

REWARD LEADERSHIP A Research Perspective

Strategic Reward wanted to find out if there was a correlation between market leading companies and their approach to reward management. We used a postal-based questionnaire to survey the reward and performance management practices in 130 leading companies from a wide range of sectors in the UK. Participants included:

BAA	Freshfields Bruckhaus Deringer	Rolls-Royce
BBC Worldwide	Granada Media Group	Royal Bank of Scotland Group
BP	Great North Eastern Railway	Scott Wilson Holdings
British Bakeries	Harrods	Severn Trent Water
BT	HBOS	Standard Life Assurance
Buro Happold	HSBC Bank	Starbucks Coffee Co.
Cadbury Schweppes	Infineum International	Telewest Broadband
Citibank NA	Marks & Spencer	Tesco Stores
Costain Group	MG Rover Group	United Biscuits
David Lloyd Leisure	National Australia Group	WH Smith plc
DLA	Nokia UK	Whitbread Hotel Company

Respondents scored (using mainly a ten-point scale) several statements relating to reward and performance management practices in their organisation. These statements covered the following:

- Reward strategy goals
- Reward practices adopted
- Customisation of reward
- Reward strategies for the future
- Evaluating the effectiveness of reward practices

In addition, participants scored their organisation on several general statements, which were grouped into three broad groups:

Market strength: growth, profitability, competitive position, acknowledged as leader in its field

Employer image: employee retention, job offer acceptance rate, good organisation to work for

Culture: innovative, absence of top down rigidity, people embrace change, everybody has appropriate reward linked to performance of organisation, division, team and personal contribution.

We wanted to establish if there was a significant (statistically) relationship between respondents scores to questions about their reward practices and their scores for their organisations market strength, image and culture. If this was the case, we could then answer the following critical question:

“In what aspects of reward management are there significant differences between “reward leaders” and “reward followers?”



To answer this question, a cluster analysis was performed on the respondents' composite scores for the three factors: Market strength; Employer image; and Culture.

Our research found that

- **Employer Image** is the biggest discriminator between reward leaders and reward followers
- **Culture** also makes a difference.

Drivers of Reward Leadership

The degree of correlation between respondents' scores for each question and their composite score for the three broader groups was calculated. This enabled us to identify the drivers of "**Reward Leadership**", that is the characteristics of the reward framework used by market leading companies. The top 15 drivers of reward leadership are set out below:

Drivers of Reward Leadership	Correlation
Advancement in reward strategies (company's belief)	0.53
The organization sees itself as a leader in the field of reward strategy	0.48
Benefits valuation statements are issued	0.44
Outstanding performers receive substantially more than the market pay rate	0.43
Corporate values and reward are linked	0.41
A belief that we need to do much more to reward/recognise high performers	0.41
Benefits plan are designed to reflect employees' life-stage needs	0.38
Customer-facing teams are rewarded for customer satisfaction/loyalty	0.38
Performance goals directly link the individual's activities to our business objectives	0.36
The company creates clear expectations about employment relationships	0.34
Base pay increases relate to competence and cash bonuses to results	0.33
Managers have a high degree of flexibility in distributing their pay budget	0.32
Performance management is a continuous process rather than a yearly event	0.31
Pay is linked to reliable and tested measures of customer satisfaction	0.30
Every line manager learns/practices how to manage pay	0.30



Differences between Reward Leaders and Reward Followers

There were three aspects in particular where this was evident and these are shown by the results below. The percentages are the numbers of companies for which the practice applies.

Customisation of Reward Packages	<u>Leaders</u>	<u>Followers</u>
Flexing pay – base, bonus and shares	56%	42%
Offering voluntary benefits	45%	32%
Flexing learning and development opportunities	35%	24%
Flexing non-cash recognition	25%	16%

Evaluating effectiveness of reward practices	<u>Leaders</u>	<u>Followers</u>
Survey employees' views	71%	49%
Specific review groups/committees	43%	30%
Cost reviews	30%	40%
Benchmarking with external organisations	87%	70%

Future Reward Priorities	<u>Leaders</u>	<u>Followers</u>
Rewarding individual performance	51%	58%
Rewards for business or productivity gains	38%	32%
Rewarding innovation	18%	7%
Team reward	27%	19%
Competency/knowledge-related reward	19%	27%