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Agenda

- ▶ Ingredients of Success
- ▶ Profit/Gainsharing plans
- ▶ Team-Based Financial Reward
- ▶ Broad Base (All Employee) Share Plans
- ▶ Employee Shareholder Shares
- ▶ Employee Ownership Trusts

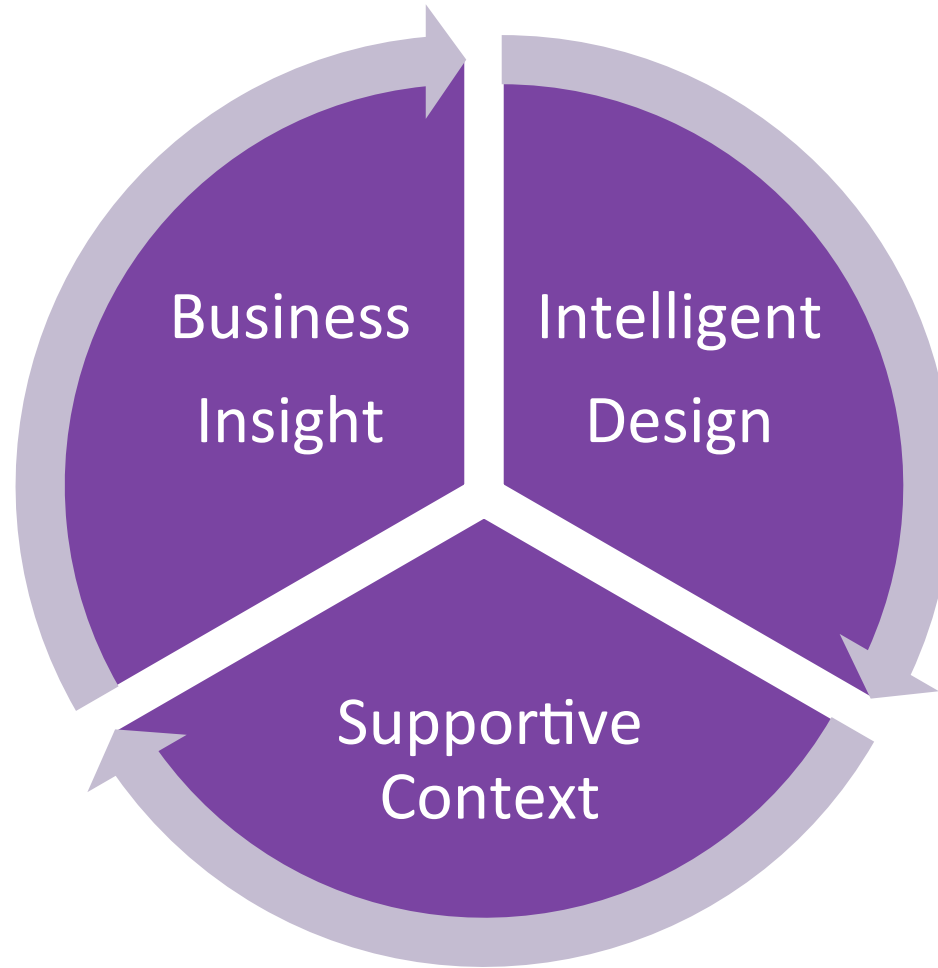
Incentives : Success

- ▶ Goals first, solution later
 - ▶ Invest time in clarifying purpose
 - ▶ Only thereafter turn attention to plan design
- ▶ Preconditions to success
 - ▶ Design and Implementation
 - ▶ Sustaining effectiveness
- ▶ A Sequential Methodology

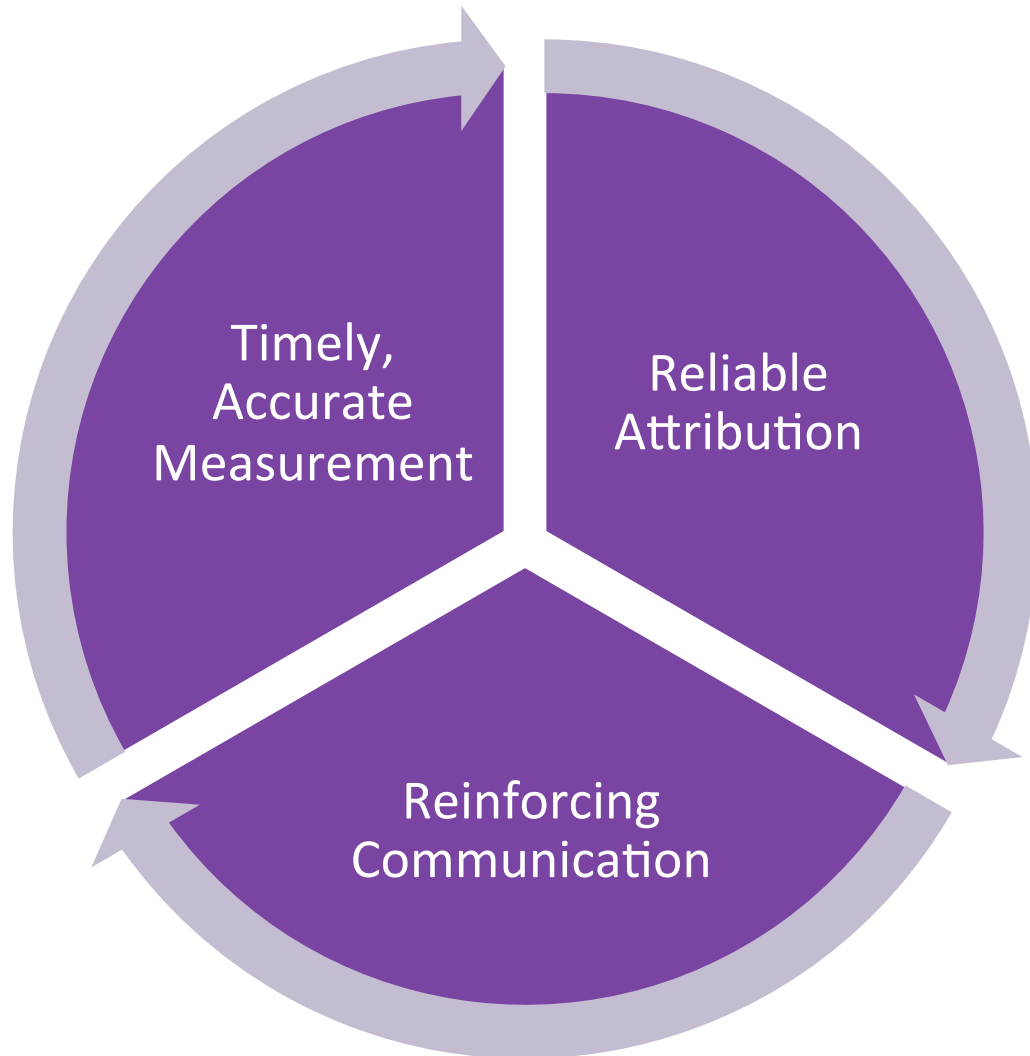
Incentive Success : Goals First, Solution Later

- ▶ **Invest time in understanding business**, who needs to be incentivised, why and over what time frame
- ▶ Decision-makers can voice frustration but investing that time upfront **de-risks and achieves sustainable solutions**
- ▶ Too many organisations move to the solution **too quickly**:
 - ▶ Because the adviser has sold them a product (e.g. CFDs)
 - ▶ Tax planning rather than incentivisation is the driver (e.g. ESS)
 - ▶ Reward professionals are not equipped to push back (e.g. SIP)

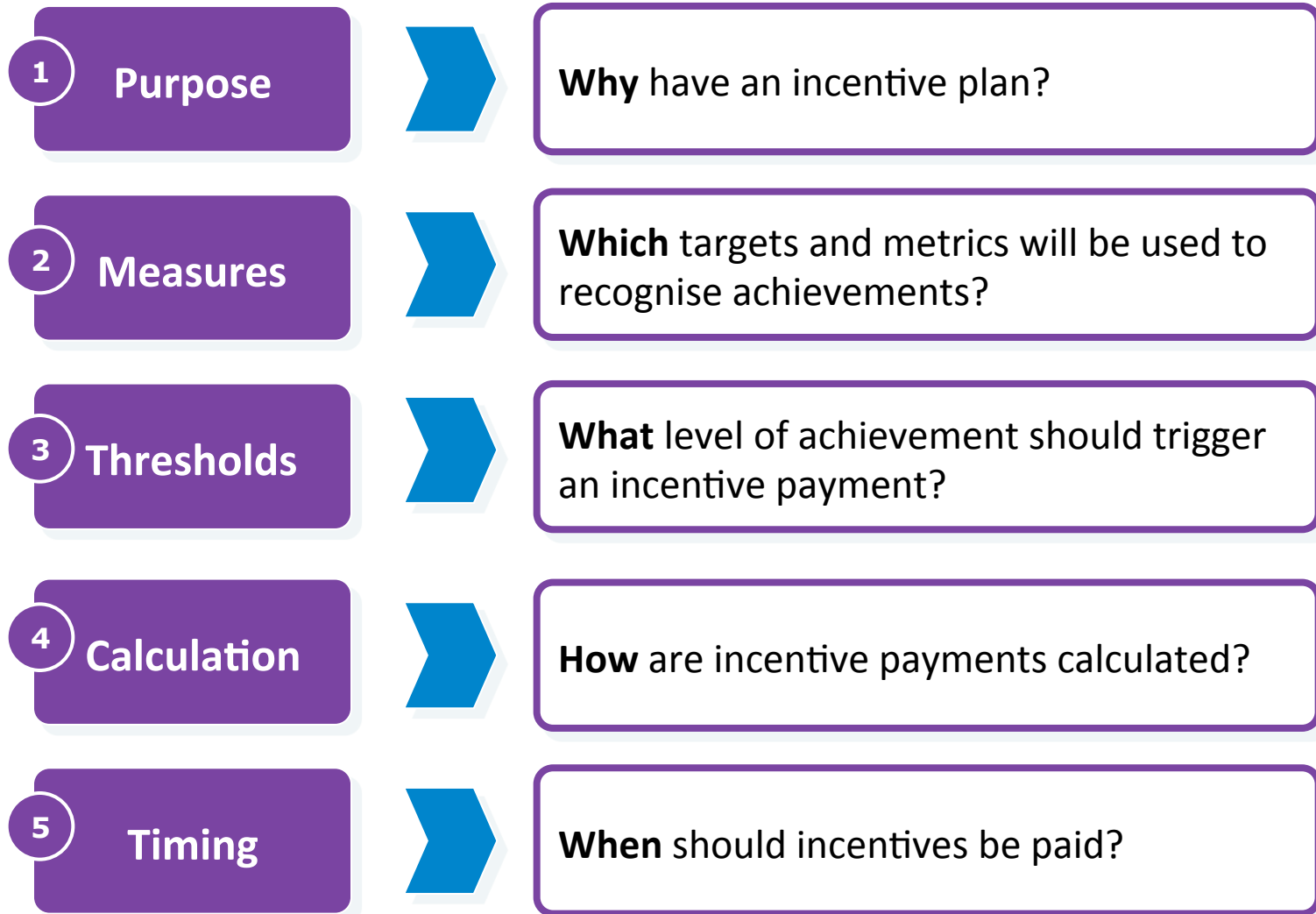
Successful Incentives : Implementation Preconditions



Successful Incentives : Sustaining Effectiveness



Successful Incentives – A Sequential Method



Profit Sharing Plans – Key Features

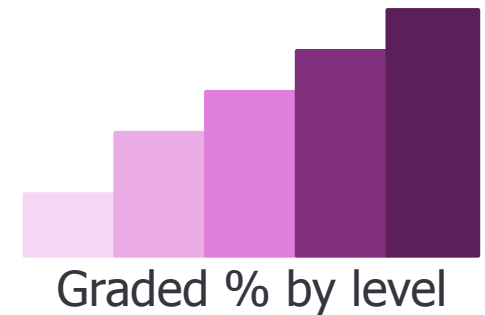
- ▶ Employees share financially in success, typically via an annual distribution
 - ▶ Assists cash flow and permits employer to **flex paybill** – only pays out if necessary levels of profit/financial performance achieved
 - ▶ Enhances sense of **common cause** and can have high face validity, especially in smaller organisations
 - ▶ **May inhibit a performance culture** – if no individual performance differentiation/poor line of sight between contribution and pay-out

Profit Sharing Plans – Key Features (2)

- ▶ A simple design, say 2%-5% of salary



- ▶ Percentage differentiated by job level



- ▶ Unitised – different units at each level

Level	Units
Director	200
Manager	100
Associate	50

Gain Sharing Plans – Key Features

- ▶ Gain-sharing - employees share in the financial gains arising from (productivity) improvement
 - ▶ May involve a variety of measures - **flexibility of design**
 - ▶ Provides a **clear link between overall performance and rewards**
 - ▶ Can be **administratively complex**, to agree and measure targets and track actual improvements
- ▶ More articles seem to have been written about them than plans actually exist!

Profit and Gain Sharing Plans – Trends

- ▶ All employee plans **used to be confined** to financial services and pharmaceuticals i.e. high margin firms
- ▶ Past 20 years have seen **increasing adoption** across all sectors, including public and third sectors
- ▶ Post financial crisis many introduced profit share plans as **alternative to salary review**
- ▶ Despite often stated ambitions at implementation, most plans **do not differentiate** by individual contribution
- ▶ Living Wage growth is causing plan growth to stall, with some retail/hospitality firms **subsuming value into base**

Team Based Incentives – Key Features

- ▶ Plans designed to **encourage group endeavour and co-operation** to achieve team goals, not individual results
 - ▶ Helps to **reinforce core organisational values** around effective teamwork and may act as a lever for cultural change
 - ▶ **Requires** teams to be stand alone performing units for which clear targets and standards can be met
 - ▶ Team, members need to be **multi-skilled, flexible and collaborative** to ensure work is delivered interdependently
 - ▶ **May inhibit organisational flexibility** – individuals may not want to move from high-performing team
- ▶ More common in manufacturing and logistics but have fallen in popularity **compared to whole company plans**

Team Based Incentives - Trends

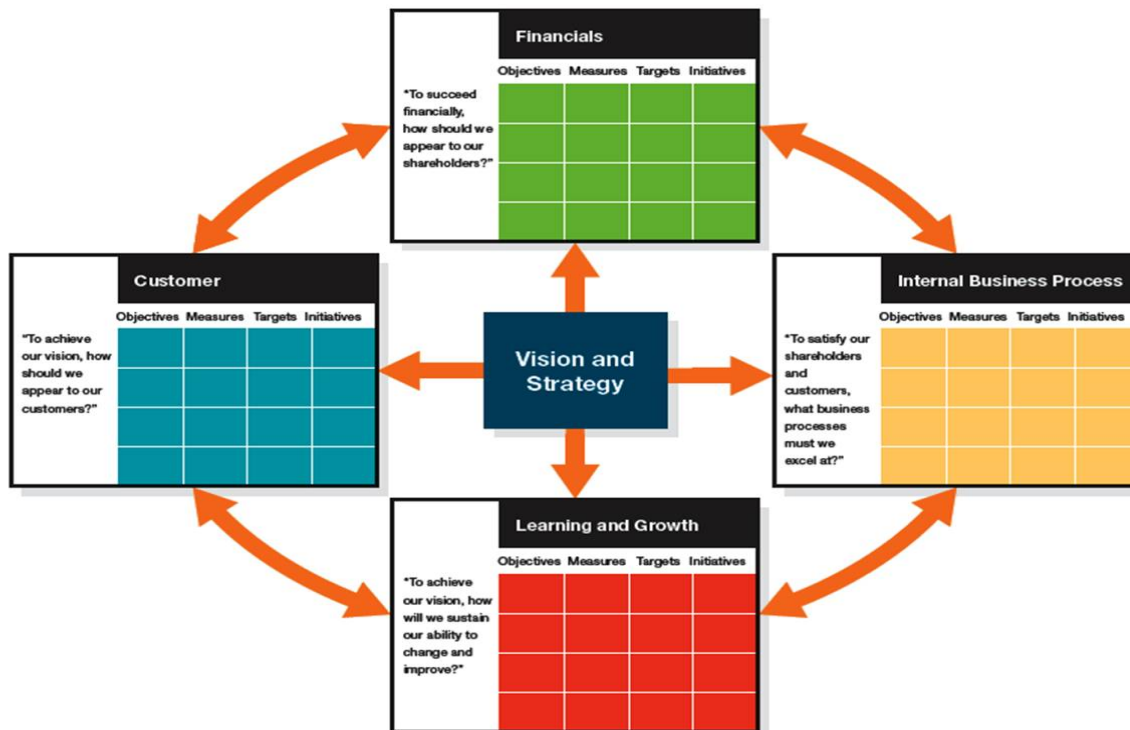
- ▶ CIPD Reward Management Survey 2014-15 evidences:
 - ▶ individual bonuses prevail but incidence is declining
 - ▶ Combined team and/or project-based more common

	Individual bonuses	Merit pay rises	Combi schemes	Individual non-monetary recognition	Sales commission	Ad hoc/ project-based	Other individual cash incentives	Individual non-monetary incentives	Piece rates
2014*	57	51	46	31	29	24	22	16	3
2013*	60	56	49	35	37	20	17	–	0
2012*	67	57	40	34	37	18	26	–	2
By sector*									
Manufacturing and production	55	41	61	35	45	29	33	16	10
Private sector services	64	50	53	32	35	26	22	18	2
Public services	48	61	20	20	2	26	11	15	0
Voluntary, community and not-for-profit	46	54	31	39	15	8	19	4	0
By employee category									
Management/ professional	53	47	45	26	20	20	16	11	1
Other employees	45	45	34	32	20	16	20	16	3

*% of respondents selecting for either employee category or both employee categories.

Team Based Incentives - Trends

- ▶ Balanced Scorecard has embedded as the new normal – may be unit based but multi-site measurement can be demanding
- ▶ High focus on customer measures - Net Promoter Score most common metric is dominating e.g. Retail

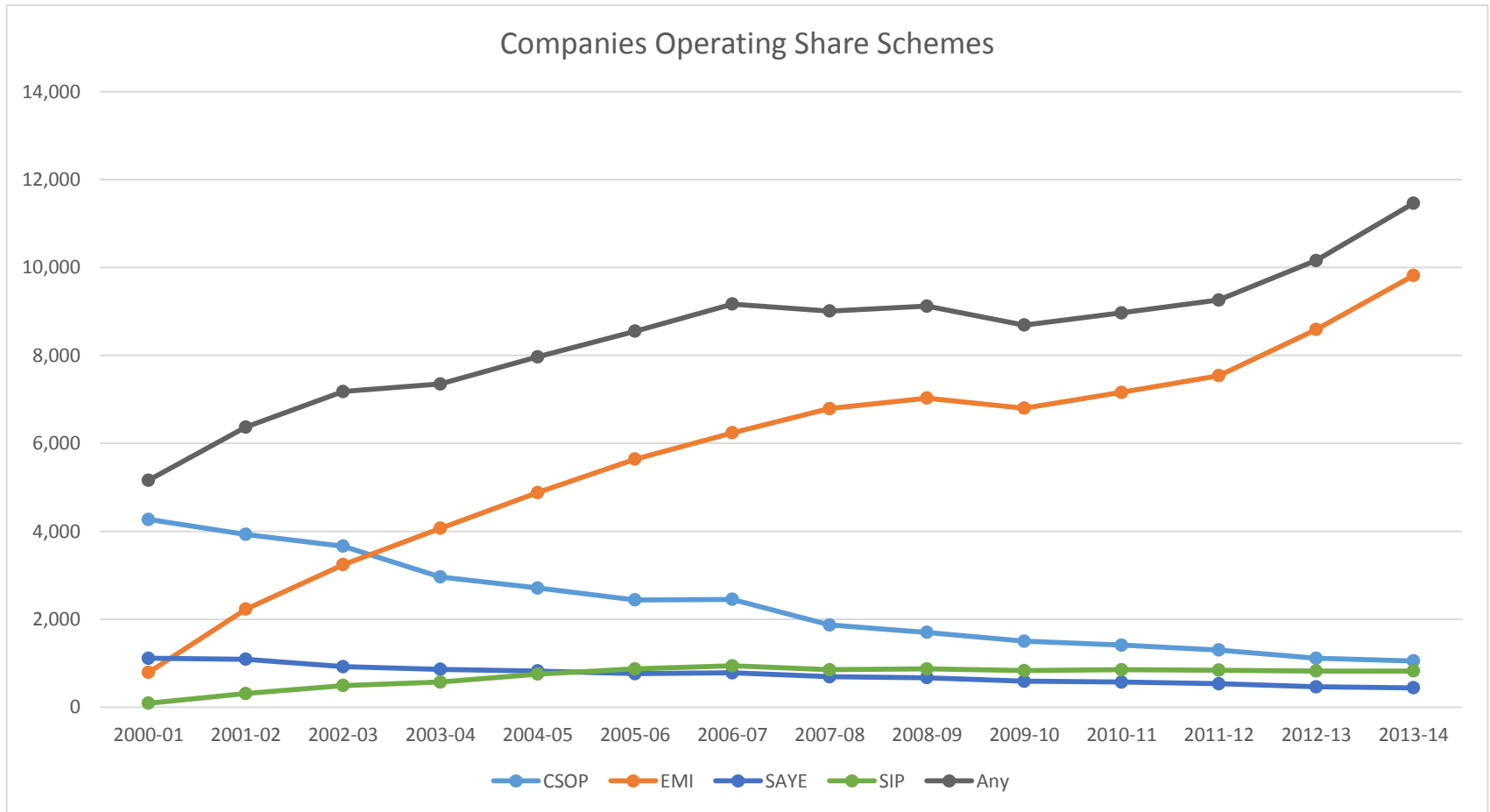


Broad Base Share Plans – The Choices

Broad Base Only	Possible Wider Application
SAYE Sharesave (Option)	EMI (Option)
Share incentive Plan (Purchase)	Company Share Option Plan (CSOP)
Employee Stock Purchase Plan (ESPP)	

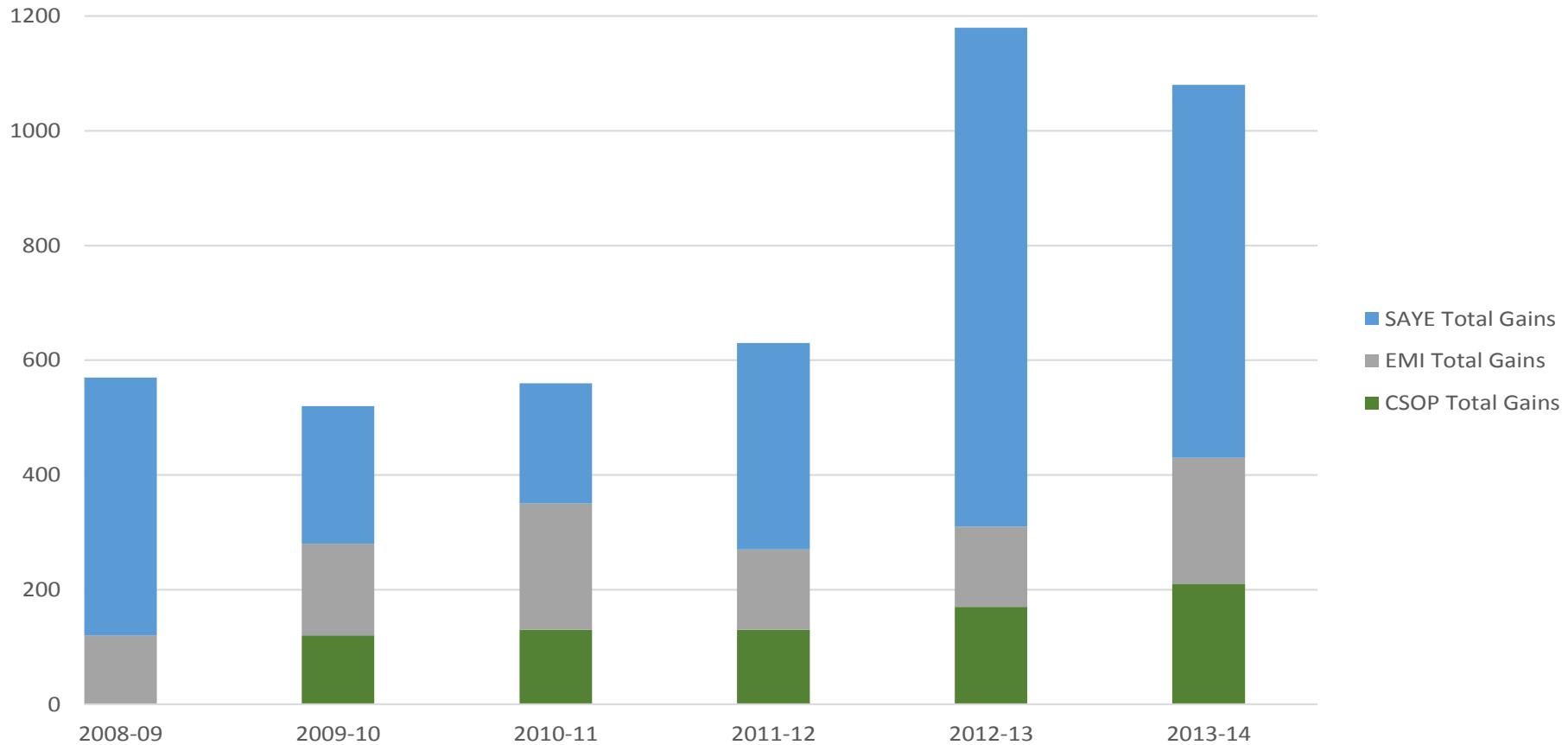
- ▶ The incentive value of left-hand column questionable
 - ▶ Participation voluntary i.e. employee determined
 - ▶ Nonetheless deliver retention value
 - ▶ SAYE & SIP achieve CGT outcomes
- ▶ Enterprise Management Incentive achieves 10% tax rate (Entrepreneurs Relief) but must be <250 employee firm

Broad Base Share Plans - Trends



Broad Base Share Participation

Gains Made for Scheme Type (£m)



Recent Developments

– Employee Shareholder Shares (ESS)

- ▶ Permits share award of **£2000** or up to £50,000 purchased, in return for surrendering employment rights
- ▶ Conservative party initiative to **free up businesses** from employment law burdens
- ▶ **Limited take up** and mostly marketed as a product sale by consultancies – postal workers the one main exception
- ▶ Often **substitutes for bonus** as a tax planning device
 - ▶ £100,000 of bonus paid to 50 employees costs company £113,800 and employees receive perhaps £58,000 net
 - ▶ £100,000 of ESS costs company earnings dilution not cash and employees receive £100,000 net
- ▶ Future appreciation is effectively tax-exempt up

Recent Developments

– Employee Ownership Trusts (EOT)

- ▶ Designed to **encourage employee ownership**
- ▶ In practice EOTs are being used by owners as an **exit route**
 - ▶ If there is no other show in town
 - ▶ If employees want to take on ownership over time
- ▶ **51% or more of a company** is passed into the ownership of an employee owned trust as an agreed price
- ▶ Profits are distributed to **former shareholders** to pay for the shares transferred to the trust
- ▶ Former shareholders/owners receive proceeds entirely **exempt from tax**
- ▶ Can be a **slow process** at a sub-optimal price