions of pay fairness.

A CIPD (Chartered Institute of Personnel and Development) research study led by Professor Michael West[21] similarly found that good pay levels, with a performance-related component and an attractive total rewards package, drive higher employee engagement, which in turn is associated in a positive upward spiral with improved customer service and increased consumer spending/revenue.

But second, organizations are not spreading these pay increases peanut butter–like in a thin smear across their entire workforce. A significant minority of even the most recession-hit firms are taking specific measures to recognize and retain their most talented and able, highest performing people. Smaller pay budgets do appear to be forcing this differentiation from the workforce as a whole. As one reward director told us in the *Reward Fundamentals* research:

> We are looking to focus what little budget is available on major projects and high performers, rather than making across-the-board increases.

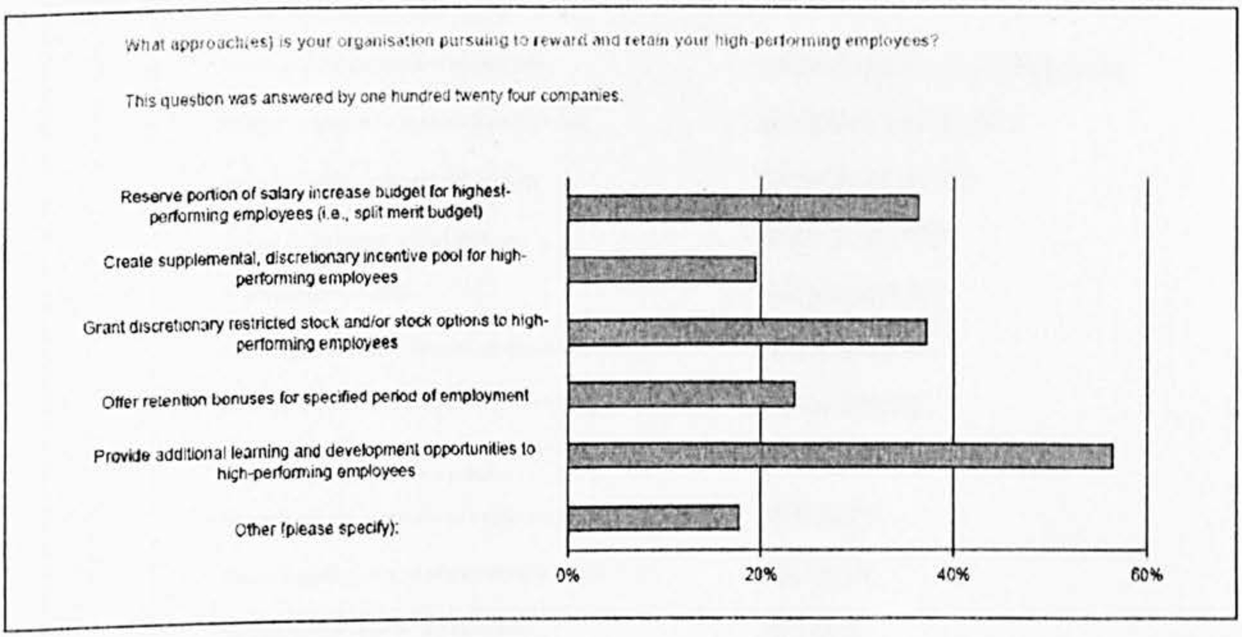

Figure 5. Approaches to rewarding high performers and key talent
Source: Aon Hewitt

We found that last year, more than a third of employers in Europe had reserved a portion of their salary increase budget to more effectively differentiate pay awards for their top talent and high performers (Figure 5). Other actions included discretionary stock awards, learning and development opportunities and higher bonus payments.

This leads us on to two other ways in which organizations in Europe are responding in this continuing era of austerity and the dual requirements to engage employees while retaining cost focus: variable pay and total rewards policies.

From Fixed to Variable Pay

In the United States, in 1991 the average base salary award for salaried staff on Hewitt's Total Compensation Management database was 5.0% and the median bonus was 3.8%. The figures 20 years later were 2.4% for base pay and 11.3% in bonus. The shift in Europe has not been so marked and varies by country, but it is now almost universally heading in this same direction, with more plans, more staff covered and gradually increasing bonus opportunities.

Introducing bonuses in a recession might initially seem a little odd, especially when high bonuses were implicated as a factor in driving the initial financial and banking crisis in 2008, and also given that in my life as a consultant, a new bonus scheme that pays out is universally feted, while one that does not generally receives a less enthusiastic welcome!

But while fixed pay proportions have risen in response to the crisis in investment banking, in the rest of the economy the twin attraction—for finance directors of greater cost variability so as to be able respond to unpredictable and possibly declining revenues and for HR directors of being able to more clearly recognize the highest performing and most able staff—have fuelled and speeded this continuing trend in Europe toward variable pay.

The initiatives HR directors are most commonly planning and taking in 2012 illustrate this, with new or amended, individual and collective bonus plans being referenced by 40% and 37% of the participants, respectively, and new employee share plans by one fifth (see Figure 6). Across our pay databases in Europe, more than a quarter of the participants have introduced new plans or extended their coverage over the past 2 years, compared with less than 5% who have removed or reduced the membership of incentive plans.

The growing popularity of combined or multilevel bonus plans, whereby a corporate profit or funding element is subsequently modified by team and/or individual performance, illustrates how in the Austerity Era, reward professionals are seeking to balance and achieve what previously were regarded as competing objectives, in this case to ensure plan funding and reinforce collective endeavor, as well as differentially rewarding the individual "stars."

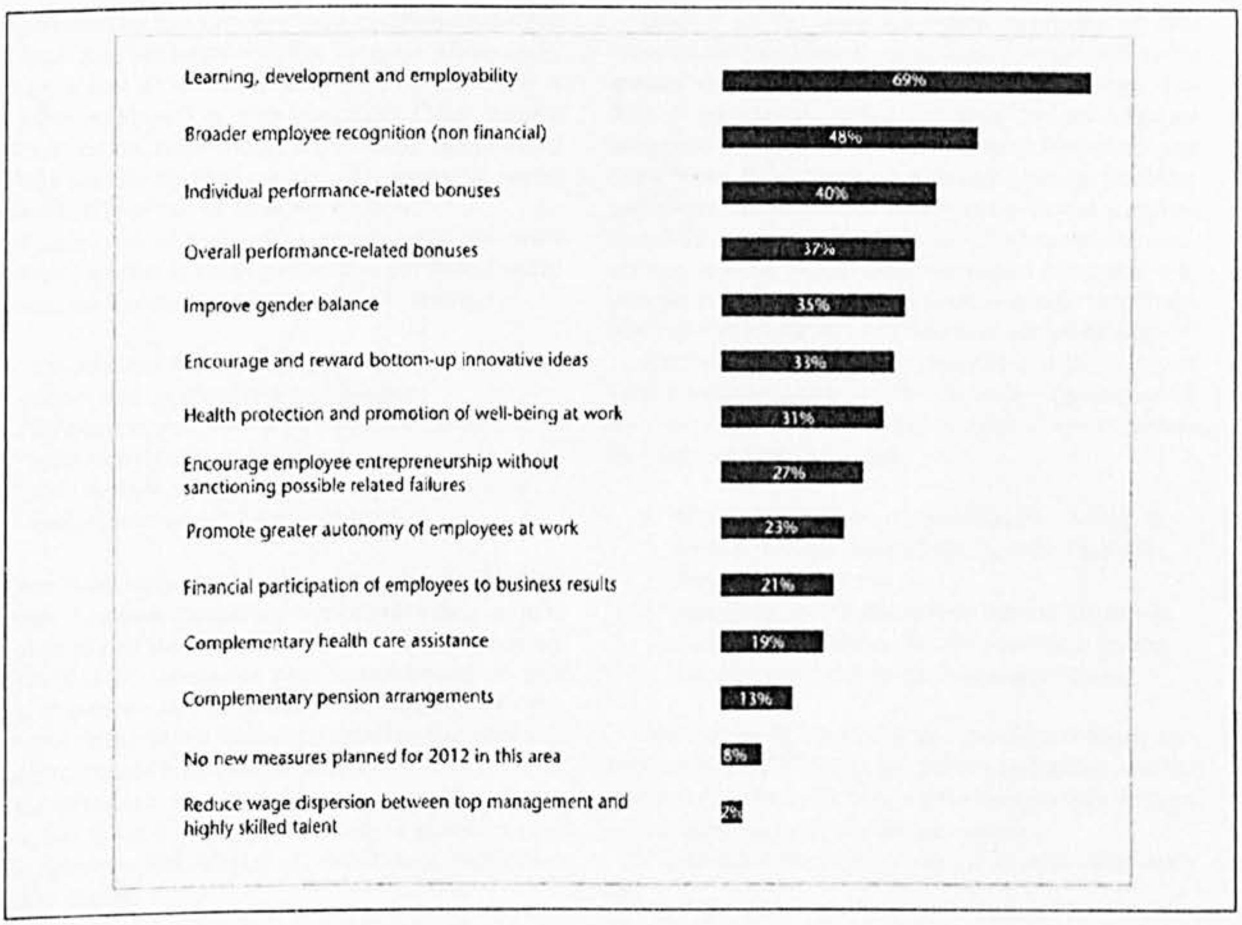

Figure 6. New HR initiatives planned/undertaken in 2012
Source. Aon Hewitt 2012 HR Barometer

Similarly, despite the strong focus on profits and cash flow during the recession, we are this year seeing a swing back in popularity toward sales and revenue and more growth-oriented bonus plan measures. The incidence of non-financial measures in bonus plans has also continued to grow over the past 3 years, with customer service targets now evident in more than one third of plans. Of our surveyed companies, 17% are planning further changes in plan measures in 2012 and 24% other changes in their bonus plans.

A utility I am currently working with, for example, uses a set of business metrics categorized into three within its management and general employee bonus plans, covering financial measures, operational measures and health, safety and environment goals. The compensation function is currently reviewing these measures and the balance between them.

Research suggests that both dimensions, rewarding collective commitment and incentivizing individual excellence, have an important role to play in driving companies and countries out of recession. A wide variety of studies show associations between employees having a financial stake in business success and high firm performance. Wallace Bell, for example, found that firms with profit-sharing plans outperformed a matched sample of firms without them by more than 50% in terms of their levels of profitability.[22]

And data in the United Kingdom's national Workplace Employee Relations Survey demonstrate that employers with some form of performance-related pay and employee shareholding had, on average, 17% higher productivity and half the labor turnover of those without.[23]

Improving the links between pay and performance is the second most important reward priority among European employers. Our research suggests that in higher performing companies, bonus payments are more differentiated and employees also have much higher perceptions of the strength of these links between pay and performance. Fifty-six percent of employees at those companies on our European engagement database rated as the best to work for agree that their performance has a significant impact on their total pay, compared with the European all-company average of just 35%.[24] They also think that their pay is fairer than employees in other companies. Other research studies confirm that knowledge workers and high-potential and high-performing staff are generally strong advocates of individually-driven variable pay systems.

Of course, not all bonus plans are successful. Common problems reported by the participants in our survey and at our associated client seminars were the following:

- Payouts had become viewed as an entitlement rather than as genuinely variable pay.
- Employees felt disenfranchised and unable to influence the plan measures.
- Plan designs were too complex and plans were badly communicated and managed.

Correspondingly, bonus plans in higher performing and best employer companies were rated highly on perceived levels of staff involvement and communications (which 23% of companies plan improvements to this year), alignment with business goals, support from top managers and included bonus opportunities that were big enough to make a difference to people.

This raises the next key austerity-induced trend evident in our Reward Fundamentals study: a growing focus on the operation and delivery of reward plans, rather than just their design.

From Design to Delivery: Total Rewards

Compared with the last time, 5 years ago, when we ran a similar Reward Fundamentals study, respondents throughout Europe gave much higher ratings to their current pay and reward plans in terms of the quality of their design and the level of their alignment with business goals, for example,

- Eighty-seven percent of respondents felt that their pay and reward practices reflect business needs and priorities.
- Seventy percent believe that pay and rewards are well integrated into the business-planning process.
- More than twice as many as in the 2007 study rated their current designs, such as job evaluation and bonus plans, as fully fit for purpose.

But participants' assessments were much lower in terms of the delivery and execution of plans in three interrelated areas:

- Employee communications and involvement
- Line manager ownership and application
- Delivering an integrated total rewards offer

Despite all the pre-recessionary popularity of total rewards and best-place-to-work initiatives, as well as the gradual spread of flexible benefits plans in Europe, just 55% of participants agreed that their "reward plans are integrated within a total reward proposition/brand," and more than a third disagreed. Although package flexibility and choice has progressed further in the United Kingdom than the rest of Europe, in a recent CIPD survey the number one reported reward risk, above even being unable to increase pay due to cost constraints, was that "employees don't appreciate the value of their total reward offering."[25]

Aon Hewitt has recently conducted a major survey of total rewards programs in 750 U.S.-based organizations,[26] and the results are remarkably similar to our European Reward Fundamentals, with

- fifty-eight percent of participants aiming to drive employee engagement through their total reward programs, but
- sixty percent describing their current employee engagement levels as low and two thirds feeling that they are steady or on a downward trend.

The U.S. study concludes that "the differentiating factor between the 150 high performing companies and the rest was not about the programme designs they focused on, but **how** the programmes are executed."

These higher performing companies were more likely to

- have clearly defined reward goals and measure their effective delivery, with a greater use of employee engagement levels rather than purely costs as one of their major goals and success criteria, and
- communicate and connect total rewards programs more effectively and extensively to their business managers and employees: 51% of employees in high-performing companies understand the value of their total rewards programs, compared with just one third in the remaining firms.

This balance of business alignment combined with employee understanding and engagement seems critical to the delivery of successful reward programs in the Austerity Era on both sides of the Atlantic.

From Design to Delivery: Line Managers and Communications

The picture on line management engagement and employee communications and involvement on reward issues is similarly negative in our European Reward Fundamentals research[27] as our North American findings, except for the minority of high-performing employers here that also

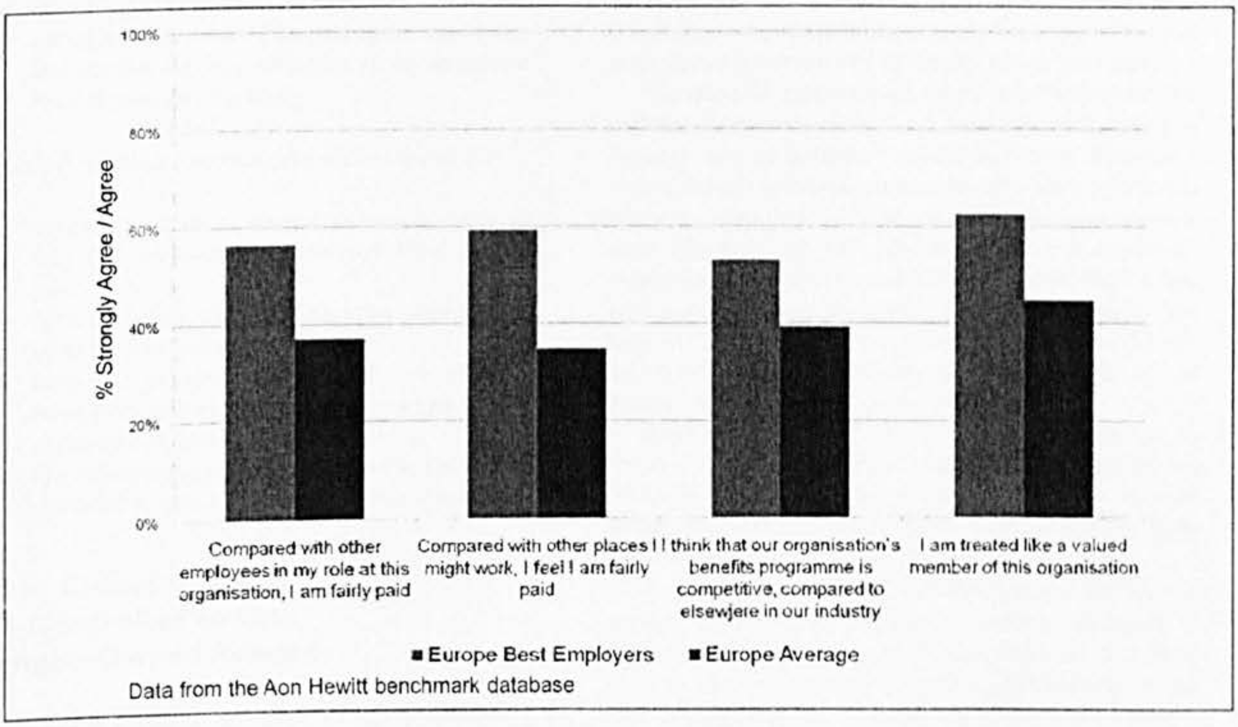

Figure 7. Positive perceptions of rewards in high-performing companies with high employee engagement levels

display above-average levels of employee engagement. The lowest effectiveness ratings in our European research were afforded by reward managers to

- line managers having the training and ability to execute reward programs effectively (55% effective/partly effective),
- the communications of rewards in the organization (52%),
- employees understanding our reward plans to be competitive and appropriate (52%), and
- managers regarding our reward plans highly (49%).

As in the United States, we have found strong and mutually reinforcing relations between the perceived quality of line manger skills and reward communications, employee perceptions of pay and rewards and employee engagement levels. Figure 7 shows the equivalent responses by employees in European companies displaying high levels of employee engagement to several of our standard engagement survey questions on pay and rewards. Employees in these firms display much higher levels of understanding about pay changes, better appreciate the value of their benefits and perceive stronger links between their pay and business results and performance than those working for other European employers.

But these companies are the minority, and worryingly, other research studies as well as our own suggest that the picture has, if anything, worsened over recent years, despite the massive improvements in the quality and costs of communications technology available. Communications budgets have often been cut, and badly designed and poorly signposted web sites and intranets are simply not doing the job. Meanwhile, reductions in management training budgets and the removal of local, on-the-ground HR support, (replaced by distant HR service centres) have had a negative impact on the line's "will and skill" to manage reward programs effectively, just when the messages themselves, of pay freezes, benefits cuts and no bonuses, have been getting more difficult to deliver.

Research among HR and reward managers by the Institute for Employment Studies[28] for example, found that

- fifty-six percent of reward professionals feel that their reward communications are not effective, despite significant progress in the communications technology used;
- forty-three percent don't believe their employees understand how their pay links to performance;
- sixty percent saw line managers as the biggest barrier to effective communications; and

- their biggest reward challenges were communicating the total value of the package to employees and convincing line managers to communicate reward policies effectively.

Similarly, in North America, one survey found that[29]

- seventy percent of reward managers reported that few employees understood their reward mix,
- fifty-six percent felt their base pay communications are ineffective,
- forty-five percent reported that few of their employees understand how their rewards link to performance, and
- line managers, again, were perceived as the biggest obstacles to effective reward communications.

From Closed to Open, HR-Controlled to Line Manger–Owned Rewards

As in North America, the issue of pay transparency is much debated in Europe at present and not just in regard to executive pay, where the chair of the U.K. government's Fair Pay Review, Will Hutton, wryly observed that "we need less disclosure and more transparency" for internal and external stakeholders. The European Court of Justice provides us with a legal definition of transparency which is that "the pay and benefits system should be capable of being understood by everyone."

Hutton's report[30] describes how the individualization of pay and emphasis on market- and performance-driven rewards in the past 20 years have driven higher levels of pay secrecy. To illustrate, research by the Equality and Human Rights Commission[31] found that

- twenty percent of organisations forbid or discourage employees from discussing their pay,
- forty-nine percent give staff no information beyond their own reward details,
- only 28% communicate pay bands, and
- just 3% in the private sector share colleague pay details.

In a European workforce facing up to the most significant decline in their living standards since World War II, in which only a third currently regard their pay levels as fair and even fewer trust their senior leadership,[32] improved reward communications is a critical underpinning of improvements in employee engagement and economic performance. The EHRC (Equality and Human Rights Commission) documents the benefits of transparency as a better employment brand to support recruitment and retention, improved employee perceptions of fairness and higher engagement levels, as well as smaller gender pay gaps.

The route to improvement seems relatively clear: the will and courage to take it much less so. An IRS survey of internal communications[33] found that those employers with a formal communications strategy were 4 times as likely to report that their HR and reward communications were effective, and 82% reported a positive impact on engagement as a result, compared with 48% with a less well-organized and resourced, "ad hoc" approach. But only 41% of the employers they surveyed had such a formal communications strategy, with the incidence of "ad hocery" having doubled since 2005.

Reward professionals have to have the courage to reverse this trend in their organizations, despite the "bunker-inducing" economic climate. How can we ever deliver Dickens's "wisdom" in our workforce if our organizations display such "foolishness"?

They also need to take the initiative in developing line manger's skills in this area and holding managers to account for effective reward communications with their staff. A variety of research studies highlight the role of line managers as the "missing link" in effective reward communications and more widely in converting HR and reward policies into engagement-inducing practice (see, e.g., Brown and Purcell[34]).

Aon Hewitt's research in this area[35] highlights four critical requirements to addressing the line manager engagement and communications shortfall:

- Ensuring that line managers themselves are enthusiastic and engaged, despite the operational pressures that many of them are currently under
- Showing them the evidence that enhanced employee engagement really does drive improved business performance
- Holding them accountable for their reward and people management responsibilities and assessing and rewarding them on that basis
- Providing them with the resources and support to play this role effectively

Despite the state of the economy, I am much more positive on this score than I was 12 months ago, as I see more organizations recognizing the criticality of reward management communications and the role of line mangers in its effective delivery. Some recent examples of this in individual employers I have worked with include the following:

- Developing and delivering new compulsory training modules for line managers in performance and reward management in a large public sector employer

- Involving line managers in developing the reward communications material for their staff following a major pay structure redesign exercise in a large utility, and then investing in training and coaching them in the communications of the changes
- This firm also subsequently held "HR clinics" for line managers to deal with specific difficult issues that emerged, for example, for staff whose historic benefits had been frozen, and making communications positive to underperformers who would lose out in the new, more performance-based structure
- Another industrial company has made effective reward management a personal objective for all relevant managers and incorporated this into the objective setting and performance management process at all levels, including directors.
- A professional services firm has designated a selected group of line managers as performance and reward advisers, who receive additional involvement and training and act as coaches to their management colleagues.
- This firm has also extended and improved the pay moderation processes for comparing and normalizing the distribution of performance ratings and awarding pay increases and bonuses, ensuring that awards are fair and consistent across all departments.
- To ensure that any reward changes genuinely will improve performance and not be overly burdensome to manage, a drinks company has introduced a line management panel, with which any proposed changes to reward arrangements need to be discussed and consulted on before implementation.

Open Communications in Practice: An Example

A U.K. FTSE 250 real estate organization we worked with has reacted to the economic climate by moving away from "across the board" base pay increases and the absence of any formal incentive scheme and introducing a series of pay changes, including

- market data–driven and performance-based base pay increases and
- an incentive scheme based on individual and company performance.

They recognized that success in delivering this more differentiated approach to pay management would require much more sophisticated line management skills in reward and people management and far more extensive employee communications.

Their approach to designing and implementing these changes included

- extensive consultation with line mangers and employee focus groups during the design phase of the work and
- developing a comprehensive employee communication strategy at the outset of the project, involving internal communications as well as HR staff.

Key components as the new approach was implemented included

- lunchtime presentations from business leaders, followed by distributing employee brochures, describing the basis of the new pay decision-making process, backed up by interactive materials on the company intranet;
- train-the-manager workshop sessions consisting of 50% presentation/explanation and 50% case study work, with 8 to 12 managers at each session, prior to the managers themselves explaining the new approach to their teams; and
- follow-up "on-demand" coaching for managers as they went through the process of making individual pay decisions in the first cycle of the new approach.

Combined with a phased and well-resourced approach to implementation, the changes appear to have gone well, and business results, as well as employee attitudes, are now on a positive upward trend. The firm's employee engagement survey, conducted 6 months after the first of the "new-style" pay reviews showed generally improved results, including

- positive responses to the question "I understand how my pay is determined" score increasing by 39% on the prior year and
- perceptions that "overall company performance," "my team's performance" and "my individual performance have a strong impact on my pay" increasing by 19%.

Conclusion: Moving From the "Worst of Times" Back Toward the "Best of Times"

Although technically most of Europe is no longer in recession, growth is minimal, our economies weak and the outlook uncertain. Even the most optimistic forecasters predict that it will be at least another 1 to 2 years before Europe returns to its pre-recession levels of output and growth. Managing pay and rewards in the past 3 years has been incredibly difficult in many organizations, and I have seen levels of pay and benefits cuts and social deprivation that I never thought possible in my lifetime and that we may not have seen since Dickens's era. I worry about the future for my kids when I see the business and reward approaches of some of our contemporary employers and European governments abandoning core tenets of the welfare state that I grew up with.

Turning this situation around presents the biggest challenge our political and business leaders will face in their lifetimes. INSEAD Professor Manfred Kets de Vries has spent a lifetime studying leaders and has shown how the key factor differentiating the most successful is that "their lives are in balance."[36] In their psyche and their actions they are balanced—for at their extremes, even apparently positive behaviors such as drive and focus can become toxic and destructive.

Our political leaders are belatedly recognizing that they have been overly fixated on austerity and cost reduction and need to invest more in their human capital, their young people, their entrepreneurs and their small businesses—the source of future growth in our ever-more knowledge- and service-based economies.

The dangers of an extreme market and performance-driven approach to rewards were evident in the financial services sector in 2008, with the financial crash developing into global recession on both sides of the Atlantic. Schuster and Zingheim[37] brilliantly describe the disastrous combination of very high levels of variable compensation with an expensive, market-based arms-race on perks and benefits that developed in the sector. They conclude, "Had human resources and compensation been *balanced* [italics added] for both troubled and good times, we would not have taken such a powerful hit when the business began to collapse" (p. 12). There was a perfect strategic alignment of reward practices with the business and HR model, but it was a model that was fundamentally economically unsound and devoid of moral principles and any shred of social responsibility.

Schuster and Zingheim recommend, Dickens-like, that going forward we "consider both good and bad times," rewarding "talent for balanced performance" and building "a balanced culture."

In reward management now, we need to display similar leadership and courage to our political leaders. Making the case for general staff and moderated executive pay increases, new staff bonus plans and benefits preservation is really hard in our still-cash-strapped organizations. We cannot promise any magic-bullet, immediate solutions. But in this article, I have profiled a shift in the balance of approaches that successful organizations seem to be taking in rebuilding the employee engagement that is driving the recovery in their performance.

Table 1. The Shifting Reward Balance in This Era of Austerity

From	Toward
Cost and business driven	Talent and employee engagement focused
Pay as cost, minimum cost focus	Pay as investment, added value focus
Fixed pay and bonus	Variable and differentiated rewards
Design focused, intent	Delivery focused, implementation
Pay and flexible benefits	Total rewards
Human Resources driven	Line manager owned
Confidential, low employee understanding	Open and understood

The shift is summarized in Table 1. It is not a shift from one to the other, as the demands for cost-efficiency are as intense as ever. And as with any balance, move too far too fast in one direction and you risk everything tumbling down. But more organizations need to start and are starting to move in a more positive, investment- and growth-oriented direction, and more need to follow their example.

Investing in workers 100 years ago wasn't easy either. One of the founding fathers of personnel management in the United Kingdom, Edward Cadbury, of the confectionary business that still bears his family name, explained his firm's insistence on high-quality worker housing and benefits by describing profitability and employee welfare as "different sides of the same coin."

Touring the company's Bourneville plant at the height of the interwar depression, the playwright J. B. Priestley[38] was hugely impressed by the "magnificent recreation grounds, continuation schools, with medical attention, works councils, pensions." He felt that this investment produced "definite and enormous gain" both for employers' and employees', "private profits" and for "social good."

Back to the future.

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Bio

Duncan Brown is an adviser, observer, researcher and writer on reward management issues, with more than 25 years of experience in the field. He is currently Principal, Compensation and Talent, with Aon Hewitt based in London. As well as employment with other major consultancy firms, he has also held leadership and research posts at the CIPD and the Institute for Employment Studies. He regularly publishes articles in journals such as *Compensation & Benefits Review*, and his most recent book is *Evidence-Based Reward Management* (Kogan Page, 2010).

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Reward and Engagement: The New Realities

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Abstract
The authors contend that despite the popularity of the term and of corporate surveys to measure it, *employee engagement* is often an ill-defined concept, and the relationship of it with reward management is often even more unclear. In a wide-ranging analysis, they consider the impact of the difficult global economic climate on engagement levels and what we have learned about the relationship with rewards. They argue that engagement and its links with pay and rewards need to be defined and understood in each organization setting, rather than assuming that simplistic universal models can be adopted. They highlight the importance of a total rewards approach in engaging the diversity of the workforce and meeting the wide variety of employee needs. Third, they call for action on survey results, with the recession having widened the "say–do" gap on employee engagement. Finally, they highlight some outstanding questions for future research and practice to investigate in this field.

Keywords
reward, employee engagement, pay, pay for performance, flexible rewards

Introduction: Get Totally Engaged

Almost 5 years ago, we jointly authored an article on employee engagement and the relationship with pay and reward management policies.[1] Since then, engagement has become an even more popular topic, producing some 40 million web hits on a Google search today. It appears to be a near-universal corporate and employer objective and "good," lauded by governments, chief executives, HR directors and consultancies. As the United Kingdom's Secretary of State for Business, Innovation and Skills put it, "Organisations that truly engage their employees produce world class levels of innovation, productivity and performance."[2]

Often though, we feel that engagement continues to be an ill-defined, ubiquitous, 'warn and fuzzy' concept. It is often measured in surveys characterized by an obsession with completion rates and comparative benchmarking, but which are little acted upon, and with the practical implications, particularly in terms of financial reward, frustratingly unclear.

The U.K. Government-commissioned report, *Engaging for Success*, discovered more than 70 different definitions of engagement, ranging from the unintelligibly theoretical to the Dean of Cass Business School's delightful "you sort of smell it, don't you."[3] And the numerous "recipes" and "formulas" for creating and sustaining an engaged workforce are even more diverse. According to Professor David Guest, "The concept needs to be more clearly defined or it needs to be abandoned."[4]

The assumption generally, however, appears to be that providing "total rewards" (often an equally "fuzzy" concept) and particularly the nonfinancial dimensions, will engage staff to willingly deliver high levels of customer service and thereby financial performance: "providing a total package of reward that optimises employee engagement with their work and contribution to the employer at an acceptable cost," according to then–United Kingdom's Chartered Institute for Personnel Development Vice President, Reward, Vicky Wright.[5]

This emphasis in the definitions on organizational financial performance benefits delivered through employee engagement that in turn is strongly influenced by nonfinancial rewards seems to be very common. The authors of *Engaging for Success* state specifically that engagement is "the key to unlocking productivity" and "taking maximum advantage of the economic upturn

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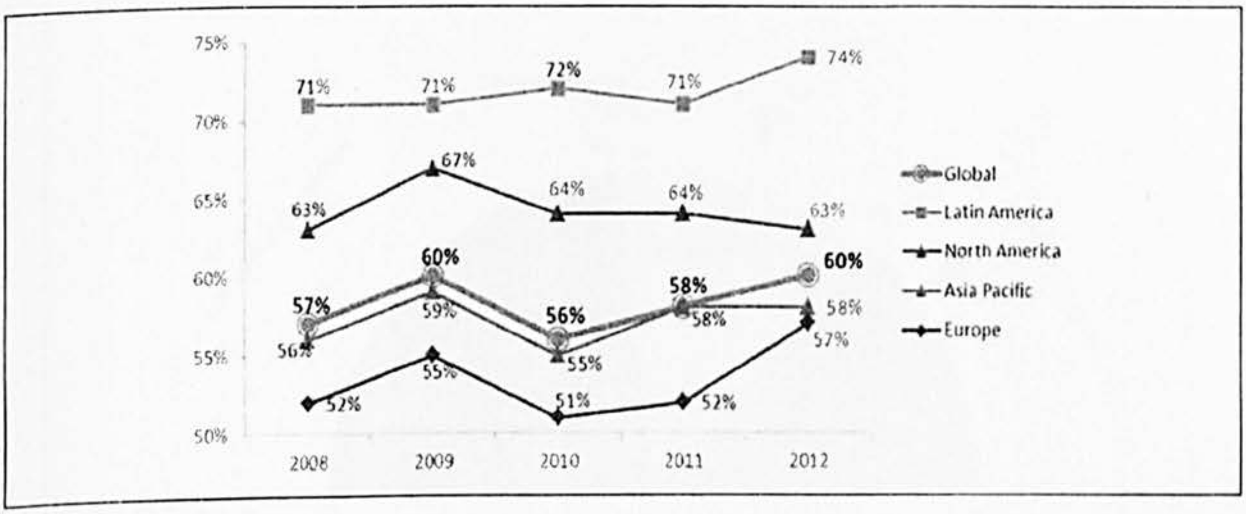

Figure 1. The shifting pattern of employee engagement levels across the world.
Source. Aon Hewitt.

when it comes." They also note, however, that "pay and conditions are important in attracting people but subsequently act as more of a hygiene factor."[6] For them, the four key "enablers" of employee engagement are: leadership, managers, voice/involvement and integrity.

The Paradox of Recession and Engagement

Yet, paradoxically and remarkably, the viral popularity of this concept, this "lifeblood of organizations,"[7] has coincided with the worst global economic recession for almost a century. Actions by governments and employers in the United Kingdom and United States that have had a detrimental impact on rewards and living standards for the majority of the workforce, with pay levels frozen and even cut, state and employer pensions and benefits reduced, earnings differentials with the highly compensated expanded, much wider use made of "zero hours" and more insecure employment arrangements.

While trade union leaders may point out the apparently hypocritical "say–do" gap on employee engagement and investing in people in a recession, the increasing employer emphasis on employee engagement through total rewards is, in fact, not difficult to comprehend in the current economy. As Scott Young, HR Business Partner and Engagement Manager at the United Kingdom's BIG Lottery Fund put it,[8] with a national public sector pay freeze in place for 3 years and now a 1% imposed ceiling on awards, employers need to focus on nonfinancial rewards to maintain employee engagement. "It's a very difficult environment at the moment," he explains, "we are restrained by what we can pay employees, so we have to focus on nonfinancial rewards."

Similarly, the Operating Framework of the National Health Service (NHS) for 2011/2012 states,

> With a two-year pay freeze applying from April 2011 . . . explaining the make up of pay and reward provides an opportunity for employers to strengthen staff engagement by helping staff maximise the value of their reward packages to their own and their employers' benefit.[9]

Yet, despite such efforts, at a macro national and international level, like the economy itself, employee engagement levels fell significantly after the 2008/2009 financial crash and are only now recovering to their prerecession levels. Aon Hewitt's engagement database covers more than 2,500 employers worldwide, with almost 4 million employees. The surveys include a set of core questions on six dimensions of engagement, including financial and nonfinancial rewards, and these are used to produce an overall engagement score in each organization, which can be aggregated and analyzed at the sector, country, regional and global levels. The pattern of overall engagement levels globally and by region is shown on Figure 1.[10]

Looking across the world, although lagging the financial crash in late 2008 and the beginning of the recovery, engagement levels on average fell significantly from 2009 to 2010 and have since been gradually rising, up 2% in 2011 to 60% in 2012. The largest engagement increase has been in Europe (improving 5 percentage points) and Latin America (improving 3%).

Globally, 4 out of 10 employees are not engaged, and 2 in every 10 are actively disengaged. ORC International's statistical analysis draws virtually identical conclusion, highlighting for example that "the UK job market has suffered extensively as a result of the financial crisis . . . this turbulence has carried over into engagement scores."[11]

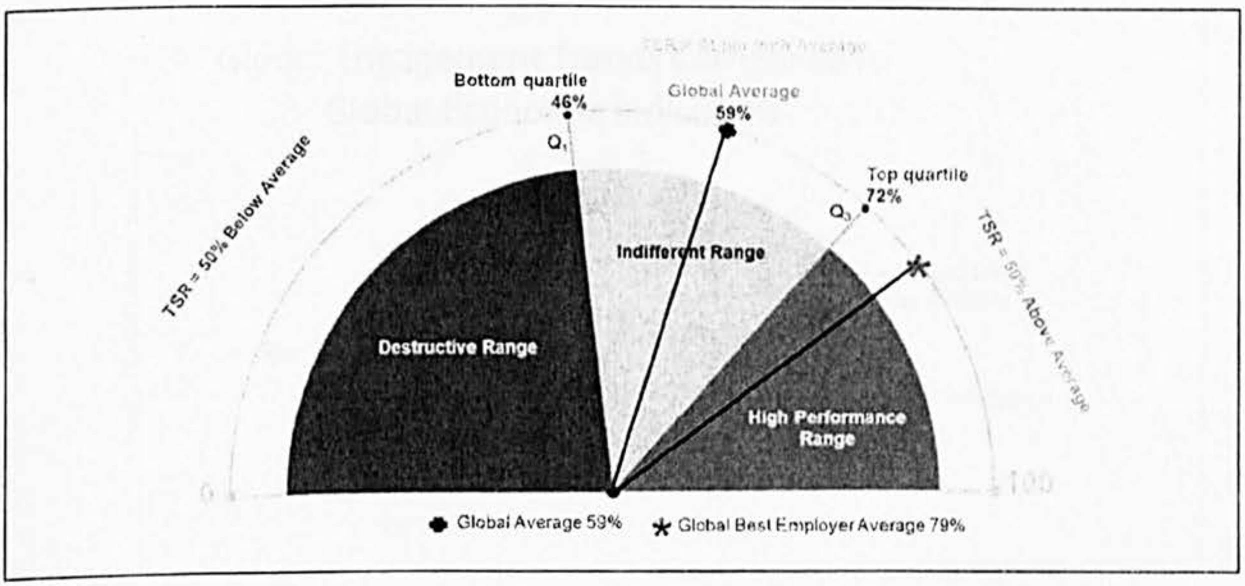

Figure 2. The highest performing employers (top quartile) are pulling away from the rest in terms of engagement levels and relative TSR.
Source. Aon Hewitt employee research database (rolling average 2008-2012).
Note. TSR = total shareholder return.

So what have we learned over the past 5 years about employee engagement, its relationship with performance and the influence it has on reward management? We would draw out in particular three key lessons.

Research and Define Engagement, Its Links With Performance and the Influence of Rewards, in Your Own Specific Setting

In our original article,[12] we outlined powerful evidence that employee engagement levels are indeed associated in many research studies with higher levels of corporate performance, a relationship that is integral to the very concept of engagement. The Institute for Employment Studies (IES) defines engagement as "a positive attitude held by the employee towards the organisation and its values" such that they "work with colleagues to improve performance"; while Aon Hewitt similarly views it as "the psychological and behavioural outcomes that lead to better employee performance." Given the variety of definitions of employee engagement it is important to emphasize that these two versions make clear the link between employee attitudes and behaviors and organizational outcome. The academic focus has tended to be on employee states of well-being and commitment that are independent of the organization—something that has much less utility for employers.

Over the intervening years, academic research on the linkages with performance has continued to accumulate and these studies are summarized well in the *Engaging for Success* report, with case study evidence from a wide range of organizations and a particularly welcome growth in public sector studies. For example, separate pieces of research amongst U.K. hospitals and local government authorities both highlight that staff advocacy and voice, an important dimension of engagement, are strongly associated with organization performance as assessed by regulators.[13,14]

Aon Hewitt's global summary would in fact suggest that during the economic downturn, the engagement "gap" between the highest performing public companies, in terms of their total shareholder returns (TSRs), and the average for lower performers has actually widened, with their engagement scores on average now 13% higher and a TSR premium of some 50%: see Figure 2.[15]

We also described in our original article that pay and reward policies in turn can be shown to positively influence engagement levels. But we pointed out that both of these relationships are much more complex and situation specific than much of the popular "pull reward lever 'A,' achieve employee engagement level 'B' and influence customer and business outcome 'C'" articles assume. We argue this generally requires more detailed investigation and cautious, tailored and sustained reward interventions to positively influence engagement and performance.

Research data and our experience in the years since first published have very much reinforced these initial conclusions. Firstly, we are convinced "'engagement" is

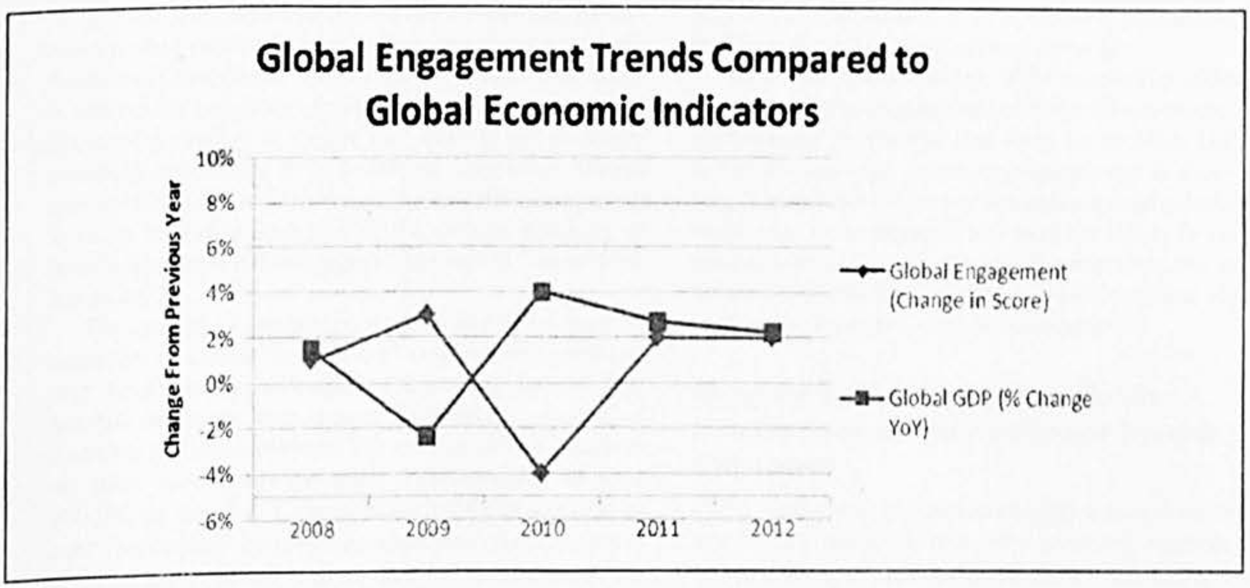

Figure 3. Employee engagement is a leading indicator of company growth—but lags economic trends.

a multidefined and multifaceted concept that needs to be clearly specified and measured by each employer for its own workforce, highlighting in particular the locus of engagement desired, that is to the organization, the job and work, the work team and colleagues and/or the customer.

In its most common usage, the term means more than intrinsic job satisfaction and employee motivation, involving a commitment by each individual employee to "go the extra mile" to perform and deliver on the organization's goals. But as Professor Paul Sparrow[16] points out, following his studies of major international companies including McDonalds, IBM and Nestle, it is an essentially individual concept that may not scale up to the whole workforce in every situation. As he says, this makes the obsession with benchmarking engagement and achieving "best company" status somewhat problematic, particularly if the concept varies in different settings. His argument suggests that organizations should concentrate on how levels of employee engagement change over time in their setting rather than worry about cross-organizational comparisons.

Second, the way in which employee engagement influences performance is similarly complex and multifaceted. The linkages are undoubtedly two-way and Aon Hewitt's global data suggest that engagement trends lag the patterns in GDP growth, raising the "chicken-and-egg" problem of which factor is driving which in the relationship: see Figure 3. It also shows that across all employers, unlike in the rest of the world, U.S. engagement levels in 2012 actually declined, despite the developing economic recovery there.

The engagement–performance relationship is often different outside of the direct face-to-face customer service setting in which the original Sears research identified the linkages and that was replicated by IES in the U.K. supermarket firm Sainsbury's. For example, as Scarborough and Elias point out,[17] the way in which an investment bank can leverage high performance from a few key "rainmakers" is very different from a major retailer with tens of thousands of customer-facing staff, such as Sears or the United Kingdom's John Lewis Partnership. This also suggests that the appropriate reward models can be quite different, with John Lewis operating a common profit-sharing scheme for all of its employees, with no distinct sales or executive incentives, while investment banks generally still retain distinct and highly leveraged incentive plans for their traders.

Sparrow goes further and questions if high engagement is even required for high performance in every organization setting, and for all jobs. Certainly some organizations have reported good performance without high levels of employee engagement. That reality may have grown during the recession where employees more fear job loss than a wish to engage. Moreover, the return to Taylorism in the standardization of work processes means that the scope for autonomy in many jobs is limited and even the scope for discretionary effort constrained.

Call center jobs spring immediately to mind to illustrate this point, with prescribed scripting of the customer interaction. In global companies generally, there has also been a drive toward increased uniformity so as to ensure that employees stick to their role definition. Part of the reason may be to do with efficiency—employees must follow the lean, prescribed route toward optimal performance—but standardization is also driven by risk minimization. Compliance with Sarbanes Oxley, Basel III or whatever the regulatory framework can make a required protocol a strategy to ensure that staff do not endanger company reputation. Even in HR the imposition of central work dictates is to be found: As one HR manager put it in an interview with one of the authors speaking of local operational HR colleagues, their task is "not to think but to do."[18]

The growth of temporary workers and even more so those on so-called "zero hours" employment contracts may be a further indication of this trend toward segmented employee engagement: high levels required of some but not all employees. The number of U.K. workers on these zero hours contracts has increased to over 200,000 in the past 3 years. Many of those working in such "precarious" employment situations do not expect to give, nor are expected to give, their full commitment. Yet the contract type does not always define the effort–reward deal. It was obvious looking back at the last major recession that temporary contacts were used more as a hedge against uncertainly than as a statement of performance expectations.[19] Indeed, there is evidence that fixed-term contractors at least showed higher levels of workplace commitment than those on permanent contracts, perhaps because the effort–reward bargain was more clear-cut.[20]

Marchington, Grimshaw, Rubery and Willmott[21] meanwhile have considered how some organizations comprising multiple employers, such as those involved in the operation of an airport or sports facility, can be managed to engage staff successfully behind a common goal of serving customers well.

The recession has also stimulated interest in how employee engagement can help prevent highly damaging performance, and the role of rewards in encouraging or preventing such behavior. The response of Prime Minister David Cameron to the findings of the Francis enquiry into the appalling levels of patient care at Mid-Staffordshire hospital was to suggest that it showed that quality of patient care should in the future influence the rewards of the nursing staff.[22]

This is despite the fact that management attention to narrow corporate performance targets was a significant factor in causing executives to neglect important areas, like (deteriorating) patient health outcomes, because they were not subject to scrutiny. Similarly, in 2008 the actions of certain highly-incentivized investment bankers boosted their short-term earnings but were highly damaging to their employer's long-term performance and contributed to the financial crash. That prompted regulatory reform on both sides of the Atlantic that focused on de-gearing incentive plans and tying rewards much more closely to behaviors and the display of core organization values.[23] Again, there is pressure to limit bankers' job autonomy if it ultimately risks organizational damage.

This better understanding of the complexity and diversity of employee engagement and how it links to employer performance means also that there are no silver bullets[24] for producing high employee engagement in every setting. We contend the mix of rewards required to influence employees to be engaged and perform highly in support of corporate goals will need to be comprehensive, multidimensional and flexible so as to match with and support varying business and cultural requirements.

Recognize It's the Total Rewards Bundle, Including Financial and Nonfinancial Rewards, That Counts

The reward–engagement relationship is also therefore far from straightforward, generally involving multiple factors and drivers, cash and noncash, and involving multidirectional influences. A total rewards approach seems essential.

Aon Hewitt's research on total rewards[25] suggests that higher performing companies in North America, with the highest levels of TSR, are significantly more likely to have declared total reward strategies than the remaining firms. The high performers are also more likely in the current still-difficult economic climate to be attempting to differentiate themselves on the nonfinancial rather than the financial dimensions of rewards: see Figure 4. Research from the Conference Board[26] meanwhile indicates that the pay levels required to attract new recruits are lower in organizations with an attractive and well-publicized total rewards package and brand. The Virgin brand is a good example in the United Kingdom.

There is still what we regard as a somewhat turgid, largely academic debate on the relative influence of financial and nonfinancial rewards in engaging staff. Yet it seems obvious to us from many research studies and consultancy assignments that aspects of both are needed, as part of the "bundle" of management practices required so as to fully engage a large and diverse workforce. And the role of pay and financial rewards should not be underestimated, particularly in the current economic climate.

Aon Hewitt's engagement database shows that pay has risen in relative importance during the economic recession to being the third most important explanatory driver of employee engagement levels globally and in Europe, where living standards in many of the countries have been under threat over the past 4 years from pay increase below increases in the of cost of living. In addition, our analyses show strong relationships between the key dimensions of pay that are assessed in our engagement surveys and the levels of engagement and performance.

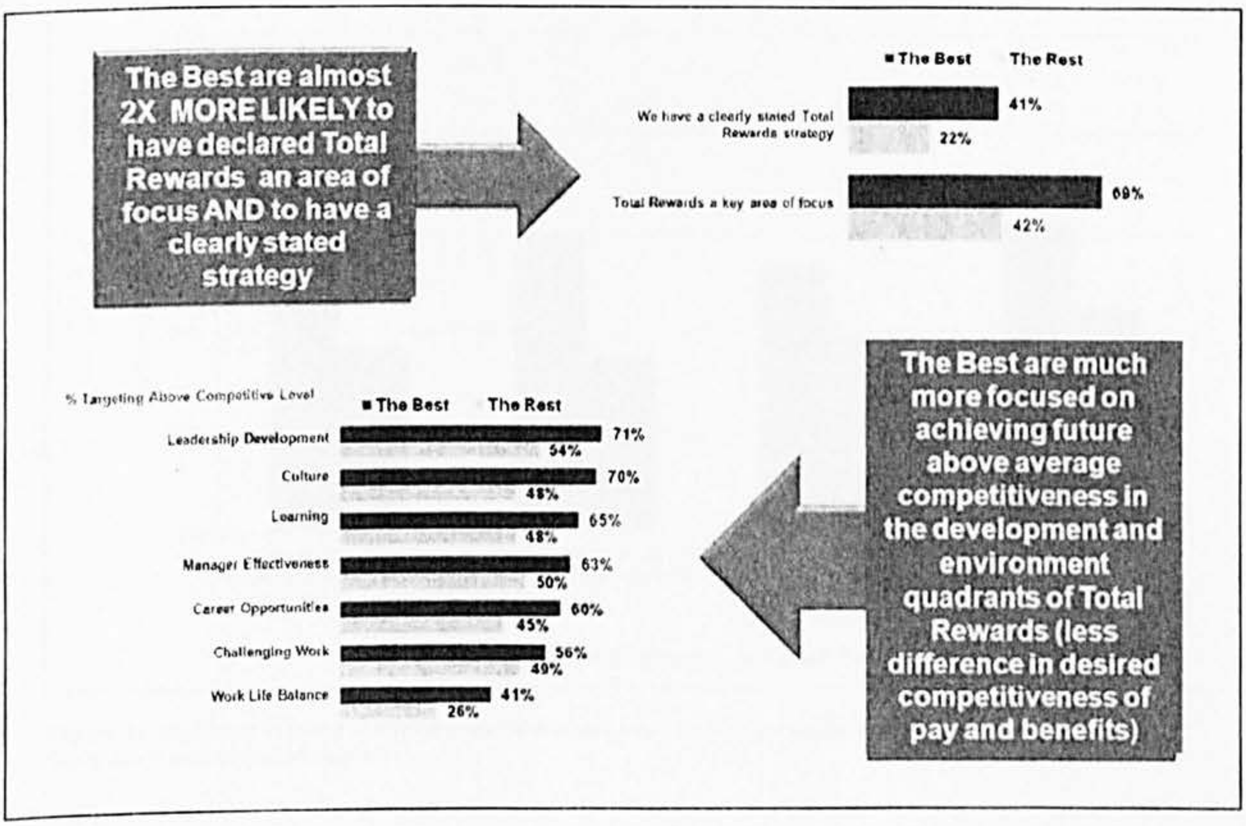

Figure 4. High-performing companies are more likely to articulate a total rewards strategy and differentiate themselves on nonfinancial rewards.
Source. Aon Hewitt 2012 Total Rewards Survey.

Figure 5 illustrates that in the best performing companies in our indices, employees have far better perceptions of the fairness and competitiveness of their rewards, as well as of the links between pay and performance and their perception of being recognized for their contributions.

Beneath these macro analyses, however, the importance and weighting on each aspect of rewards required to maximize the engagement levels of a workforce vary according to the organizational goals, culture, workforce mix and a host of other variables in each employer. This is consistent with wider research on the links between HR practices and performance, which finds that it is the total "bundle" of practices that is important in reinforcing performance rather than any one practice independently.[27]

For example, IES research in the NHS,[28] which has over 1 million employees, found that feeling valued and involved had the strongest impact on overall levels of employee engagement. Many aspects of HR management and the work experience influenced this, including pay and benefits, family friendliness and flexibility, quality of first-line management and perceived levels of teamwork and cooperation: see Figure 6. But the emphasis on each of these varied significantly according to the size and type of NHS employing institution.

As such, segmentation and choice of employment "deals" and the exact mix of rewards seem critical in many large, multifunctional and multinational employers; different employees will be fully engaged by different factors. In addition, these factors may vary as an employee ages. Moreover, different drivers and rewards may help in initially attracting and engaging employees from those that then sustain the engagement and enhance it over time.

Aon Hewitt's engagement research shows significant variations in the determinants of employee engagement by country, sector, function and types of job. In Figure 7 we show these variations by generation in the workforce. Although career opportunities and organizational reputation are the most important drivers for all generations, possibly enhanced by the difficult economic climate of recent years, below these we see some significant variations in factors and importance of them by age-group.

Unpublished, qualitative work carried out by IES in London that looks at local government backs this up. It

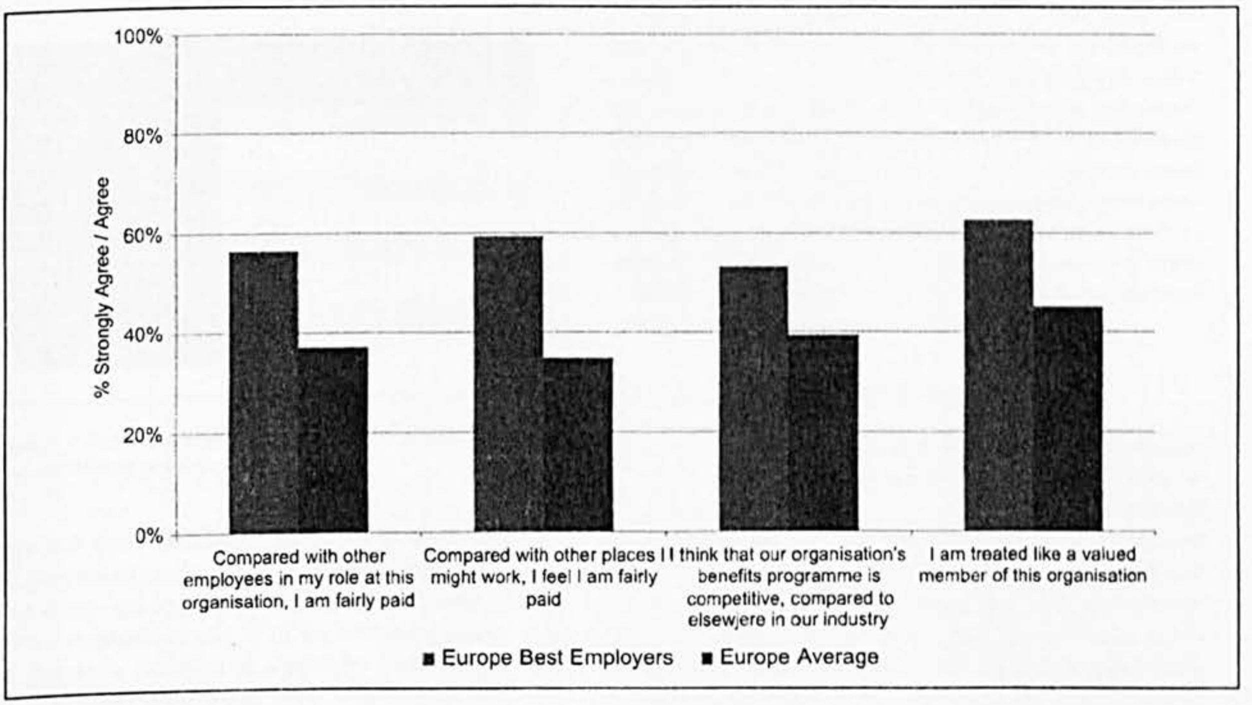

Figure 5. Employees in better performing companies have more positive perceptions of pay.
Source. Aon Hewitt benchmark database.

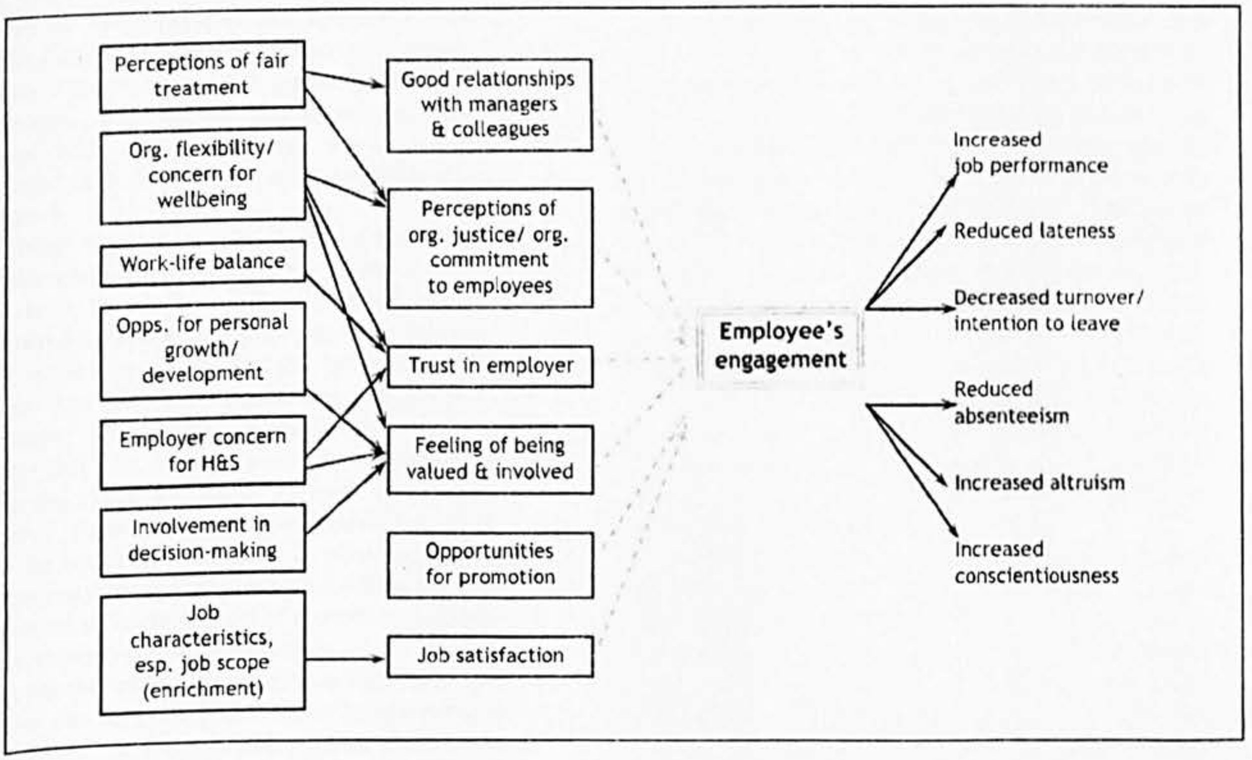

Figure 6. The wide range of influences on engagement found in Institute for Employment Studies' health sector research.
Source. Miller, L., Broughton, A., Tamkin, P., Regan, J., & Reilly, P. (2007). *Human resources, organisational development and workforce development in the NHS: A review of recent research.* Coventry, England: National Health Service Institute for Innovation and Improvement.

	2012 Global		
	Millennials	Generation X	Baby Boomers
Career Opportunities	1	1	1
Recognition	3	4	4
Organization Reputation	2	2	2
Communication	4		3
Managing Performance			
Pay	5		
Innovation		3	5
Work Processes		5	

Figure 7. Variations in engagement drivers by generation.
Source. Aon Hewitt global database.

shows that there are clear differences in what motivates staff, particularly accounted for by grade, but also by gender at lower grades. Thus, for example, female manual workers emphasized the fit of their working hours with their domestic situation as a primary goal, though they were also sensitive to wage rates with limited loyalty to their employer. The latter condition was also evident among many young professionals who put skills development and career enhancement on the top of their reward list. Middle-ranking and senior employees were more driven by the purpose of the organization, though this applied also to residents of the borough (cutting across all grades). The NHS research reported above also showed variations in employee engagement by occupational group with managers being more organizationally engaged than doctors and other professional staff: see Figure 8.

These findings on the reward–engagement–performance relationship reinforce the proponents of the "best fit" rather than universal "best practice" models of HR and reward management. That argues for tailoring the HR and reward approach to each particular organization rather than just following market practice and "sector convoys." But they also emphasize that the "fit" needs to be not just with strategic business requirements but also with the types and needs of each workforce and its makeup. Personal as well as organizational choice may also be important, therefore, in allowing employees to determine their own package. Individuals place different values on different aspects of rewards to each other, and these valuations change over time.

A number of research studies on flexible benefits have shown that they can positively influence employee perceptions of the financial and nonfinancial attractiveness of their reward package. Barber,[29] for example, found that the introduction of flexible rewards in a financial services company increased employee engagement levels.

Before the recession there was talk of the "mass customization" of rewards, especially benefits, to address the nature of these sorts of differences. The problem is that this a time-consuming exercise in both design and execution such that, with more limited funds, organizations have been less keen to get into this detail, happy to spend all their money on across-the-board increases. Some companies have even ignored performance disparities with so small a budget for increases.[30] The fact remains that many organizations still know and respond better to variations in customer needs than they do to employee needs.

Don't Just Survey, Take Action!

So the linkages between employee rewards and engagement are complex and multidimensional and should be analyzed and understood in each organizational context. One current issue is that organizations are so obsessed with benchmarking and comparing their employee engagement score on each dimension with their sector "norm" that they accept standardized survey instruments from their external provider. This limits the opportunity to explore their distinctive challenges and understanding of how the different workforce groups tick. Mindful of securing a decent response rate to a survey, there is a limit to the number of extra, organization-specific questions that can be asked.

This is especially true of reward questions, which are often so superficial as to be meaningless. Moreover, many organizations contract out all survey analysis to their provider, accepting standard reports that may not dig into important differences between employee groups in their attitudes to employment conditions and reward. Could organizations make use of structured focus groups or online crowd-sourcing techniques to obtain qualitative perceptions on the more complex and sensitive topics to supplement the survey results? For example, Unilever successfully used crowd sourcing to get feedback on their benefits for expatriate staff. Could organizations do more to integrate their various data elements (e.g., on absence, retention, customer satisfaction as well as employee engagement survey scores) to build a more comprehensive and nuanced picture of the dimensions of employee engagement and its organizational effects?

This though assumes that all organizations are indeed asking employees their views. The recession has seen some major corporations, unfortunately, postponing or cancelling their annual engagement surveys. This may be a matter of cost, but it is also because of fears of getting a negative response to recession-imposed change. We would argue this is precisely the time to test the organizational temperature and be prepared to respond to any symptoms of distress. We need to question if employers generally do more than take note of the answers and act

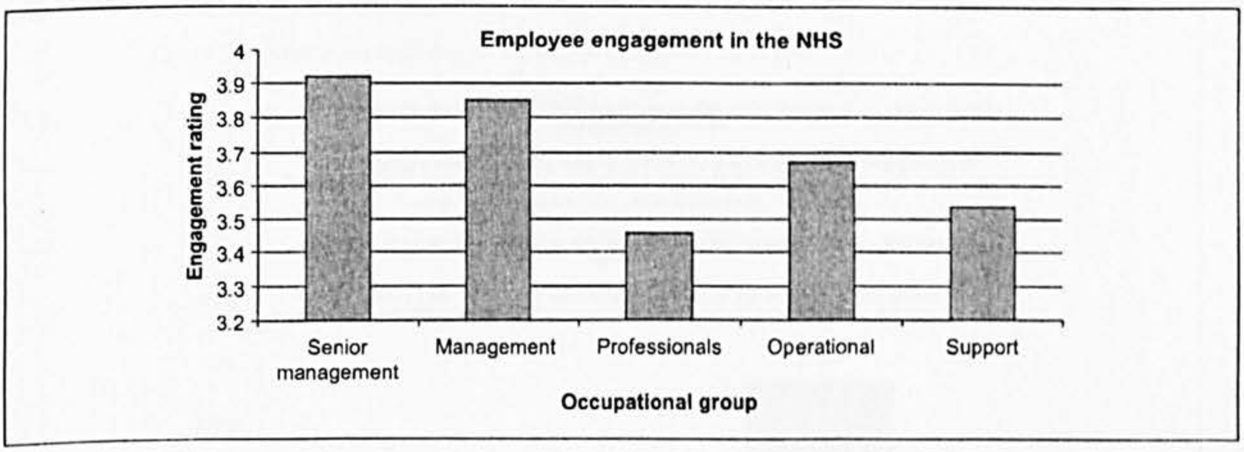

Figure 8. Engagement varies by occupational group.
Source. Robinson, D., Perryman, S., & Hayday, S. (2004). *The drivers of employee engagement* (IES Research Networks Report No. 408). Retrieved from http://www.employment-studies.co.uk/pubs/report.php?id=408

on the knowledge from engagement surveys, so as to design reward and other HR practices to take account of the learning from these surveys.

The case then needs to be made not just to survey employees and analyze the results, properly, but also to act on the results.

Recent evidence suggests that the economic downturn has definitely widened the "say–do" gap on employee engagement. Despite the already-referred-to evidence on the links between employee engagement and corporate performance, and also indications that those that act on engagement survey findings subsequently see increases in their employee engagement scores, Aon Hewitt's latest data[31] indicate that while more than 70% of employers report that they collect information on employee engagement levels, only one in five have concrete action plans designed to raise those scores.

In fact, we find that there is growing cynicism evident in employee focus groups that engagement survey findings will be acted on, and our survey results show that in the United Kingdom, in firms with higher engagement scores there is more confidence that action will be taken to address identified problems and issues, reward and otherwise: see Figure 9.

Again the tough economic situation for employers as well as employees may have something to do with this. Aon Hewitt's Ken Oehler comments, "While some aspects of the work experience have improved in North America, the overall drop in engagement levels could indicate that companies have not been sufficiently investing in talent" and in the careers and development opportunities of their employees.

And a similar "say–do" gap is identifiable in terms of total rewards approaches, initiatives and investments. Aon Hewitt's Total Rewards Survey[32] found that 88% of the over 700 U.S. employers included in the study regarded aligning total rewards with business strategy as a critical priority. However, 75% of them did not have a total rewards strategy, only 29% have reliable data on the reward preferences of key employee groups and just 10% use total rewards in practice as an effective differentiator.

These data should be seen against a background where employee cynicism extends beyond doubts that engagement survey results will be used to change policy. Tahmincioglu,[33] for example, contends that nonfinancial recognition (or total reward) schemes can appear to employees to be empty attempts to appease them when promoted in a period of low pay increases, downsizing and restructuring. Such approaches can potentially backfire, causing more demotivation than motivation.

As we highlighted in our original article, employers can follow a four-step model (see Figure 10) toward taking actions that can use their rewards policies to more effectively leverage employee engagement and performance:

1. Examine the business strategy and organization culture of the firm, looking at the gaps between business requirements and existing employee characteristics, including levels of engagement.
2. Construct an engagement model for your organization that is reflective of the different "deals" across the workforce and how rewards affect engagement.
3. Design and amend reward programs to leverage these different aspects of engagement for the various staff groupings.
4. Implement and monitor the effects of rewards on engagement and adjust and adapt as required over time.

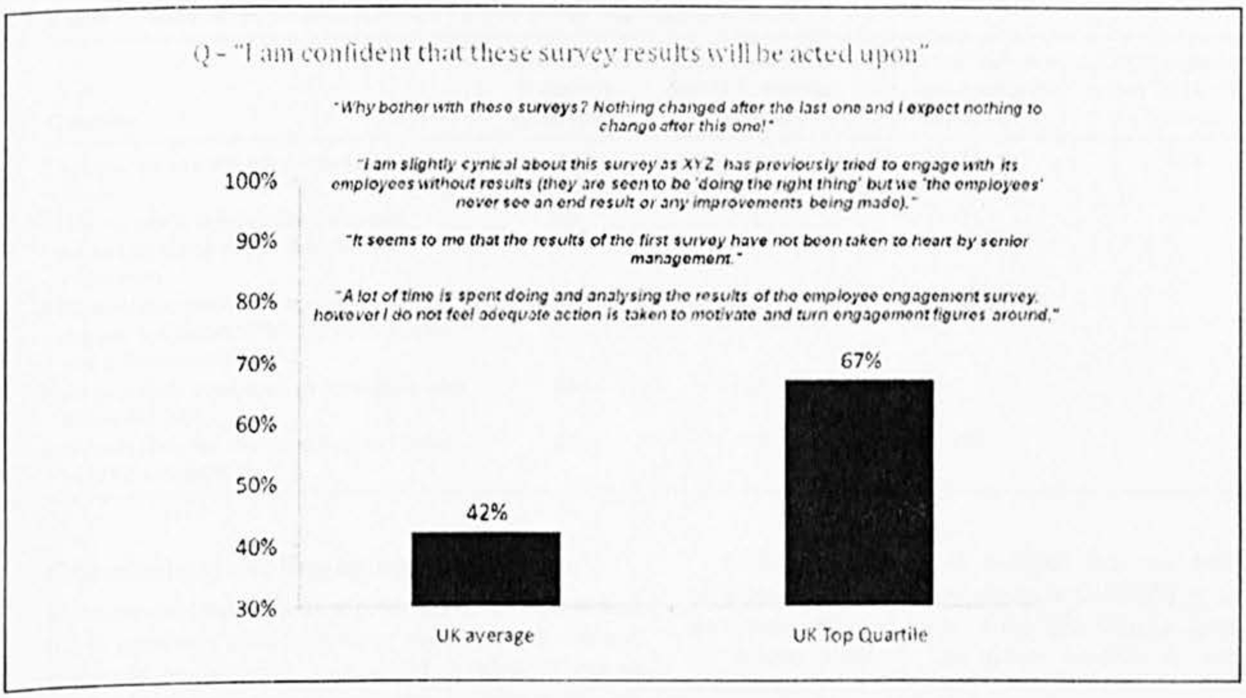

Figure 9. Employees in companies with higher engagement scores are more likely to believe that survey results will be acted on.

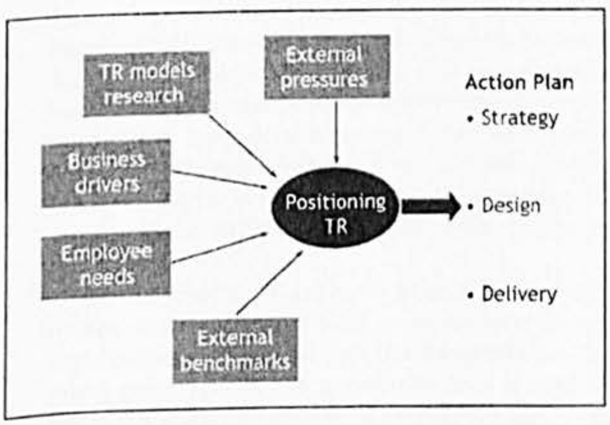

Figure 10. A total rewards approach to successfully engaging employees requires a clearly articulated strategy and action/delivery plan.

Acting on Engagement and Rewards: A Brief Example

A major U.K. financial services organization has recently been undertaking a major review of its reward strategy, driven by the intense economic and regulatory pressures of the past 4 years. Customer service is now a key strategic priority going forward and the executives truly believe the research evidence that engaged employees deliver better customer service and higher financial returns. But how to use the bank's pay and rewards so as to best reinforce those levels of engagement to drive higher performance?

The bank's most recent annual employee engagement survey in fact revealed a shortfall of some 15% against U.K. market norms. But the generic nature of the questions in the survey meant that little could be deduced in terms of the effects of pay and rewards on engagement. They therefore conducted a more tailored mini survey of a sample of more than 6,000 of the bank's employees, accompanied by focus groups with different grades and functions involving several hundreds. Some of the survey results are shown on Table 1.

The survey highlighted that the bank's spending for rewards was not being fully optimized from the perspective of employee engagement. Only a third of employees had a positive perception of their rewards, despite the provision of a generally market competitive package, with particular weaknesses in the perceptions of the links between performance and rewards. And only 16% agreed that the package was sufficiently compelling to attract and retain key talent.

As a result, the bank is now undertaking a major program of reforms including greater consistency in the design of the pay structure, improved and more differentiated rewards for high-performing and high-potential staff and a restructuring of the benefits package, as well as a major initiative on rewards communications.

Table 1. Some of the Findings From the Reward Survey in a Major U.K. Bank.

Question	Reward survey, % strongly agree/agree	Difference from Aon U.K. average, % points	Difference from Aon U.K. best employers, % points	XYZ's engagement survey 2012 results, % points
I believe my pay and job performance are linked.	31	−5	−18	−23
I feel my pay is competitive compared to people doing similar jobs in other companies.	25	−15	−21	−16
I receive appropriate recognition (beyond my pay and benefits) for my contribution and achievements.	29	−8	−21	
I am paid fairly compared to colleagues who do similar jobs.	26	−10		
I am paid fairly for the contribution I make to XYZ's success.	25	−15	−28	

Conclusions on Engaging Rewards

Rewards and total rewards approaches have major potential to positively affect employee engagement levels and corporate performance, in a world in which 4 out of every 10 employees are not engaged. To achieve this, we need to rapidly abandon a simplistic and universal concept of employee engagement and superficial analysis focused on survey completion rates and externally benchmarked scores. Employee data need to be carefully analyzed to understand the nature of engagement and how it influences performance in different employer settings. Often more detailed research will be required on the reward aspects which often are not well covered in general surveys, as in our case study illustrations. Often there will be different employee deals in the same employer.

So the reward packages to help maximize performance and engagement need to be necessarily varied, multifaceted and flexible too. But the good news is that many employers fail to understand how reward influences the engagement of their employees and how this drives better organizational performance. So there is major potential to get grounded understanding of these linkages and especially of how total rewards practices affect employee engagement and hence performance. There is a real opportunity to produce distinctive and segmented employee value propositions that attract, retain and motivate various groups of staff. Rather than simply following the sectoral convoy[34] to produce a "vanilla" reward offering, organizations can mark themselves out in a crowded labor market as Ed Lawler urged so many years ago.[35] As he said back then, "In order to be effective, a pay system must impact perceptions and beliefs in ways that produce the desired organisational behaviours." The objective has remained the same, but we still struggle to meet it.

While the amount of research into the linkages between rewards and engagement is thankfully growing, we would highlight some of the following as questions for further research and future practice to explore profitably:

- Does a highly automated, low-skill job organization model actually engage employees to perform highly? Traditional motivation research says autonomy is a key factor, yet McDonalds, for example, has very high engagement levels, reinforced by distinctive rewards—see case study.
- Does paying a living wage, above the national minimum wage pay off in terms of added engagement and performance, in return for the additional costs?
- How much do the economic context and state of the labor market affect levels of employee engagement and perceptions of the different elements of reward?
- Despite the need for tailoring, are there universal engagement truths, for example, bundles of people management practices, the importance of leadership and quality of good local management, and so on.
- Are flex packages generally engaging, especially over the longer term?
- How do individual and collective rewards vary in terms of their impact on engagement and performance—for example, are high individual incentives a replacement for more broad-based engagement?
- How does increasing pay dispersion within companies affect workforce employee engagement?
- How do you effectively communicate a total reward approach in a way that avoids a cynical response that it is no more than a gimmick to justify low pay awards?

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Article

The Future of Reward Management: From Total Reward Strategies to Smart Rewards

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Abstract
The author argues that the terminology and concept of "total rewards" is become increasingly meaningless and outdated in our postrecessionary economy of austerity and inequality. Its generic and unthinking application in uniform flexible benefits packages risks isolating the rewards profession into an administrative backwater. Instead he argues for a new approach that he provocatively titles "smart rewards," following recent thinking and writing in economic and foreign policy on both sides of the Atlantic. He discerns four components of this emerging reward management approach: a simpler and clearer focus on a few core values and principles, a stronger basis in evidence and measurement, more emphasis on employee engagement through rewards and improved and more open communications and line management of reward. Brown concludes that adapting and tailoring this type of approach is much more likely to create the genuinely business-enhancing and employee-engaging reward practices in our contemporary context that reward professionals and their policies aspire to.

Keywords
total rewards, reward management, flexible benefits, HR profession

Total Rewards? The Rhetoric: Reality Gap

The renowned economist J. K. Galbraith said that there are two kinds of forecasters: those who don't know and those who don't know they don't know.

This journal's recent omnibus article on the future of reward management really got me thinking about where the reward profession has got to and where we are heading. Thirty years' working in the rewards' field makes me very wary of predicting future events and fully cognisant of how bad we are at learning from history. Twenty years ago we were all writing the obituaries of centralised, control-oriented job evaluation systems and pay structures and expensive fixed benefits, with the future in "clean cash" and full total rewards flexibility. Yet all of these features of the rewards landscape are alive and thriving across most of Europe today.

And in mid-2008 we were all writing about total rewards packages and "Best Places to Work," and none of us foresaw the 5 years of real pay cuts that the majority of employees in the United Kingdom and much of Europe have suffered from, and the major growth to over 5 million employees in the United Kingdom who don't earn a Living Wage. The lowest 20% of U.K. earners have seen a 25% decline in their living standards since 2008, and people aged in their 20s more than 10%.

Ever since Ed Lawler's *Strategic Pay*, reward professionals have become increasingly focused on the concept of total reward strategy, seeking influence in the boardroom by integrating all aspects of rewards in alignment with business goals and reinforcing their delivery. Yet in practice we appear to have been becoming increasingly isolated and divorced in our organisations. A recent Institute for Employment Studies study[1] of the HR function refers to "bogged-down HR" "stuck in administrative and cost-reduction-focused, routine processes, seen as inefficient and powerless," out of touch with employees and ignored by managers.

Professor Stephen Bevan at Lancaster University believes this HR "rhetoric–reality" gap is widest in the rewards field.[2] Fewer than half of U.K. employers actually have a defined total rewards strategy according to the annual rewards survey from the CIPD (Chartered Institute of Personnel and Development),[3] and in my experience policies are often based on copying rather than differentiating yourself from competitors. Even if you have a total rewards strategy in theory, 9 out of 10 firms feel their

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rewards are not well implemented and operated in practice.[4] As Bevan puts it, "They simply don't work."

Only one third of employers operate a flexible benefits plan according to Aon Hewitt's U.K. study,[5] and even the majority of these feel that the different aspects of rewards are not well implemented and communicated, with only 15% using total rewards statements, for example.

Employee engagement levels plunged after 2008,[6] and mention "total rewards" in any employee focus group and the response is "what: rewards?!" Ask about performance management and the response is "I can't work any harder!' Indeed organisations such as Microsoft and Flickr are abandoning that cornerstone of HR best practice, the all-singing, all-dancing performance management process. A major charity I work with specifically rejected the "total rewards" nomenclature recently as out of keeping with the times and their work interest–focused employee offer. They refer instead to their employment principles and policies. More traditional or more effective?

Employers in the United Kingdom and United States have witnessed and promoted increasing inequality in their workforces, with a small cadre of "totally rewarded" senior, male and over 40-year-olds with valuable pension plans and executive incentives—the "haves"—contrasting with the declining real rewards of the low-earning/low-saving, struggling-with-debt majority of their female and younger workers.

Employers have clung to the rhetoric of total reward strategies, claiming for the past two decades to be replacing inflexible, paternalistic, fixed-cost–focused rewards with attractive business and employee-driven, flexible packages. In reality, many were simply following market practice and, in the United Kingdom, looking for tax and national insurance contribution savings in areas such as pension contributions and child care provision.

During the post-2008 recessionary period, while the attractive total rewards language has remained on company recruitment sites and intranets, 40% of U.K. employers froze pay in 2009/2010, and many since then have been reducing employee pension benefits and increasing employee contributions, as well as placing increasing numbers of staff on significantly inferior "zero hours" contracts, driven by a cost control and risk, rather than a people-oriented, agenda.

From Total Rewards to Smart Rewards

So what does the future hold for reward management? We seem to have reached a critical "fork in the road," with continuing retreat into a modern version of our historic pay administration backwater quite possible. But in our now heavily knowledge and service– and human capital–driven economies, there is still the potential for major strategic impact. Which way will it turn out and how can we achieve the latter trajectory?

In her new autobiography *Hard Choice*,[7] Hilary Clinton talks about the need in our increasingly complex, fast-changing and unpredictable world to abandon the Manichean, inflexible and ideology-driven policies of her predecessors. We need to adopt what she calls "smart power": an approach rooted in clear and concise core values and strong personal relationships, but multifaceted, data-rich and evidence-based, combining skills, knowledge and information from "economic, military, political, legal and cultural" spheres to craft flexible and adaptable, realistic and effective foreign policy.

In economic policy, academics Mazzucato and Perez[8] lambast politicians for their lack of ambition and excessive cost focus. They call for government "policy direction that is smart and inclusive," promoting an innovation-focused collaboration and sharing-based economy with major proactive state investments in people and education.

And so in rewards management, we need to move from the generic, long-winded and inflexible, low-investment, total rewards strategic rhetoric, with its plain vanilla, "chocolate box" flexible benefits plans to what I term *smart rewards*. I would characterise this approach as comprising four key components.

A Simpler, Clearer and More Flexible Focus on a Few Core Values and Reward Principles

Any decent reward strategy should be able to display a clear "pathway" from business goals, through people needs and strategy to reward policies and practices.

Alessandro di Fiore's[9] claim that "all great strategies can be summarised in a 15 word headline" may be an extreme one. But Jeff Bezos's famous employment strategy at Amazon that people were there to "have fun, work hard and make history" is surely the aspirational benchmark in terms of brevity, clarity and employee engagement that we should all be aiming for with our rewards. And rooting the approach in values is critical, to put both corporate values and reward management strategies into practice.

One employer I have been working with has done a great job in integrating their employee recognition programmes and focus them on their five core values, so that outstanding customer service for example really is recognised and rewarded. Correspondingly, in another retailer, one employee who won an employee of the year customer service award was awarded only a mid-level "satisfactory" performance rating in her annual appraisal review.

More fundamentally, a technology company with a workforce with an average age of 36 years and average earnings of £28,000 now clearly states in its employment principles: "All our employees matter—their lives with us and after working with us." The principle is practiced with generous and common core benefits' provision for all employees, irrespective of status, including private medical and life insurance cover and income protection for all. Benefits and choices in them have to be valued and valuable to employees, as well as efficient for the employer.

With a clear foundation in values and principles, employers can be more flexible and responsive in how they deliver those principles into practice. An educational institution I worked with adopted a principle of rewarding contribution but found that many staff distrusted their underdeveloped performance management process. Rather than push on regardless with a merit pay proposal, they focused instead on improving the quality of the performance dialogue and designed an all-staff bonus to reinforce the delivery of the institution's key strategic goals.

Less Leap of Faith and More Evidence-Based With Clear Measures of Success

Our research project on this issue[10] found most companies claiming to do some evaluation of reward effectiveness, but by far the commonest method used was external market benchmarking, that is, copying. Less than a third had clear assessment metrics in place, and even fewer undertook any systematic cost: benefit or risk analysis when changing their reward practices. The reported reasons for failing to do so included lack of time, lack of senior management interest and lack of the requisite skills in HR and reward functions.

But the tide does appear to be turning on this, at least if my consulting workload is anything to go by. The publicity surrounding "big data" has highlighted that whereas in the past the problems with reward evaluation may have been lack of data, now the problem may be too much and sitting in different places—pay information with an outsourced payroll supplier, cost information in finance, customer information in marketing, engagement data in communications and so on. Now HR functions are recognising the need to integrate this data and produce meaningful information from it in support of improved performance and rewards management.

A company I was working with had a reward principle of pay for performance. Yet fewer than half of their employees had any opportunity to increase their pay based on their personal or collective performance. A leading U.K. bank on the other hand has specified the measures of delivering on that principle, which their board is regularly updated on, including the following:the level of differentiation in rewards for top, effective and below-par employees; the proportion of pay linked to customer service ratings; employee perceptions of these linkages and so on.

We also need to be much effective using financial data, showing the costs and benefits of reward changes, the major risks and how they are being managed. In a recent equal pay audit for one client, I was able to highlight the legislative and substantial financial risks resulting from the gender pay gap that our analysis highlighted, with potential claims running into many millions of pounds. An increasing movement of senior personnel from an accounting and finance background into senior compensation and reward roles may be helping to address the historic skills gap in this area.

A Stronger Emphasis on Engaging All Employees

Meeting employee needs with rewards, not just being "top-down" business- and costs-driven and boardroom/executive-focused, seems a fairly obvious requirement, yet one that has been seriously underrepresented in many employers and cost- and board-focused reward functions in recent years.

Engagement data and what employees think of their rewards should be a key performance metric for any employer. Just a third of European employees, for example, currently feel that their pay is fair, a major driver of employee disengagement.[11]

The best employers are mining their engagement data to identify the various generational and motivational groupings in their workforce. This is helping ensure that employees can easily select a package from the wide choice available that best meets their personal needs and stage in their lives, ensuring maximum take-up combined with efficient flex plan operation and running costs.

For a U.K. local authority, for example, we analysed variations in the drivers of engagement for different staff groups and found some significant differences in the emphasis on, for example, financial and nonfinancial rewards between males and females and in different grades. No wonder that their fixed rewards package with almost no choice was failing to address the needs of significant parts of their workforce. Another financial services client now varies the timing and contents of their flexible benefits communications to suit the age and interests of various key categories of their workforce.

We also need to be working harder to invest so as to improve those employee perceptions and thereby corporate performance. The research record on skills and competency-based pay progression is a good one, for example, with the business returns exceeding the progression costs. Shaw, Gupta, Mitra, and Ledford's[12] review of *The Success and Survival of Skills-Based Pay Plans* finds such plans are associated with higher work flexibility and productivity, though realising these benefits depends, crucially, on the design and implementation processes adopted by HR and reward professionals.

A research study by Atkinson, Crozier, and Lucas[13] at Manchester Metropolitan University showed that social and elderly care establishments offering skills development and higher pay provided better quality care. So even in this very cost-competitive sector, employers do have a choice over their pay and employment policies. Yet for many reward professionals pay freezes or minimal increases are still seen to be their career-enhancing strategy, despite the often catastrophic effects on employee engagement.

TSB, a new "challenger" bank in the United Kingdom that has just been spun out from Lloyds Banking Group, "promises modest bonuses" and "a John Lewis approach," one newspaper declared, with all-staff bonuses of up to 15% based on customer service performance. The bank's chief executive Paul Pester will admittedly be surviving on a package of up to £1.68 million. But his earnings will be no more than 65 times that of the staff who serve us in the bank's branches, well below the U.K. average, and his bonus will be capped at 100% of pay, half the level of some of his rivals.

Less Focus on Desire and Design, More Emphasis on Communications and Delivery

Our pay and rewards methods have been getting more and more complex over the past two decades, yet there are fewer HR and middle managers in our leaner organisations to help communicate them and ensure they are implemented and operated effectively. Despite the explosion in cheaper and more effective communications technology, in many organisations pay has become more opaque and pay processes less well understood and trusted, with more firms consulting with external advisers in developing reward changes than actually speaking to their employees.[14]

There is therefore a widening gap of almost 30% in positive perceptions of pay and benefits between those employers with the highest levels of employee engagement and the European average.[15] The majority of the organisations that Aon Hewitt surveyed communicate with their employees about reward only once a year and just one third regard this as part of their wider engagement and talent management strategies. This is despite the fact that employee perceptions of the quality and openness of internal communications has a very high .92 correlation with overall employee engagement levels.

This also hardly suggests a wholehearted commitment to openness. The Equality and Human Rights Commission's research[16] suggests that U.K. employers have become less open in recent years on reward communications, fostering ignorance and potential perceptions of unfairness. The Equality and Human Rights Commission believes that greater openness on rewards is associated with a stronger employer brand and improved staff engagement.

The smart organisations are fully engaging their line managers with their rewards and any changes to them, rather than using technology to try and bypass them. In one drinks company, for example, any revisions to pay and benefits practices are presented to a representative management panel before they even get off the drawing board, to ensure that the proposed benefits will exceed the costs and to receive advice on the best means of implementation.

In a fast-food company, the senior management team try out personally any changes planned that will affect the stores, for anything ranging from a new piece of kitchen equipment to a new appraisal process. The appraisal process by the way has been massively simplified as a result.

The smart reward functions also recognise that transparency is inescapable in our modern society. They map out their reward plans as a change management exercise and have detailed marketing communications strategies, defining the media and core messages for each stakeholder audience and phasing implementation appropriately. They are even embracing the HR-feared social media to get their message across. The traditional overwhelming emphasis on education in reward communications ("We know what's good for you") is now being replaced with a more balanced approach that aims to make it easy for employees to engage with and understand their rewards and facilitate them to take action, so as to maximise the value of the package for their own needs.

The technology company referenced above, for example, offers personal financial modelling and financial advice for all employees, not just executives. As well as face-to-face employee presentations, still the preferred reward communications vehicle of choice for employees of all ages, the company also uses gaming and social media to promote awareness and effective flexible benefits decisions and choices by its employees.

Moving to Smarter Reward Management

While I was researching for my last book on strategic reward effectiveness, an HR director told me, "The reward strategies I like are the ones that work."

Whatever we call it, I have argued that the unthinking overuse of the concept of total rewards in our contemporary context can be damaging to the employment and reward brand of employers and reward professionals. What I have termed a *smart rewards* approach needs to be applied. It is simpler and clearer, evidence-based, more practical, more realistic and more engaging and open than the total reward strategies of old. I am sure readers will have their own ideas on other reward elements it might comprise that they are seeing emerging in our postrecessionary but still cost-constrained contemporary environment.

But this I would argue is a more genuinely strategic and viable route to influence and effectiveness for reward professionals and one that is more likely to differentiate your organisation and enable you to practice your policy objectives of genuinely business-enhancing and employee-engaging rewards.

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