

Linking pay and benefits to employee engagement in a powerful reward strategy:



- Are total rewards and engagement useful?
- Do they really impact on performance?
- Why is it hard/how can we leverage the links?

Dr Duncan Brown

February 26th 2010



About IES

- Leading independent centre of research and consultancy in employment policy and HR practice
- Not for profit, established in 1969
- c50 multidisciplinary staff

The IES HR Network:

- Organisational membership
- Collaborative research
- Conferences and seminars
- Networking



Recent projects

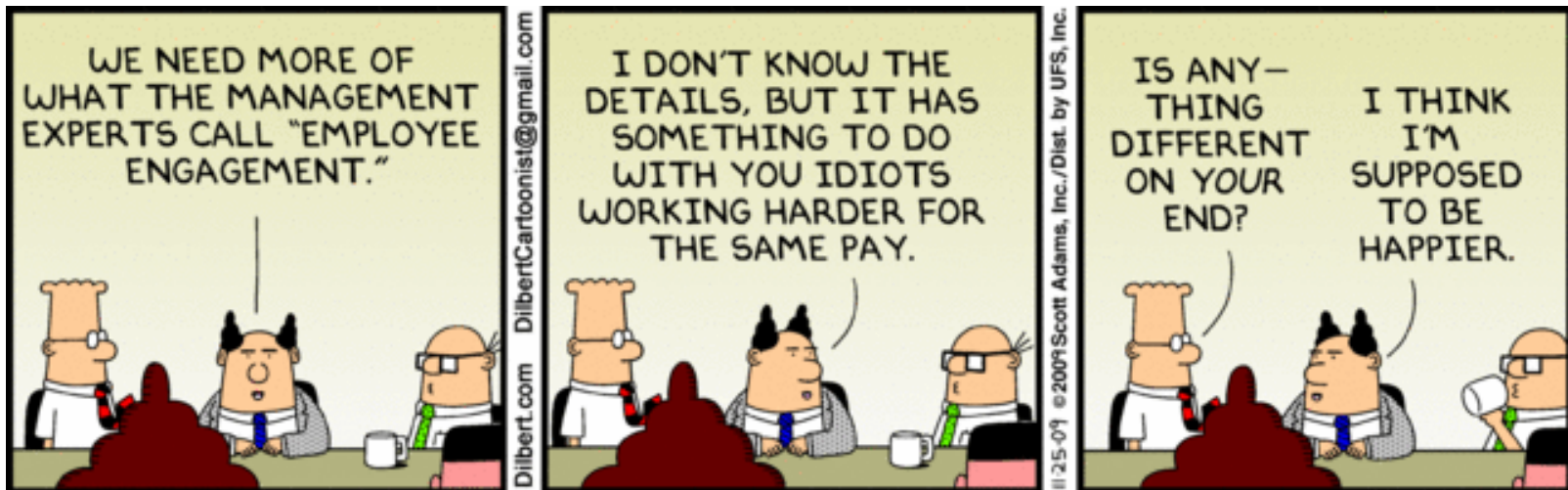
- Researching pay and skills progression for low paid workers
- Evaluating the success of the government's apprenticeship growth programme
- Surveying the career intentions of university leavers
- Researching gig economy workers
- HR strategy for a large transport company
- Researching HR strategies
- Talent strategy for a college of London University
- Reward strategies for judges and doctors
- Gender pay audits and gap closure



‘ When practitioners and academics discuss work motivation they tend to refer to different meanings of the term, ranging from being motivated by something (motivators), the actual feeling of being motivated (engagement), to the effort employees put into their work(motivated behavior).

This confusion is heightened by the fact that the term engagement itself is often not properly defined (Macey & Schneider, 2008). As a result, practitioners are left to wonder about the difference between engagement and motivation and the value of measuring either or both in applied settings’.

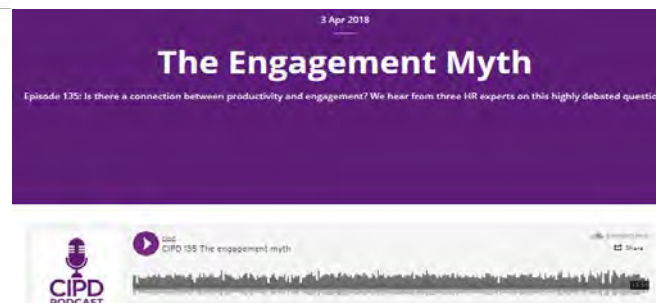
Inceoglu and Fleck, 2012



EXECUTIVE FORUM

EMPLOYEE ENGAGEMENT: BEYOND THE FAD AND INTO THE EXECUTIVE SUITE

Theresa M. Welbourne



“Talk of generations and their unique characteristics is mostly guff’ FT, 27.4.18

My story today

- Engagement (415m hits) and total rewards (384m) the 'HR fads of the (last) decade': huge amount of research and practitioner work on them
- But ...
 - Recession
 - Decade of Austerity on pay and pensions
 - 'Death of the engagement survey', pulse surveys, employment brands, Millennial initiatives
 - Academic research conceptual and empirical criticism 'well-washing'
- Engagement levels flatlining at best eg first national decline in engagement scores in the NHS
- Stereotypes based on age: little support from research
- UK has a serious productivity problem, up to half of which seems down to 'intangible' factors (Van Reenan 2015)
 - 'Scares the hell out of me' Peter Cheese, CIPD
- Evidence in many settings of linkages with performance outcomes – Sears (Rucci et al, 1998), retailer (Barber, 1999), NHS (West, 2004)
- Considerable number of studies showing links with HPW/HR/TR practices (Combs et al. 2006)
- So why is it so hard?

Changing context: Up to 2009.....

- We all introduced employee engagement surveys
- And we all entered 'Best Places to Work' and similar contests
- And we all wanted to have cool workplaces like Google: 'meeting the demands of Gen Y should be HR's target' – Seidl, 2008
- And we measured such vital stats as engagement survey completions rates
- And pay was increasing at reasonable rates, not just at the top

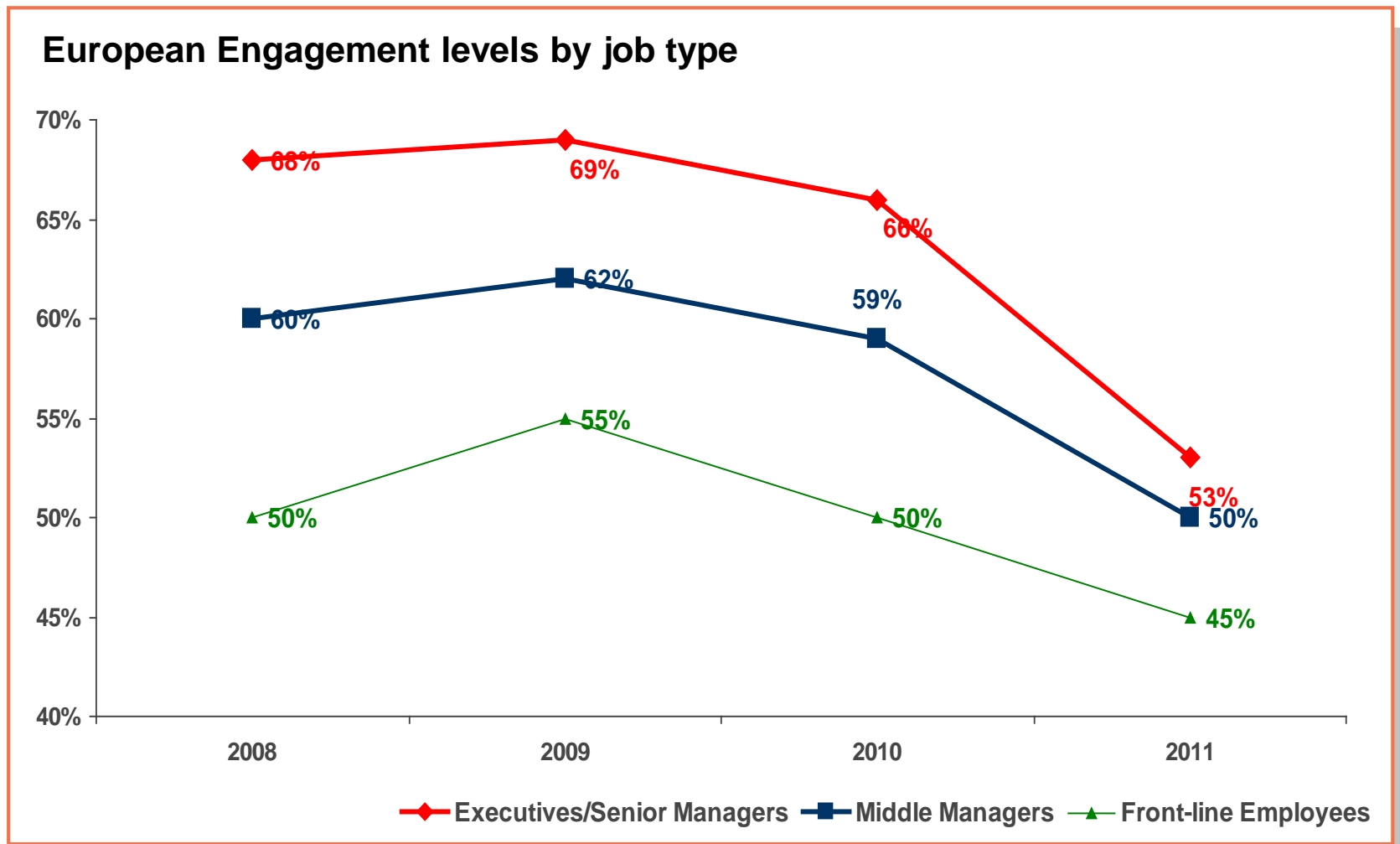


100 Best Places to Work		
Rank 2012	Company	Rank 2011
1	Google	4
2	Boston Consulting Group	2
3	SAS Institute	1
4	Wegmans Food Markets	3
5	Edward Jones	11
6	NetApp	5
7	Camden Property Trust	7
8	Recreational Equipment (REI)	9
9	CHG Healthcare Services	27
10	Quicken Loans	29

Engaging for Success:

enhancing performance
through employee engagement

Then...



Source: Aon Hewitt's Global Employee Engagement Database

Engagement and total rewards- the say: do gap

What they said:

'great place to work!'

'total rewards!!'

'flexible reward!!'

'great package'

What they did:

- Total rewards = flexible benefits
- Generic packages badly communicated, low take up, expensive admin
- Primarily introduced to:
 - -Save NIC
 - -Follow market practice
 - -Cut real pay and benefits

Wellbeing or 'well-washing'? (Clarke, 2018)

'Mantras and meditation do not remove the stress of long hours and lay-offs'

<https://www.ft.com/content/7ef4e4ba-432e-11e8-803a-295c97e6fd0b>

<https://www.employment-studies.co.uk/resource/future-reward-management>



GREAT
PLACE
TO
WORK®



The UK Context Now: - a Totally Rewarding Experience?

Harvard
Business
Review

GENERATIONAL ISSUES

Motivating Millennials Takes More than Flexible Work Policies

by Tracy Beeson

FEBRUARY 11, 2016

Wednesday 7 June 2017 12:01am

From an office sauna to paid puppy leave:
Here are the UK's best employee perks for
2017

News > UK > UK Politics

Theresa May's 'arbitrary' visa scheme denies entry to thousands of foreign doctors, engineers and scientists with UK job offers

Cap leaves 'employers frustrated and the public poorly served', experts say

Tom Embury-Dennis | @tomemburyd | 6 days ago | 208 comments

- Record numbers in employment – unemployment 4%
- Serious skill shortages (75%, CIPD, 2019) with record numbers employed, Brexit worries, etc
- Intense cost pressures, cuts in training and benefits, more flexible employment models, zero hours, contracting out, etc
- Majority of UK employees have had negative real earnings growth since 2008; but earnings growth now picking up, 3.3%
- Generation 'Y' and 'Z' looking for a different 'deal' eg more choice, yet young people worst hit by cutbacks
- Increasing legislation eg gender and ethnicity pay reporting, NLW, Apprentice levy, Taylor Review/gig economy
- Why the sudden interest in financial wellbeing and mental ill health?



Nine in 10 UK employers struggling to find skilled workers with Brexit set to make shortage worse, survey finds

Two thirds think EU departure will exacerbate problem of finding the right staff - which could have 'disastrous' impact on economy, says City and Guilds



BMW workers to stage first UK strikes over pensions

© 5 April 2017 | Business



Financial Wellbeing?!

Effects of money worries

How financial concerns have affected employees:

Lost sleep

19%

Found it hard to
concentrate/make
decisions

10%

Spent working
time dealing with
money problems

8%

Impact on performance

One in four employees say that financial concerns have affected their ability to do their job.

All employees

25%

Employees in London

32%

18-24-year-olds

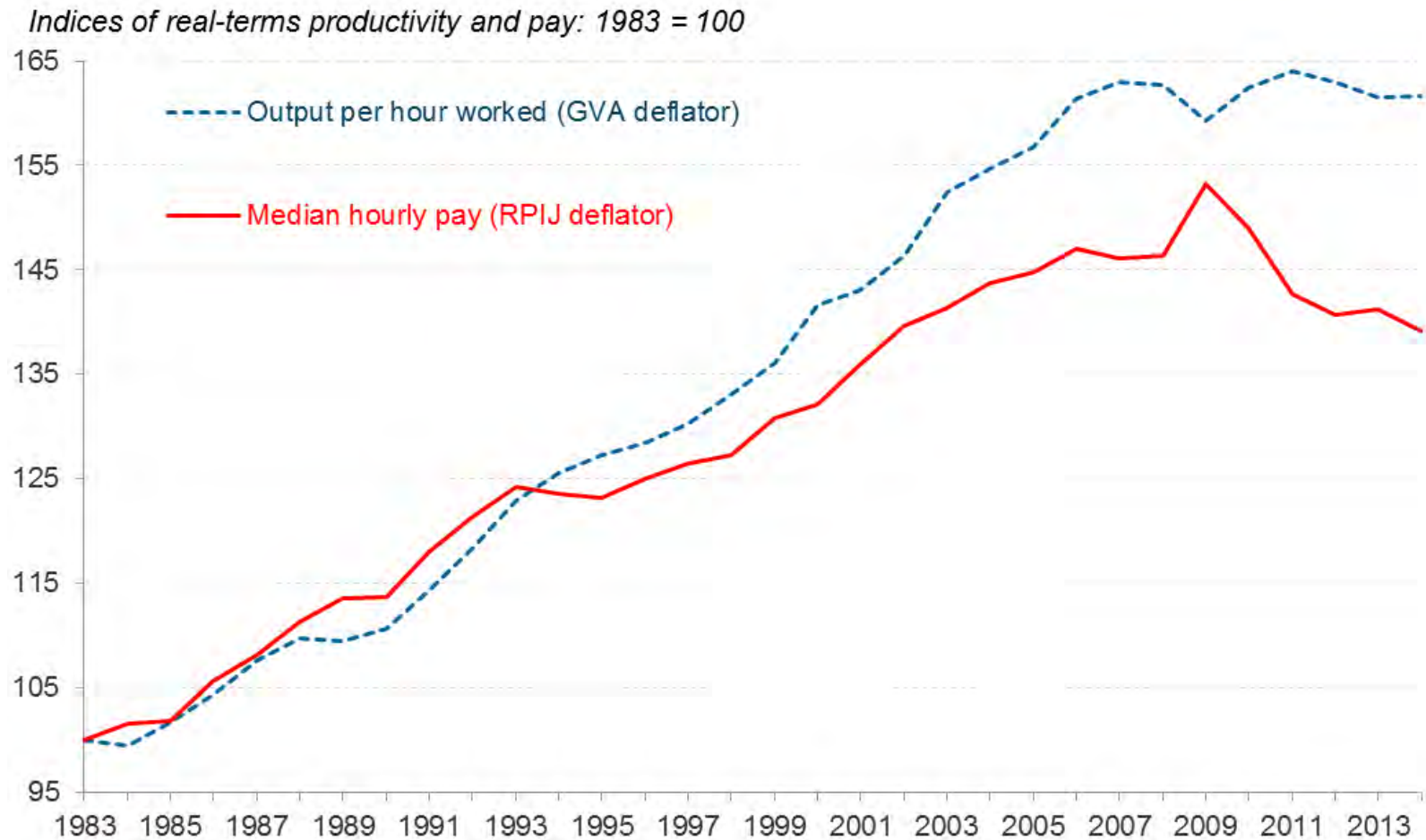
31%

Employees earning
£45,000 to £59,999

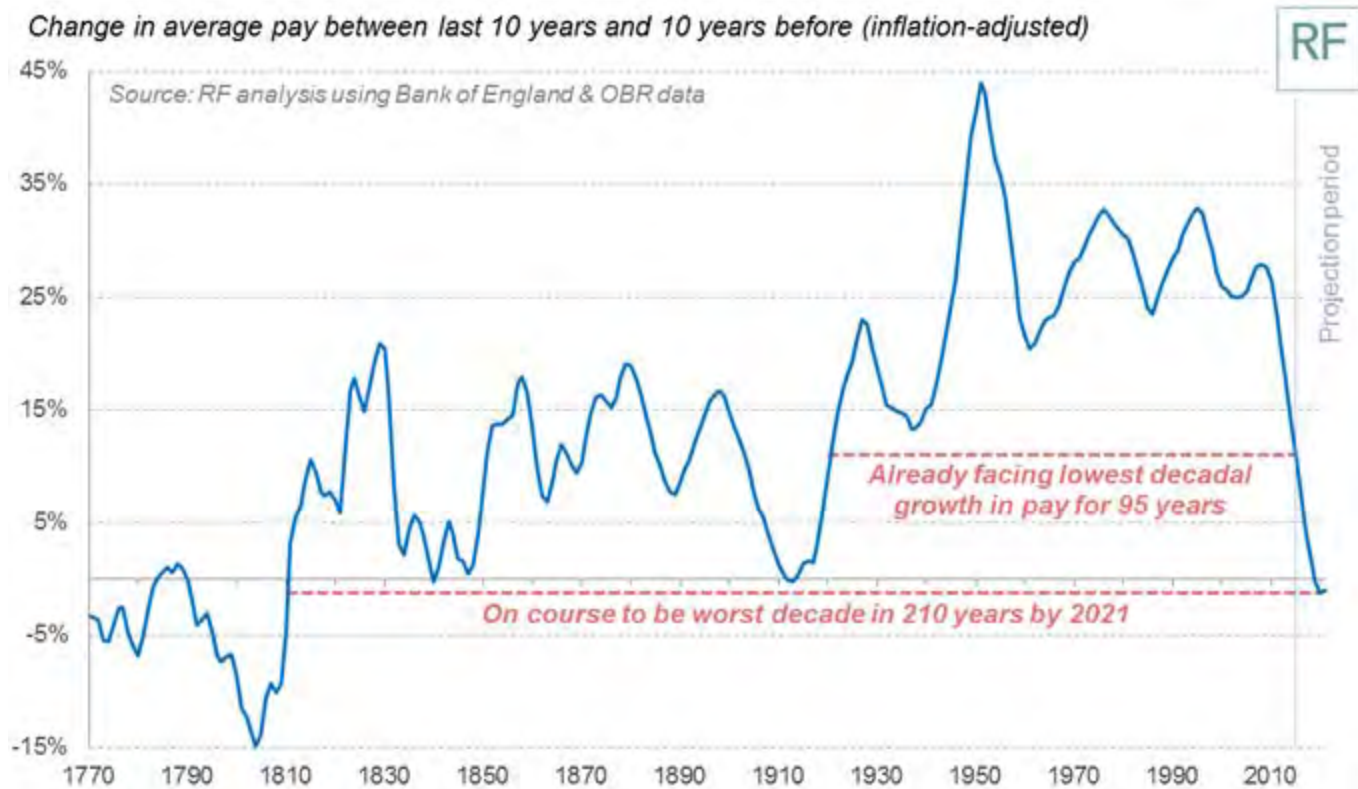
20%



UK: Low productivity, even lower pay



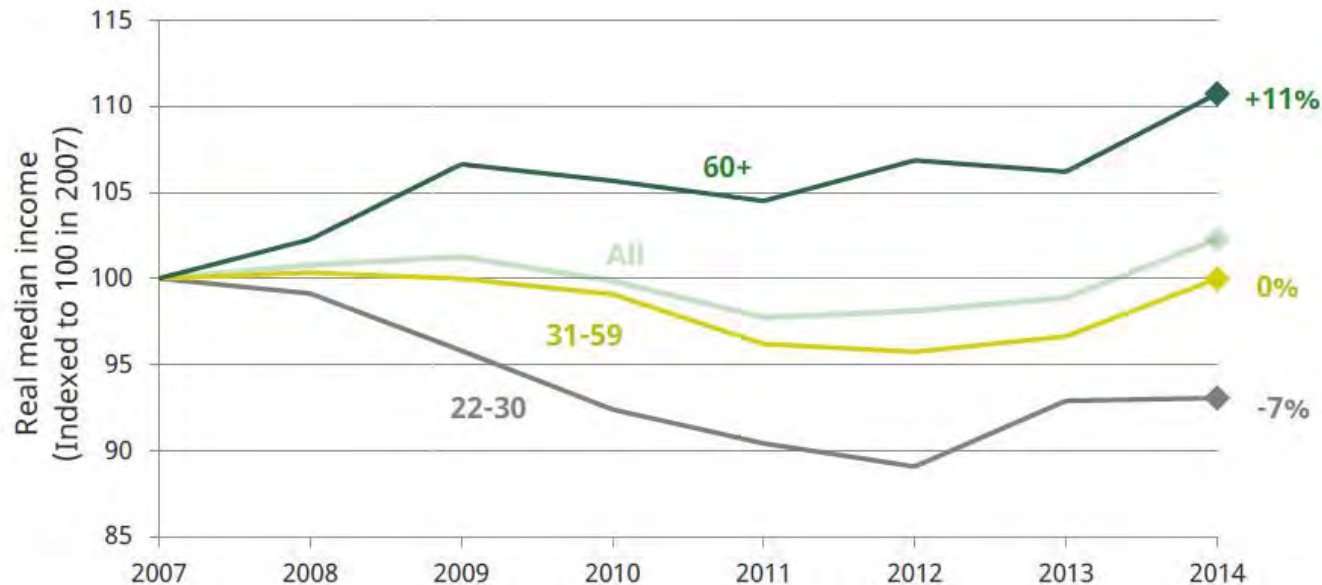
The worst decade for pay for over 200 years, real pay still below 2007



...and young people are suffering worst

What has been happening to living standards?

Real median income (2007-08=100)

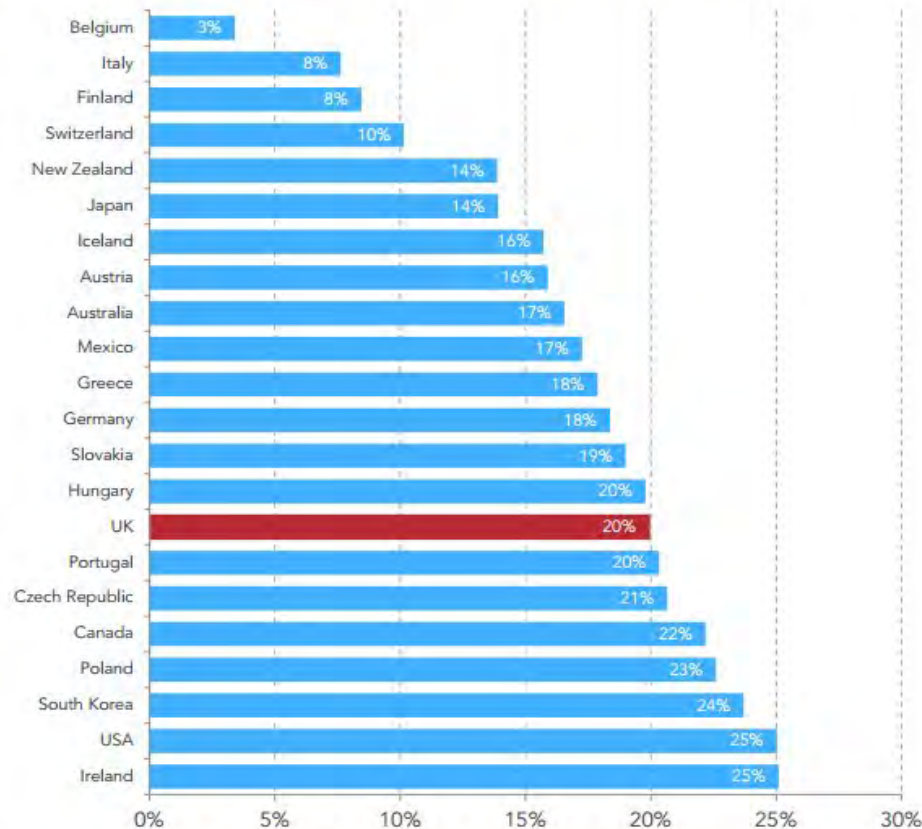


Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

UK: lots of low skill, low pay jobs

Figure 6: Low pay across the OECD: 2014 - 2015

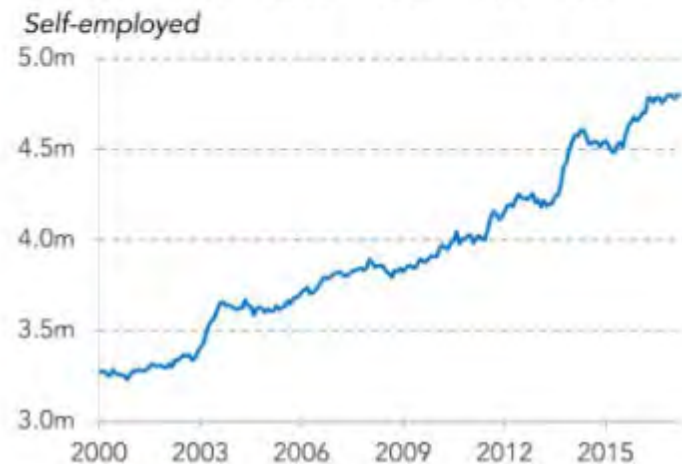
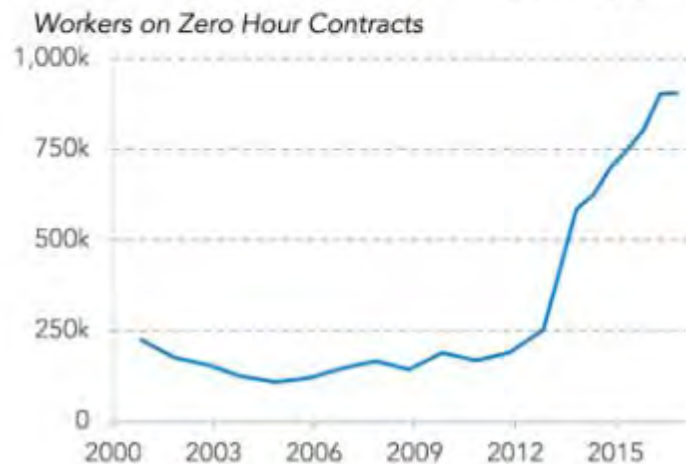
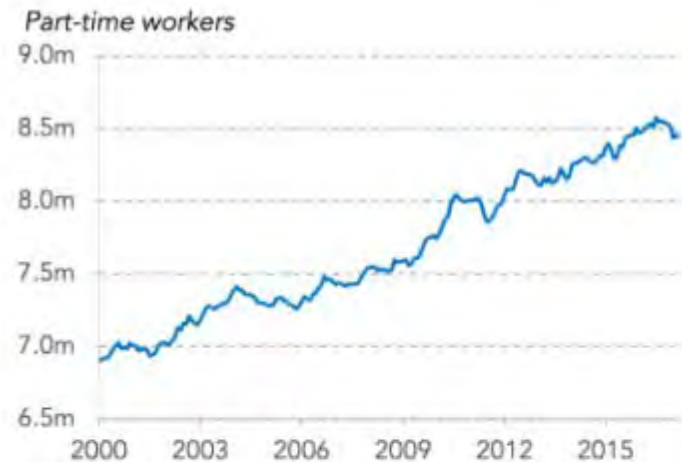
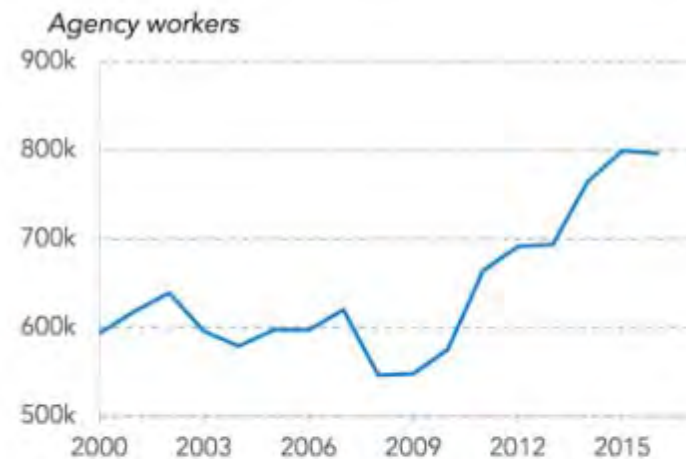
Selected *OECD* countries: proportion of full-time employees earning below 2/3 full-time median weekly pay



Notes: The incidence of low pay refers to the share of full-time employees earning less than two-thirds of median earnings. This is different to our measure because we refer to all employees and our data is from ASHE whereas the OECD data is drawn from their Employment and Labour Market Statistics Database

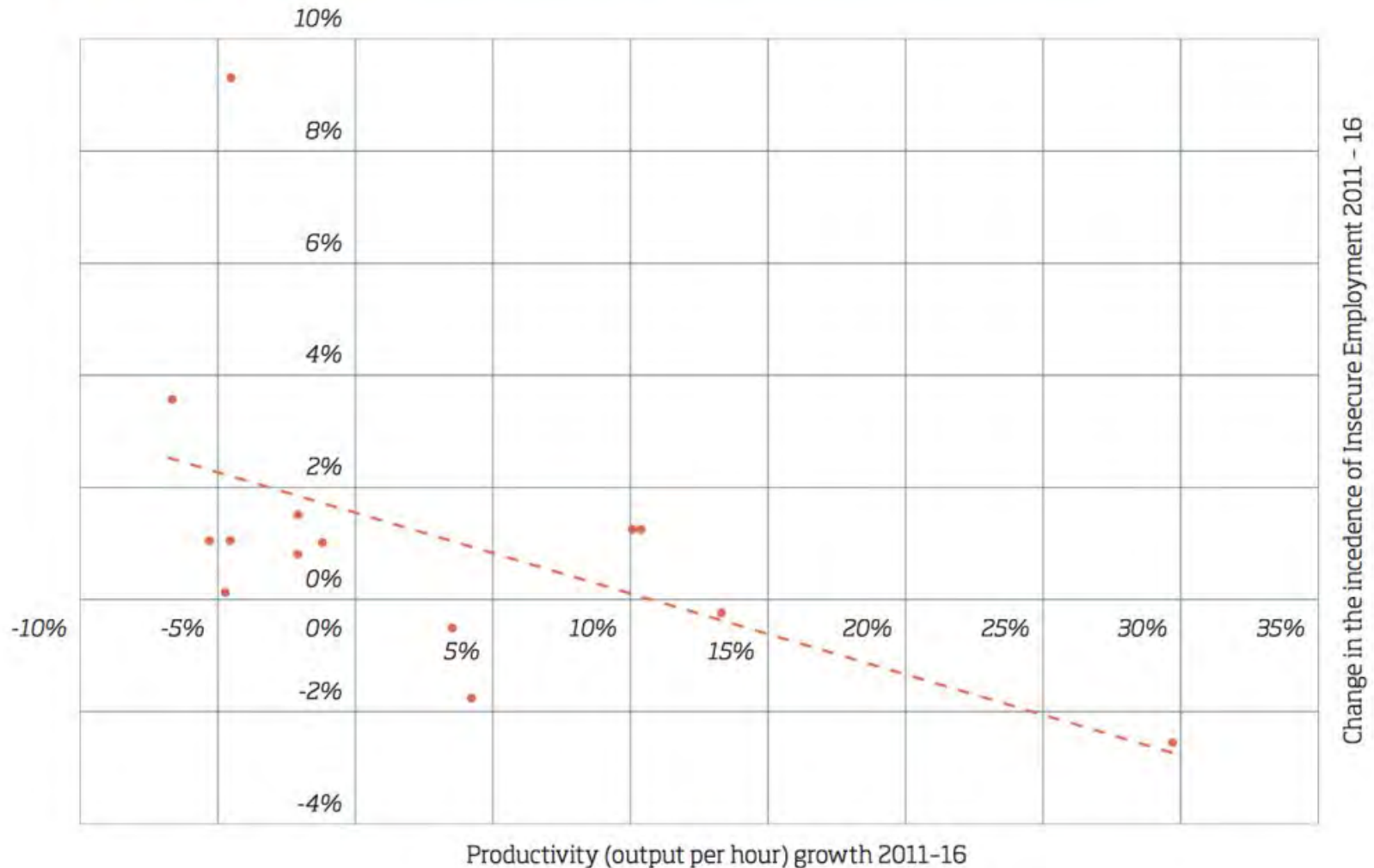
Sources: RF analysis of OECD, *Wage levels*, 2016

Too flexible in our employment models?



Is this at the heart of the UK's low productivity? (Source TUC)

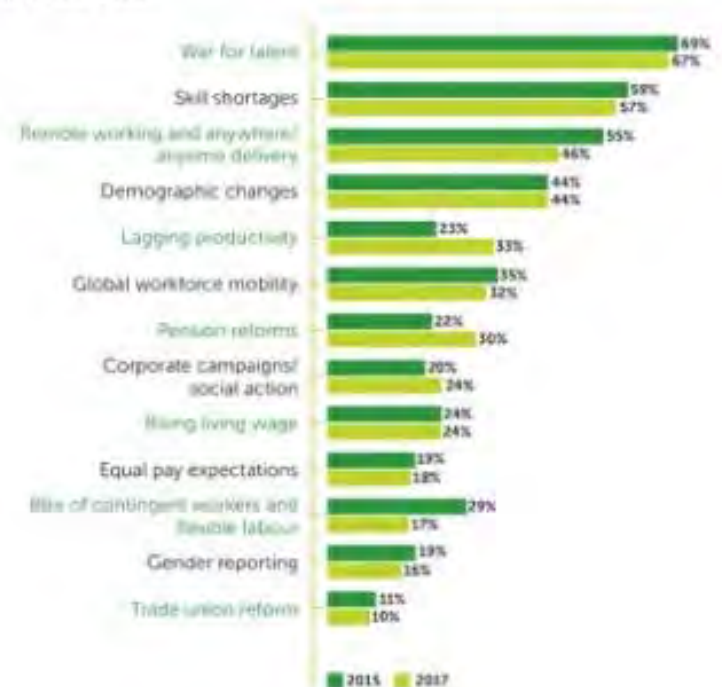
Figure 4: Productivity Growth and Change in the Incidence of Insecure Employment 2011-16



Are employee engagement and total reward at the top of our agendas? Do we really care?

- ¼ workforce is low skilled
- Over 1 million employees on zero hours contracts
- 40 million days lost to stress pa, cost of mental ill health put at £44 billion
- 30,000 employees injured at work each year
- 5 million earning less than they need to live on
- Half children living in poverty have a parent in work
- 25% employees work over 48 hours pw
- 66% don't think their pay is fair

Figure 3: % of HR leaders who expect trends to have a high or very high impact on their workplaces, by year



Employee Engagement is generally poor

(Source Aon Hewitt UK, n = 475,000)

Engagement Question	Agree/Strongly agree
■ We work hard here to meet customer expectations	77%
■ I respect my co-workers	73%
■ I get a sense of accomplishment from my work	65%
■ I have a good understanding of my department's goals	60%
■ My manager provides the support I need	60%
■ My future career opportunities here look good	35%
■ There is an effective process to identify my development needs	32%
■ I receive valuable career guidance	27%
■ If the organisation does well I share in our financial success	43%
■ This is one of the best places to work	38%
■ I am paid fairly compared to outside	40%
■ I am fairly paid for my contribution	39%
■ I receive appropriate recognition	38%
■ My performance has a significant impact on my pay	36%
■ Reward and recognition are fair and transparent	28%
Highly engaged	12%
Partly engaged	35%

Where are we now? What we Found



“ A better blend of theory, research and practice holds the promise of expanding knowledge”

Bloom and Milkovich

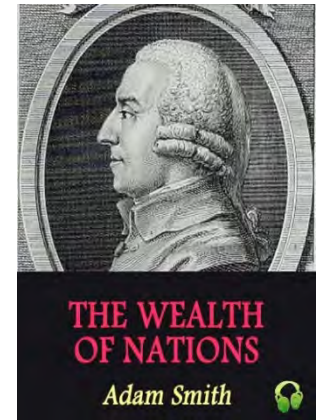
- Confused terminology, difficult to isolate and research
- Complex and controversial relationships with performance and HR practices
- Separate ‘camps’ with surprisingly little interaction:
 - Academics
 - Economics
 - Research
 - Excessive methodological rigour
 - Pay/ Reward practitioners
 - Public sector
 - Money/financial motivation
- Practitioners
 - Psychology
 - Practice
 - ‘Rules of thumb’
 - Engagement practitioners
 - Private sector
 - ‘Higher’/non monetary drivers



Total rewards: where it started

- “Workers seek to maximize their total utility of employment...their total net advantage will depend upon the agreeableness or dis-agreeableness of work, the difficulty and expense of learning, the responsibility, the possibilities of success or failure...compensating wage differentials”

Adam Smith, The Wealth of Nations, 1776



- “Magnificent recreation grounds, a large concert hall with continuation schools, medical attention, works councils, pensions... Owing to this system of paternal employment, the factory workers have better conditions, more security and infinitely better chances of leading a decent and happy life...here is definite and enormous gain”.

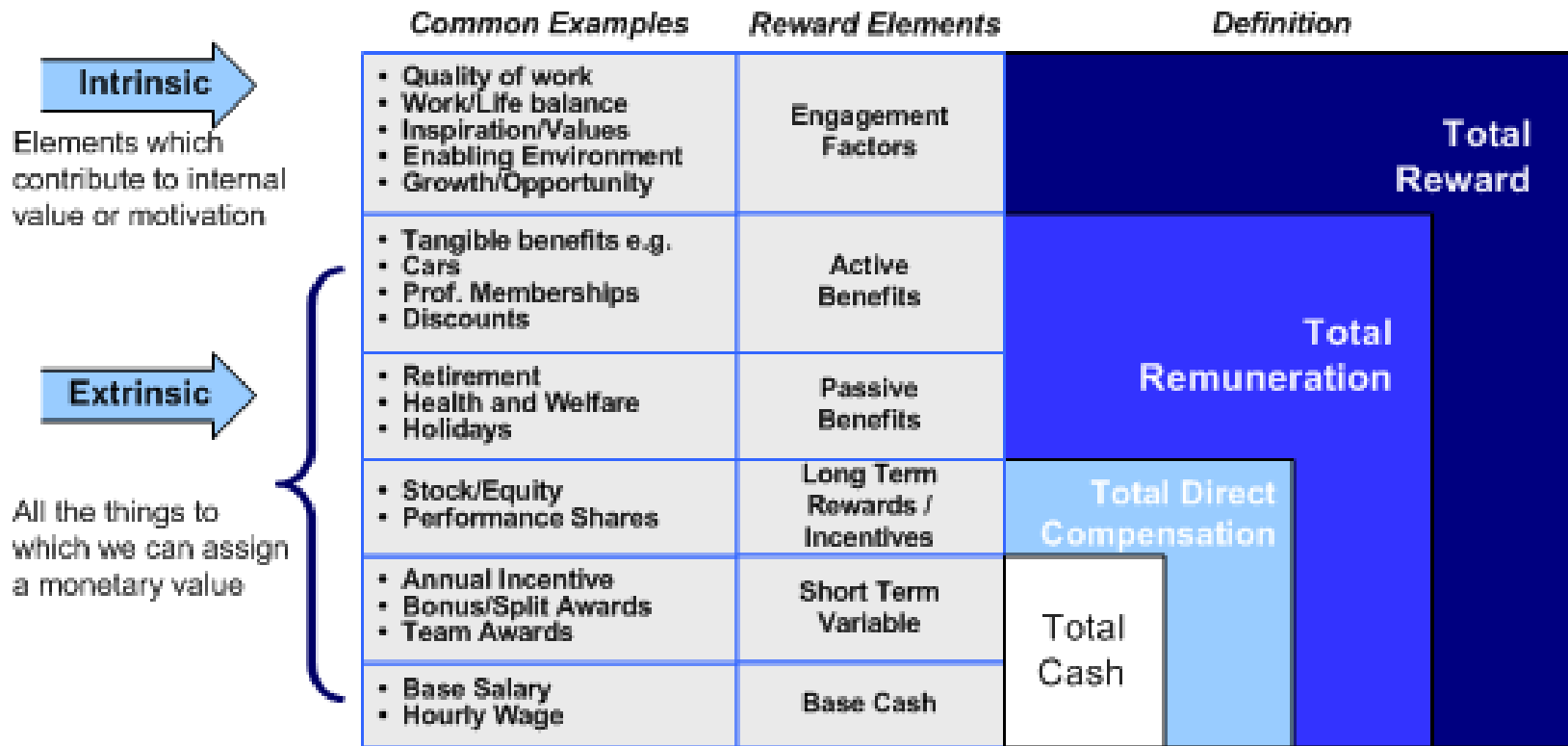
J B Priestley, after a visit to Cadbury's at Bourneville, from An English Journey, 1929



Total reward

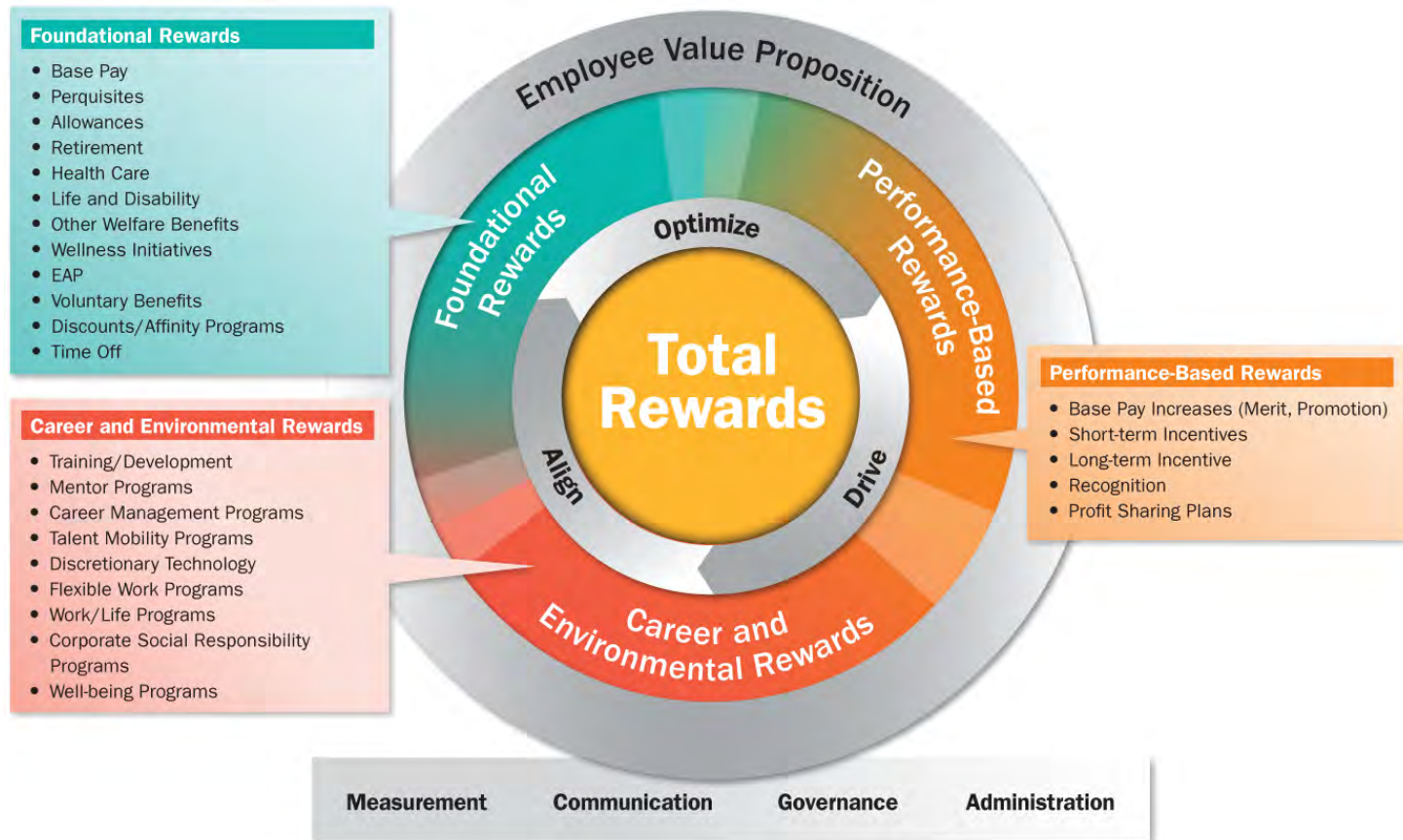
- Shift of emphasis from pay as compensation, with fixed benefits, a low-cost supplement, to a synthesis of 'total reward' as a potential behavioural driver
- Total reward offers a distinctive 'employment proposition' to 'engage' employees
- Employees are not solely economic agents – they look for meaning in and control over work and a balance with their 'other' life
- Pay > Benefits > Non-financials > Employee Experience

A total rewards model



A second model: the 'employee value proposition'

Willis Towers Watson's total rewards model has three components: Foundational Rewards, Performance-Based Rewards, and Career and Environmental Rewards



Where we are now: the employee experience (EX)?

- Priority for 51% of HR execs (Gartner, 2019); 59% not ready to address the EX challenge (Deloitte, 2018)
- 'Having a positive experience at all points on the employee journey' Gallup, 2018
- *'In a digital world with increasing transparency and the growing influence of Millennials, employees expect a productive, engaging, enjoyable work experience. Rather than focus narrowly on employee engagement and culture, organizations are developing an integrated focus on the entire employee experience, bringing together all the workplace, HR, and management practices that impact people. A new marketplace of pulse feedback tools, wellness and fitness apps, and integrated employee self-service tools is helping HR departments improve this experience'.*

Mark Levy, Global Head of Employee Experience at Airbnb,

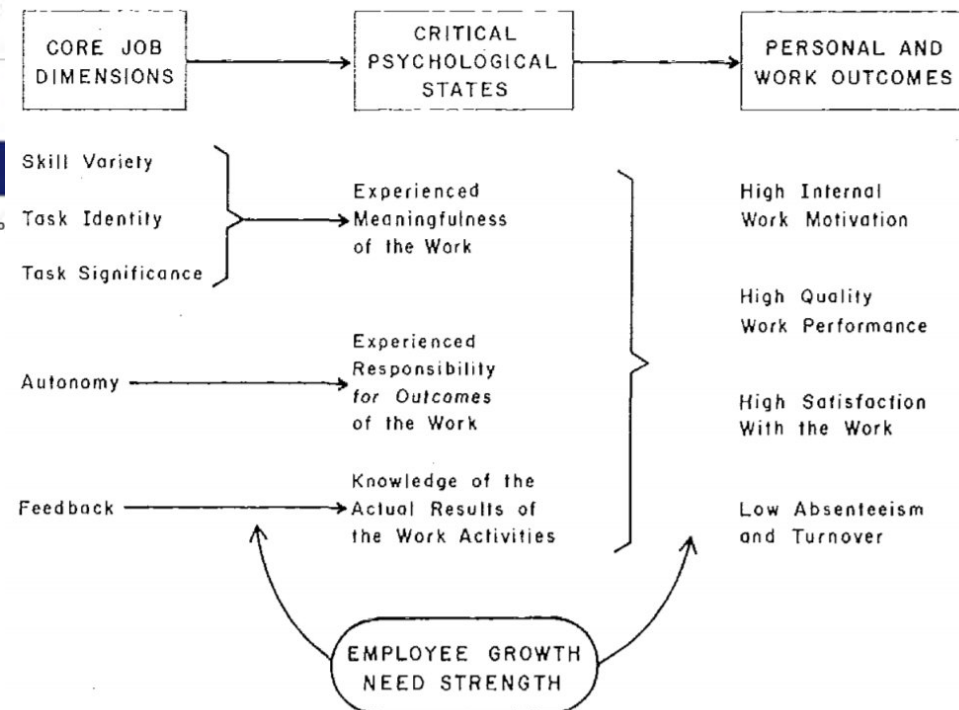
- The physical experience
- Emotional connections
- Environment: cultural, technological, physical (Morgan 2018)
- Korn Ferry (2019): 'the goal of the new deal is to create meaningful, engaging employee experiences...people seek purpose in their work'.
- *We deliberately didn't use the 'total rewards' or 'employee experience' term in the intranet and web page re-designs for a major charity: why not?*

An Employee experience model – so new?

Figure 4. Factors that contribute to a positive employee experience

Simply Irresistible Organization™ model				
				
Meaningful work	Supportive management	Positive work environment	Growth opportunity	Trust in leadership
Autonomy	Clear and transparent goals	Flexible work environment	Training and support on the job	Mission and purpose
Select to fit	Coaching	Humanistic workplace	Facilitated talent mobility	Continuous investment in people
Small, empowered teams	Investment in development of managers	Culture of recognition	Self-directed, dynamic learning	Transparency and honesty
Time for slack	Agile performance management	Fair, inclusive, diverse work environment	High-impact learning culture	Inspiration
Cross-organization collaboration and communication				

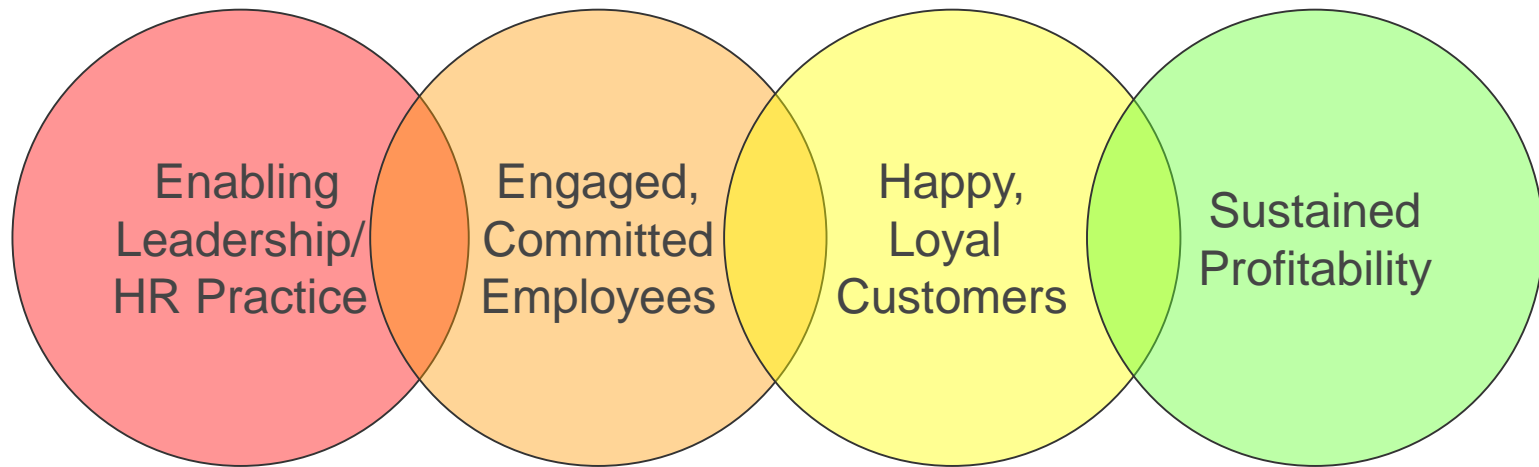
Deloitte University Press | dupress.deloitte.com



Questions

- So how important and influential are your engagement surveys?
- How do you leverage higher engagement and higher performance? What role do pay, benefits and rewards play?
- Do generational differences play any part in this?

Back to the beginning: the Service-Profit Chain

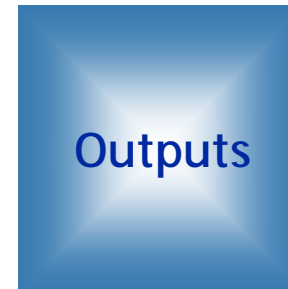
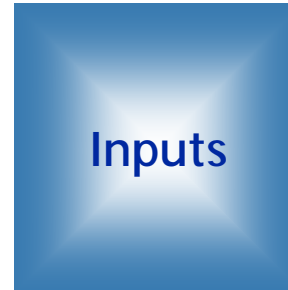


- “***The Service Profit Chain***” [Heskett, Sasser & Schlesinger (1997)] identified a number of top companies who exploited a clear link between engaged employees and loyal customers to achieve sustained, market-beating profitability;
- **Gallup** in ‘Managing your Human Sigma’ identified that teams with high employee and customer engagement were **2.4** times more likely to be top performers than teams where engagement was not high;
- **The Corporate Leadership Council** in a study across its 200 member organisations identified engaged employees delivered a **20%** performance premium over those not engaged.

Organisational benefits delivered by engagement in research studies (Source: IES 2004, 2009)

- Lower staff turnover
- Better attendance
- Improved safety
- Beneficial behaviours
 - taking initiative
 - wanting to develop
 - organisationally aligned

- Higher productivity
- Improved customer service

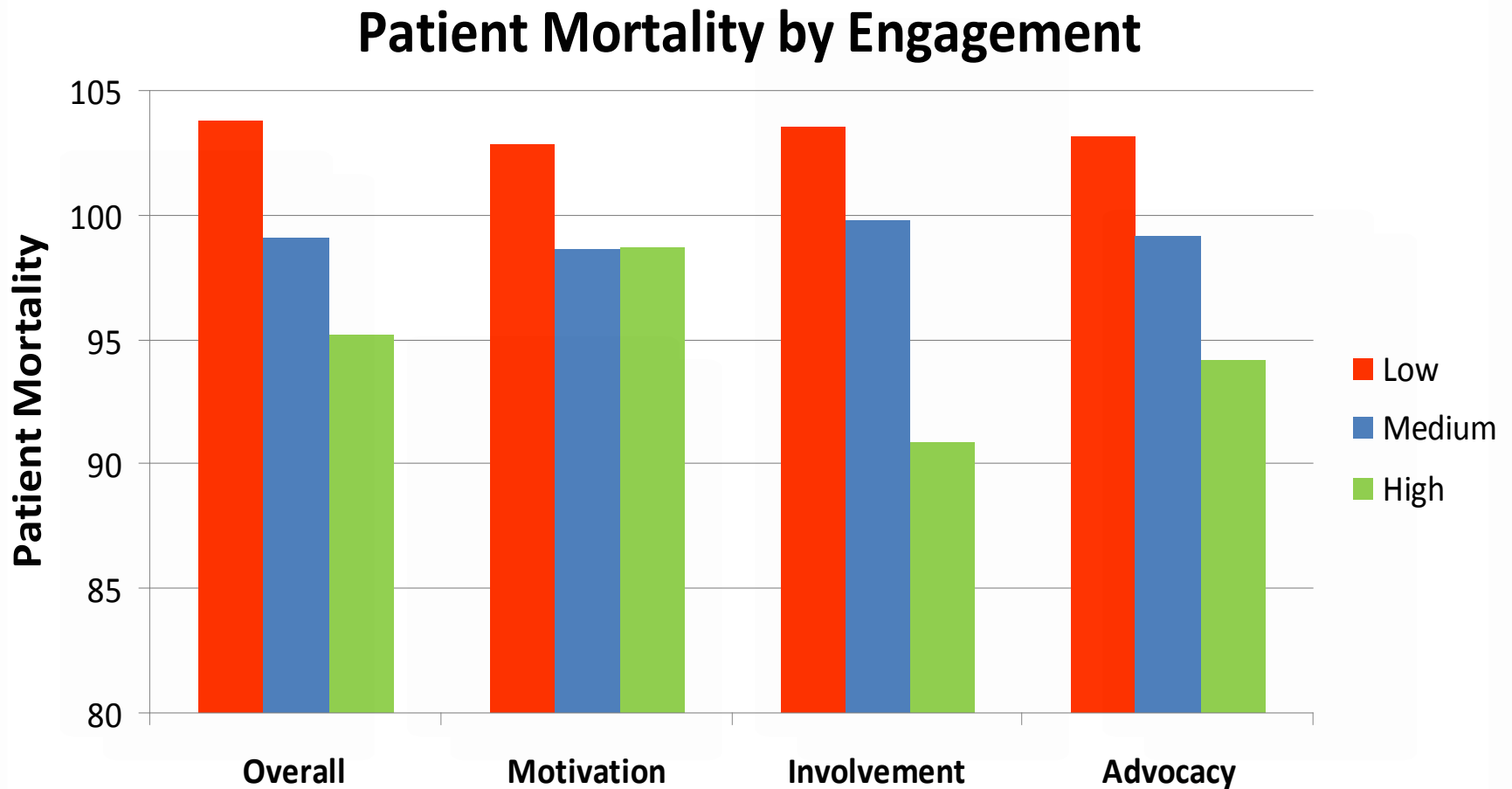


The impact of high performance work practices



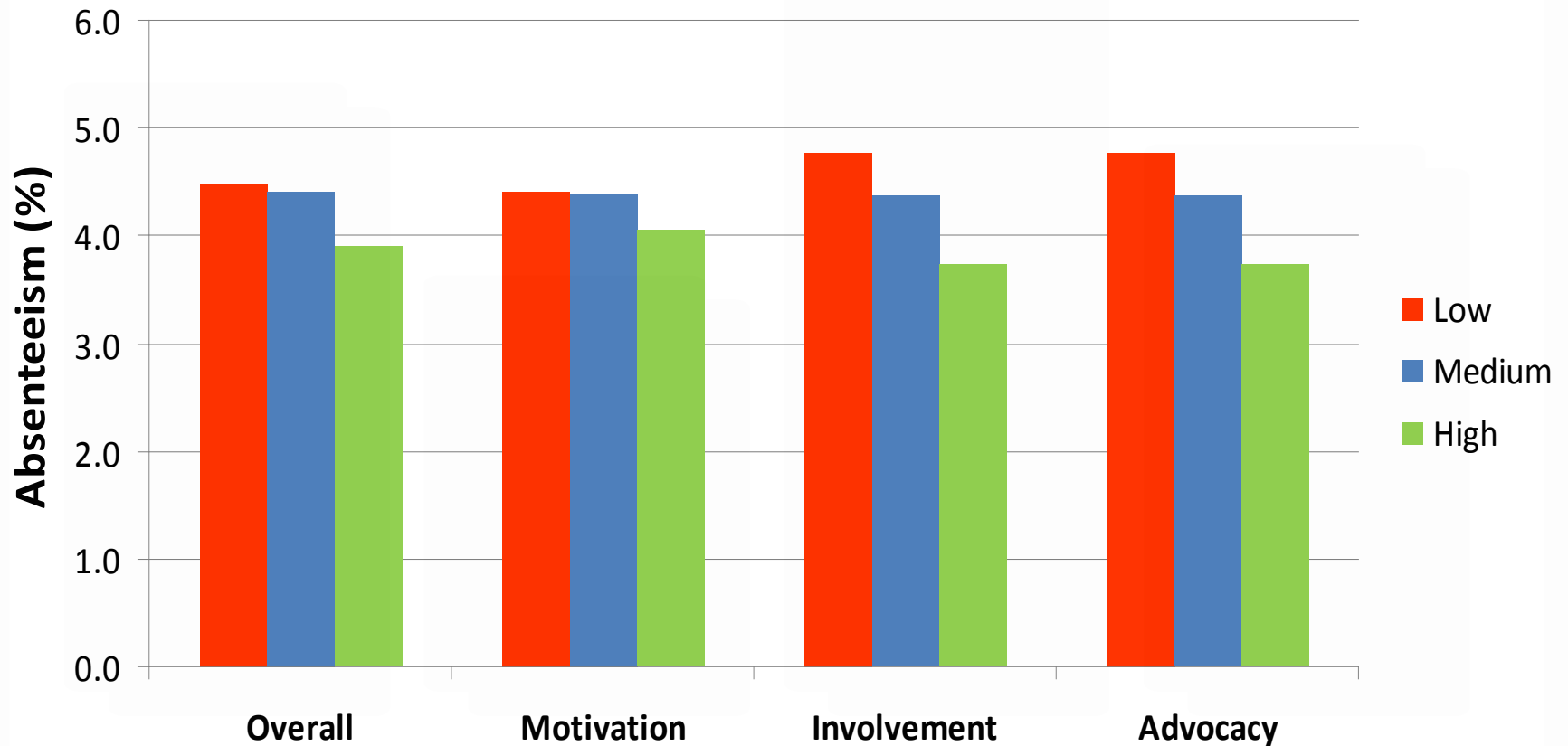
Source: FOW (N=297)

It matters – in the NHS: Mortality is lower when engagement is high



NHS: Engaged staff have lower absence

Staff Absenteeism by Engagement



IES engagement model

(Source: Robinson et al. 2004)

“The evidence gathered makes clear that there is no ‘silver bullet’ that will result in employees being automatically engaged leading to performance benefits flowing. High levels of employee engagement can deliver positive organisational benefits. Appropriate HR practices managed in combination can help to build and improve employee engagement and higher levels of performance are more likely to occur, particularly in customer service and care settings”. IES, 2017



The reward, engagement, performance linkages in research

Culture/People Management

- Supportive supervisors
- Regular open feedback
- Team-working
- Involvement in decision-making
- Career development
- Work life balance

Rewards

- Performance pay
- Variable pay
- Based on service/quality
- Single status
- Team rewards
- Recognition

- Brown and West's study of 22 service employers found strong links between the quality of management and financial and non-financial rewards, levels of employee engagement and customer/public service and financial performance

Staff Attitudes/ Engagement

- Satisfaction with pay & recognition
- Treated fairly
- Feeling involved & developed
- Commitment



Performance

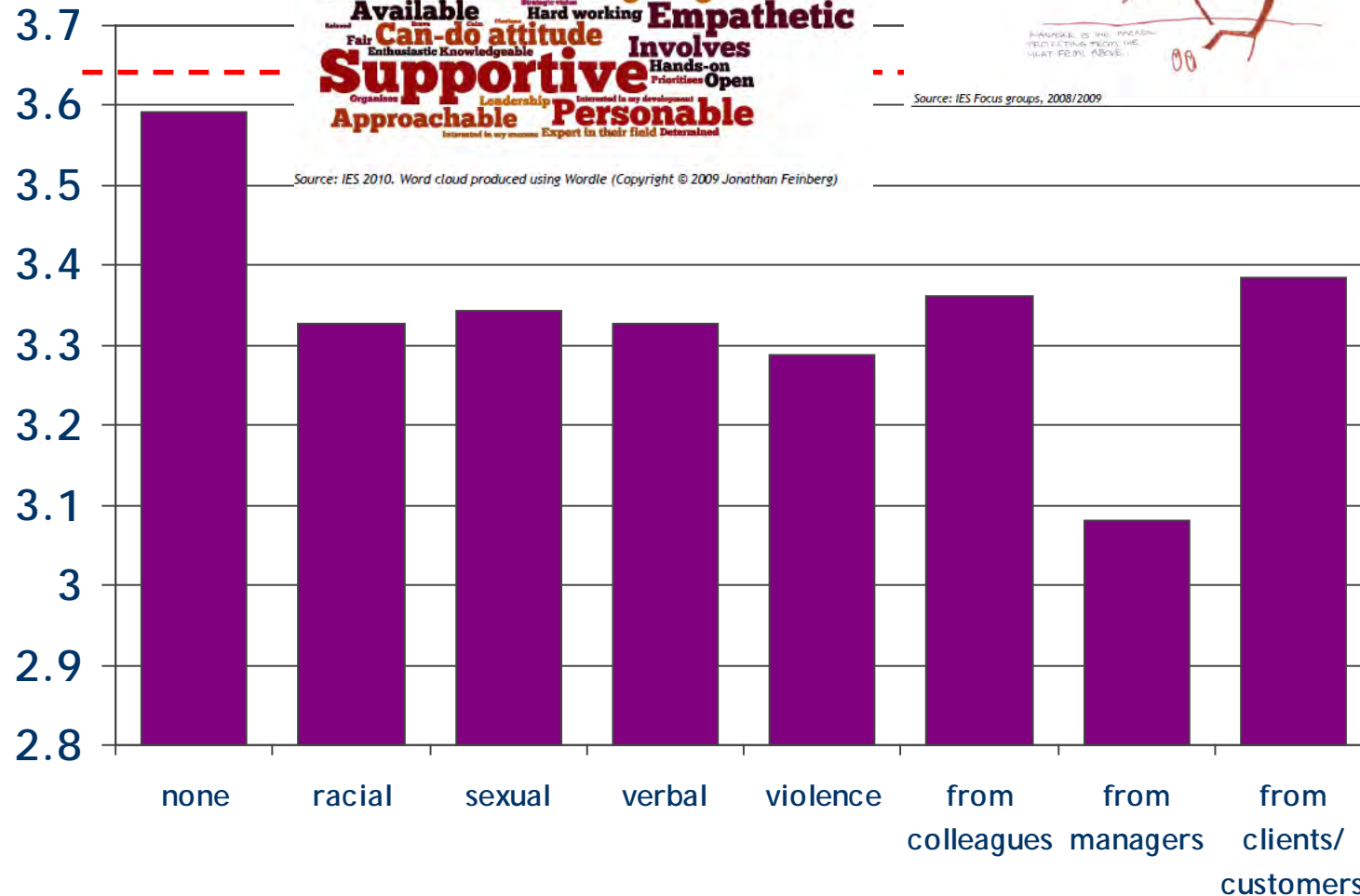
Common components: Impact of line management

Figure 3.6: My manager... protects us from the heat



Source: IES Focus groups, 2008/2009

overall
mean
(3.58)



Word cloud containing terms such as: Supportive, Can-do attitude, Empathetic, Good at delegating, Values, Honest, Available, Hard working, Involves, Hands-on, Open, Approachable, Personable, Determined, Expert in their field, Interested in my development, Leadership, Organized, Fair, Enthusiastic, Knowledgeable, Relaxed, Good sense of humour, Listens, Direction, Promotes team, A team player, Goal-focused, Target-focused, Shows interest in others, Inspired to do best possible, Reliance personal and professional, Defiant to challenge, Promotes team.

Common Components: Skills

Source: UKCES (2012)

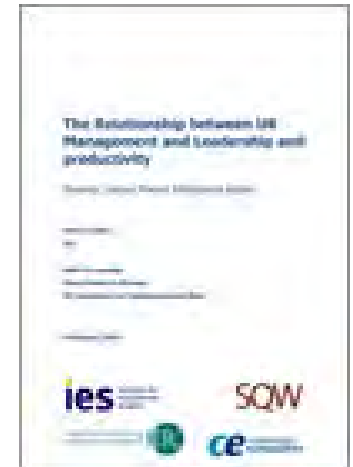
“A big chunk of our productivity gap with countries like Germany is rooted in the failure to equip people with adequate skills” John Van Reenan, LSE, 2015

Employee Involvement	Skills Acquisition	Motivational Practices
<ul style="list-style-type: none">• Task discretion• Task variety• Problem solving teams• Descriptions• Project teams• Team briefings• Suggestion scheme• Staff survey	<ul style="list-style-type: none">• Induction• Work shadowing• Off-the-job training• On-the-job training• Training plan• Training budget• Annual performance review• Evaluation of training	<ul style="list-style-type: none">• Organisational Performance-related pay• Individual performance-related pay• Formal employee consultation procedures• Formal discipline and dismissal procedures• Flexible benefits• Flexible working• Equal opportunity policy

Conclusions

‘The route to employee engagement is a worthwhile slog’ David Smith, Chair IES

- Confused terminology, difficult to isolate and research
- Big change in the environment
- Engagement linked with a range of positive outcomes in research eg attendance, safety, attrition etc
- HR practices linked to organisational performance and particularly turnover intention
- But research studies suggest:
 - Highly situation specific, no one solution
 - About the interaction of financial and non-financial factors and not a single practice – true total rewards, not flex benefits
 - ‘It’s the bundle’
- Rather than copying a set of universal ‘best practice’ HR and reward practices, each employer:
 - needs to research the drivers/determinants of their own employees’ engagement levels and variations in them:
 - Know your people
 - Know your direction and values
 - Be evidence-based
 - Be more innovative



And on financial wellbeing?

ASSESS

- Research in your own workforce: understand the demand, issues and needs
- Use existing data sources eg exit interviews, EAP line
- Look at relevant research
 - https://www.fincap.org.uk/en/evidence_hub
 - https://www.employment-studies.co.uk/publications?search=financial+wellbeing&search_resources=1#results
- Audit existing activity

PLAN/ENGAGE

- Make the business case and get senior team/champion on board
- Make a plan
- Integrate with other workstreams and functions
- Understand/survey where your staff are and what they want/need, then keep checking in on progress

ACT

- Start simple and extend (recognising multiple initiatives with multiple stakeholders seems to have most impact)

EVALUATE and EMBED

- Evaluate and build the evidence base
- Keep building the case and adapt your plans
- Co-operate with other employers
- Make use of free resources
- Use advisers – but be cautious, keep tailored and keep control
- What is your business model?
- Who will be working with my employees and how are they compensated?
- What is the impact your financial wellness programs have had?

THINKING AHEAD

EXPLORING SUPPORT PROVIDED BY EMPLOYERS
TO HELP STAFF PLAN FOR THEIR FUTURE

REPORT

Rosie Glover, Megan Edwards, Kate Spiegelhalter,
Becci Newton, Wendy Hirsch

HR^N Paper

Building the business case for employee financial wellbeing

Catherine Rickard

IES Perspectives on HR 2018

August 2018
Member Paper 140

Thank You



Duncan leads the HR Consultancy and Research work at IES, a leading independent research-based charity which supports improvement in HR and employment practice.

He has more than 25 years' experience in HR consulting & research with Aon Hewitt, PwC and Towers Perrin. He spent 5 years as Assistant Director General at CIPD.

His clients have included major companies such as National Grid and Lloyds Banking Group, public sector bodies such as the Cabinet Office and National Health Service, and not-for-profits such as Cancer Research and the United Nations.

Duncan is a leading commentator on HR, publishing many articles and books. He has participated on Government taskforces concerned with fair pay, engagement, pensions and human capital reporting. He advises a number of remuneration committees

Human Resources magazine placed him in its listing of the top 5 most influential thinkers in UK HR.

Duncan has an MA from Cambridge University, an MBA from the London Business School and is a Chartered Fellow of the CIPD. He is a Visiting Fellow at Kingston University where he obtained his PhD in reward strategy and is a visiting professor at Greenwich University.