

Sarah Lardner, Senior Consultant at Innecto was recently interviewed by Employee Benefits on the gap between pay rises and cost of living...

Here are the questions

Q. Overall, how should employers manage the lag between pay and inflation at a time when pay rises are averaging, according to IDS, about 2.5% while inflation is running at more than 5%?

A. This is proving challenging for employers. Organisations are remaining cautious about increasing fixed costs in the current climate, but are very much aware of the need to reward performance and commitment. Some employers (particularly smaller/entrepreneurial in type) are tending to apply pay increases in a discretionary manner, typically based on high potential, performance and loyalty. Employers that do not have/want that level of flexibility, are applying increases in a consistent manner, but still based on an expected level of performance achieved. Organisations are also watching the pay market closely, in terms of following competitors, industry and location specific approaches to reviewing pay. **The 'best places to work' employers know that being honest and open about business challenges and ensuring employees' expectations are realistic is helpful when companies just can't afford to pay such big increases when their own margins are so tight.**

Q. How should employers structure their rewards and remuneration policy to ensure that high performing staff are rewarded?

A. It is more important than ever to ensure that your Reward Strategy is relevant to what is happening in the external world for your business and fit for purpose internally. Organisations are spending time reassessing what they want to reward for, what position they are taking in terms of market competitiveness and how they reward employees - this ensures that reward is aligned closely to the business objectives. We see the reward strategy as much more dynamic and flexible, as it enables reward policies to change as the business objectives changes focus. Performance, approach to work and productivity is absolutely key in ensuring that organisations are maximising their salary spend. Ensuring that talented, committed employees are motivated and sharing in the success of the business makes for a longer-term employee and employer partnership.

Q. What should employers do in these circumstances to keep staff engaged (many of whom will be experiencing a fall in living standards and may be struggling with debt)?

A. In terms of the pay package, there are various tax efficient benefits that they may consider introducing, such as Childcare vouchers, Bikes4Work and Pensions; these make the pay packet go that bit further. By using the buying power of the organisation, they could provide other benefits such as healthcare, gym membership and dental insurance that could also have a positive impact on the pay package. However, there are less obvious reward approaches that are making a difference to the employee. Organisations are attempting to control and manage their salary bill, whilst ensuring that they can still provide a competitive and decent salary package. They are investing more effort and money into bonuses and incentives. If an employee works harder, increases quality, improves processes, delights customers they can expect to be rewarded well via variable pay. We are seeing a shift of emphasis; essentially the responsibility for performance and the chance to earn is placed in the

hands of the employee. Performance expectations are becoming clearer, more challenging, but employees are being given the chance to shine and be rewarded for their efforts

Q. Any other relevant comments?

A. Whilst money is a big part of the picture for both the employee and employer, HR & Reward can take other steps to support the employee 'deal'.

- Keep the employee informed and part of the company culture with an embedded communication programme
- Build recognition schemes that increases morale
- Recognise attributes that are outside of the Performance Management system

Innecto has seen so many interesting and unique recognition schemes. The best and most effective are those that are utilising internal opportunities that come from the business that they are in - which tend to be more cost effective and highly valued. For example, spending time with a company which is being sponsored by the business whether in sport, charitable or voluntary fields provides an enriching experience which the employee will remember far beyond an extra £100 or so. Develop employees within, where possible. Provide training opportunities and look to develop skills that will increase their performance and support the business going forward.

Review the benefits you provide, ensure that they are valued and are being used, renegotiate the costs with the providers, as you may be able to make savings. We are not seeing employees accepting pay freezes or reduced pay to the extent we did a couple of years back. **Employees are demanding a decent salary, as the cost of living is rising, but by keeping reward fresh, focused and flexible to adapt as the business adapts, this can be managed.**

Sarah Lardner
Senior Consultant

For further discussion please contact Sarah Lardner :

sarah@innectogroup.co.uk

Tel: 0207 268 3664

33, Cavendish Square, London W1G 0PW

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Disclaimer : The details provided are based on our current understanding of business practices and experienced opinion. We appreciate that this is not reflective and appropriate of all organisations, this is to provide creative insight into other approaches that may trigger some ideas around solutions.