The reward Quarter

Part of the E-reward family of publications, courses and conferences

Issue 19

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Dear Subscriber,

It's a been a superb sporting summer this year with lots of great Olympic coverage and the cyclists in the Tour of Britain passing near to our office. Which got us thinking. Watching all those riders really push themselves to do their absolute best, to be the top of their game was very inspirational.

We have a research team at E-reward whose job it is to interview people we think are at the top of the reward game. People who think incredibly hard and deeply about the reward processes they implement within their companies to create a better working environment for those who work for them.

Over the years, we interviewed some fascinating people with some really interesting, motivational stories. This issue contains outlines of a few but take a look at our research reports section online to find out more case studies guaranteed to inspire debate and ideas in your own workplace.

With very best wishes,

The E-reward team

In this issue

Sales Performance Management

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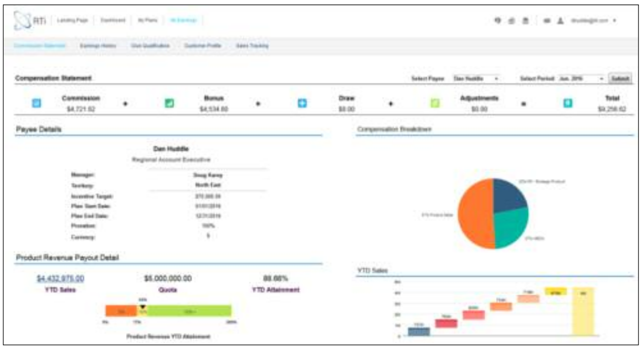

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EXECUTIVE PAY

Executive-worker pay ratios may need further thought

Publishing pay ratios – the chief executive's pay relative to the average employee – is one of the measures recommended in recent weeks by the new Prime Minister as well as investor groups to reform boardroom pay. But as **Steve Glenn** – E-reward's Head of Executive Remuneration Research – warns, disclosing pay ratios is not without its pitfalls. The devil will be in the detail.

The gap between the pay of directors in the UK's top companies and their staff is larger than ever. E-reward's latest analysis shows that, at the median, total remuneration for chief executives in FTSE 100 firms is currently over 100 times the average pay of staff in the same organisations. This compares to a multiple of 85 found in a TUC report produced by E-reward researchers just three years ago.

Such ratios have been brought to the fore in recent weeks with calls from the new Prime Minister as well as investor and other groups for companies to publish these pay differentials. Whether the publication of such ratios will act to bridge this gap remains to be seen but even if disclosure of such figures does become common practice, it is clear from our analysis that pay ratio figures are just a starting point.

While CEO-staff pay multiples are undoubtedly large, simply making assessments of ratios between companies can be misleading as there are other factors influencing the figures aside from director's total pay levels.

Because of this, more thought will be required to decide how pay ratios will be interpreted and how the factors that we outline below will be accounted for in order that when comparisons are made they are fair.

This is not to say that further scrutiny of executive pay is a step in the wrong direction, just that there is a danger that those in the media and elsewhere will seize upon published figures without any consideration for the underlying factors not relating to pay that may act to inflate or reduce the resulting ratios.

Methodology – how we calculated the pay ratios in this E-reward study

To calculate the pay ratios, certain figures were necessary:

- CEO single figure total remuneration
- Company wage bill
- Number of staff

Average staff pay was calculated by dividing the company wage bill by the number of staff enabling a pay ratio of CEO versus staff to be calculated.

Our analysis is based on the whole FTSE 350 but it excludes investment trusts and those chief executives who were not in post for a full 12 months.

New Prime Minister sets out case for executive pay reforms

Theresa May promised to put worker representatives on company boards and curb boardroom pay in a speech in Birmingham launching her campaign to become Leader of the Conservative Party and Prime Minister on 11 July 2016. Her speech – which has now taken on more significance as her last rival pulled out of the contest a few hours later – set out a raft of policies designed to "get tough on corporate irresponsibility":

"There is an irrational, unhealthy and growing gap between what these companies pay their workers and what they pay their bosses . . .

I want to make shareholder votes on corporate pay not just advisory but binding. I want to see more transparency, including the full disclosure of bonus targets and the publication of 'pay multiple' data: that is, the ratio between the CEO's pay and the average company worker's pay. And I want to simplify the way bonuses are paid so that the bosses' incentives are better aligned with the long-term interests of the company and its shareholders."

Current situation

Using figures from Summit, the E-reward executive remuneration database, our analysis examined 241 companies among the FTSE 350 with remuneration reports dated up to 30 April 2016.

We found that the median pay ratio between directors and their staff stood at 106:1 in the FTSE 100 and 41:1 in the mid-250.

As Box 1.1 illustrates, similar figures from the TUC published in 2014 illustrate that the gap has widened, although it should be noted the comparison is not based on a matched sample. Not shown in the table, the latest ***average*** pay ratio figures from Summit were even higher standing at 155:1 in the FTSE 100 and 72:1 in the mid-250.

Box 1.1: FTSE 350 median CEO-staff pay ratios 2012/13 and 2015/16

Report	FTSE 100	Mid-250
E-reward 2015/16	106:1	41:1
TUC 2012/13	85:1	34:1

Source: E-reward Summit Database (August 2016) and TUC (October 2014).

Pay ratios by staff numbers

The FTSE 100 ratios are larger than the respective mid-250 figures because directors in bigger organisations tend to be paid higher amounts whereas staff pay levels are not significantly different. This is a picture that is replicated in **Box 1.2** which shows the pattern by company size as measured by staff numbers.

There is a discernible pattern in pay ratios with the median in the largest companies, those with over 35,000 staff, standing at 124:1 compared to just 22:1 for those in firms with under a 1,000 staff with clear steps in between.

Box 1.2: FTSE 350 CEO-staff pay ratios by staff numbers 2015/16

Employees numbers	No.	Median	Average
0–999	43	21.6	36.8
1,000–3,999	53	38.1	64.1
4,000–9,999	43	57.5	67.4
10,000–34.999	58	88.2	126.2
35,000 or more staff	44	124.3	185.4

Source: E-reward Summit Database, August 2016.

Sectoral analysis

A look at the results in another way highlights that major sectoral variations also exist. As **Box 1.3** shows, the highest median ratio was in transport & leisure at 131:1 which compared to just 33:1 in property with a broad range of values in the other sectors.

Box 1.3: FTSE 350 CEO-staff pay ratios by sector 2015/16

Sector	No.	Median	Average
Transport & leisure	22	131.4	165.7
Food, drink & tobacco	10	96.9	96.8
Oil, gas & minerals	14	83.6	237.7
Utilities	4	77.4	97.1
Retail & distribution	26	77.1	106.0
Other services	34	67.1	81.7
Media, marketing & telecommunications	11	53.6	266.1
Construction & building materials	11	52.2	54.0
Chemicals & pharmaceuticals	12	48.7	74.3
Finance	44	40.9	87.2
Engineering, electrical and other manufacture	26	39.4	93.0
E-business, software & computer	6	37.0	39.0
Property	21	32.8	61.9

Source: E-reward Summit Database, August 2016.

Weaknesses of current methodology

The figures shown in the boxes above are calculated based on the best information currently available, but they suffer from certain weaknesses that any new methodology will need to overcome. From a technical perspective, the main problem at present is that there is no standardised methodology for disclosing staff numbers or wage costs so ratio figures are not necessarily based on like-for-like comparisons.

More specifically, problems with current calculations include:

- Disclosure of **staff numbers** does not always distinguish between part- and full-time workers. So a company with a large number of part-time workers can generate an artificially low figure for average employee pay thereby inflating the pay ratio.
- The **total wage bill** amount used to create the "average employee pay" figure may include executive remuneration, which will pull the average employee figure upwards, sometimes considerably, depending on the number of staff and how much the top executive is paid.
- Similarly, there are issues with the **definition of wages**. It is not always clear whether wages include incentive pay, redundancies, pensions and other forms of remuneration. In some cases, these elements of pay are disclosed separately while in others there is just one figure for wages and no indication of what is or is not included.

- **Employee numbers** may represent average employee numbers over the year, or employee numbers at the end of the year which could differ substantially if there is a major acquisition or disposal.
- Some FTSE 350 companies, particularly mining companies, employ numerous **contract staff** and there are variations in whether these are included in the wages and/or staff number figures. Since these tend to be relatively low-paid staff their inclusion or exclusion has implications for the pay ratio calculation.

Most of these problems can be overcome with standardised methodologies for calculating staff numbers and wages using full-time equivalent employee figures, agreeing on the treatment of contract staff and deciding on what should and should not be included in the wage figure.

More challenging considerations

Unfortunately, there are more challenging problems associated with pay ratios that will not be so easy to overcome – even with a standardised approach to calculation. A call for pay ratios, on the face of it, is laudable but once a distribution of pay ratios is readily available a number of limitations to the approach become apparent and further questions arise.

Taking a closer look at our sectoral analysis presented in **Box 1.3**, for example, the highest median ratio, in transport & leisure, was four times as large as the figure in property. One might expect therefore that a comparison of total remuneration figures would produce a similar differential.

But the median total CEO pay in FTSE 350 transport & leisure companies stood at £2,258,000, just 1.4 times the size of the equivalent figure of £1,562,000 found in property firms. Thus it is clear that the difference in ratios in this case is largely driven by differences in staff profiles rather than executive pay levels.

This illustrates how pay ratios can be impacted by factors other than board level pay, making assessments across companies more nuanced. In order to make fair comparisons between headline ratio figures, therefore, observers need to take account of factors such as sector and staff profile but a number of other factors are also important:

- **Location of operations:** Some firms employ a large number of low-paid staff in the "developing" world. While these pay levels may or not be low for the location in question, they are likely to inflate pay ratios. Similarly, high-skilled professional workforces based solely in "developed" economies will produce lower ratios.
- **Company size:** Executive pay benchmarking is based on company size so pay ratios in larger firms will generally be higher than those in smaller ones.
- **The make-up of a director's remuneration:** Two directors may have exactly the same pay ratio and total remuneration so on the face of it one might consider a moral equivalence. A closer examination, however, may reveal that the total remuneration for one director is largely made up of a high salary whereas the other is mainly performance-related remuneration. While the resulting pay ratios are equal many would argue that a pay package that is more heavily weighted towards performance is more desirable than one based mainly on guaranteed pay.

To highlight these issues in a more practical sense **Box 1.4** gives a selection of hypothetical scenarios making it clearer how face value figures may require more considered interpretation rather than a simple "pay ratio x versus pay ratio y" comparison.

Box 1.4: Pay ratio scenarios illustrating complexity of comparisons

Company 1	Pay ratio	Company 2	Pay ratio	Complexity
Retail company CEO with pay of £1m. Average staff pay of £25k.	40:1	Property company CEO with pay of £1m. Average staff pay of £40k.	25:1	CEO's paid exactly the same amounts but significantly different pay ratios due to sectoral differences in staff pay.
Mining company CEO with pay of £500k. Staff mainly based in Africa with average pay of £15k.	33.3:1	IT company CEO with pay of £500k. Staff mainly based in UK with average pay of £40k.	12.5:1	CEO's paid exactly the same amounts but significantly different pay ratios due to staff mainly based in low wage locations.
FTSE 30 company CEO with pay of £2m (below FTSE 30 median). Average staff pay of £25k.	80:1	Low ranked mid-250 CEO with pay of £1.9m (relatively high compared to mid-250 position). Average staff pay of £25k.	76:1	FTSE 100 pay ratio is higher but pay level is low compared to companies of similar size. Mid-250 ratio is lower but pay relatively high compared to peers.
CEO with pay of £1m: Salary of £900k, bonus £100k. Average staff pay of £25k.	40:1	CEO with pay of £1m: Salary of £400k, bonus £200k, LTIP £400k. Average staff pay of £25k.	40:1	Pay and ratios exactly the same but one remuneration package more heavily based on performance.

Source: E-reward Summit Database, August 2016.

Further questions need answering

These scenarios highlight that before embarking down the route of pay ratio comparisons, from a technical perspective, some thought needs to be given to how ratio results will be interpreted and used. Some of the questions that will need answering include:

- If there is an *appropriate* pay ratio level, what is it?
- Will *appropriate* levels vary by company size and other factors?
- Will the factors influencing large sectoral variations such as staff profiles be taken into account when making comparisons/deciding what is appropriate?
- Will the location of staff, particularly when they are employed in the "developing" world on low pay or predominately in "developed" economies in high-paid professional roles, be taken into account when making comparisons/deciding what is appropriate?
- Will the proportion of performance-related remuneration received be considered when making assessments of the appropriateness of pay ratios in individual companies?
- Because of the international differences in UK firms and their staff locations would it be more appropriate to make comparisons with some fixed measure of UK pay such as the living or average wage rather than average company pay?

Will pay ratios make a difference?

Even if these obstacles can be overcome the question of whether publishing pay ratios will really make a difference is also worth asking. Back in the 1990s, when companies were first asked to disclose their pay levels in a systematic fashion a similar argument – that this might prompt them to show restraint – was put forward.

Over the last two decades, the gap between boardroom remuneration and general pay levels has continued to grow so better disclosure did not restrain the upward trend in executive remuneration. To believe, therefore, that the publication of pay ratios will halt this trend when directors receiving particularly high levels of pay, even when performance has been unsatisfactory, are regularly "shamed" in the press seems unlikely.

Perhaps this is too cynical a view so it will be interesting to observe whether any government action on this area emerges and then, if it does, how effective will it be at halting the growing gap between board level rewards and pay in general.

What do you think? Send your feedback to us at paul@e-reward.co.uk and we will publish your comments in the next issue of the magazine.

References

Executive Excess: The gap between executive pay and employee pay within companies, Trades Union Congress, October 2014. Download the 44-page PDF: **www.tuc.org.uk/sites/default/files/Executive Excess.pdf**

Future remuneration – Pay scenarios in the FTSE 350 and SmallCap

Potential pay scenarios have been a relatively overlooked, yet informative outcome of the reporting regulations introduced in 2013. E-reward's **Adam Elston** and **Steve Glenn** discuss what they can and cannot tell us about future remuneration levels.

All too much comment and analysis of UK director's remuneration is backward-looking focusing on past outcomes. But the changes to disclosure requirements introduced by the coalition government in 2013 brought another dimension to board level pay reporting with the publication of future scenario amounts. Up to now, however, potential pay scenarios have been relatively overlooked with more interest focused on other issues such as pay ratios (see page 2) and headline earnings.

To fill this void, E-reward's latest research looks in detail at published scenario figures – how useful they are and how they vary when examined by a number of company metrics.

A positive verdict with reservations

Overall, we conclude that scenario figures are a useful addition to the disclosure requirements although they suffer one major weakness – they do not account for share price appreciation. As our findings show, over one in five directors earned more last year than their scenario maximum for the coming 12 months indicating that that they are not always a good guide to actual remuneration outcomes.

Instances where actual remuneration levels exceed scenario ranges occur where share prices have risen significantly. For the majority of companies, however, where share price movements are more modest, scenarios can be useful. Moreover, scenario figures provide valuable information with regard to the amount of stretch, or *leverage*, incorporated in different remuneration packages. This enables us to compare the level of importance placed on variable remuneration in different organisations. As a result, the overall verdict is positive.

About the data

Our analysis covers nearly 300 companies from the FTSE 350 and SmallCap indices that provided scenario figures. All figures were published in the latest available remuneration reports with year-end dates up to 30 June 2016.

More specifically, we examine:

- The amounts likely to be earned for the three stated threshold points – minimum, target and maximum performance levels in the future.
- How these amounts vary by factors such as company size and sector.
- How much more directors can earn for maximum performance levels in comparison to minimum levels of achievement – the *leverage* of remuneration packages.
- How degrees of leverage vary according to company size and sector.
- Strengths and weaknesses of the scenario approach.

New reporting requirements

The new performance pay scenario requirements, part of a raft of measures laid out in Schedule 8 of **The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013** stipulate that remuneration reports must now [part 4, para 33] "set out in the form of a bar chart an indication of the level of remuneration that would be received by the director in accordance with the directors' remuneration policy in the first year to which the policy applies."

This bar chart must contain separate bars representing:

- **Minimum** remuneration receivable. This would be basic salary/fees, benefits and pension.
- **Target** remuneration receivable if a director is performing in line with the company's expectation. This would include the above, as well as any bonuses and/or share awards received/vesting if a director was performing in line with target expectations.
- **Maximum** remuneration receivable, (though not allowing for any share price appreciation.) This would include the maximum bonus and/or share award received.

Main findings

The E-reward Summit Database records a vast amount of executive remuneration data including all the pay scenario figures disclosed in UK remuneration reports.

Essentially, pay scenarios tell us two fundamental pieces of information:

- The actual values of remuneration packages at three key thresholds – minimum, target and maximum performance.
- The degree to which the maximum and target levels exceed the minimum illustrating the impact of different

Box 2.1: FTSE 350 and SmallCap earnings scenarios 2016/17

FTSE 100		Principal director	Finance director	Other director
	No.	**73**	**70**	**50**
Scenario minimum	Median £	1,161,890	682,600	609,383
	Average £	1,261,381	744,886	741,977
Scenario target	Median £	2,822,002	1,648,500	1,536,000
	Average £	3,277,810	1,811,195	1,682,445
Scenario maximum	Median £	4,724,000	2,741,257	2,561,000
	Average £	5,975,603	3,186,604	2,900,384
Mid-250				
	No.	**152**	**140**	**90**
Scenario minimum	Median £	654,000	431,510	403,500
	Average £	695,554	449,351	447,853
Scenario target	Median £	1,420,000	886,956	796,750
	Average £	1,601,743	972,124	1,005,183
Scenario maximum	Median £	2,363,500	1,412,000	1,341,500
	Average £	2,671,516	1,602,515	1,593,746
SmallCap				
	No.	**63**	**60**	**31**
Scenario minimum	Median £	508,200	318,000	318,000
	Average £	524,011	331,880	331,880
Scenario target	Median £	1,007,000	591,000	591,000
	Average £	1,023,704	617,495	617,495
Scenario maximum	Median £	1,519,301	910,500	910,500
	Average £	1,670,212	1,023,178	1,023,178

Source: E-reward Summit Database, September 2016.

performance levels on pay outcomes, often known as the *leverage* of a remuneration package.

A look at how policy varies between companies of different sizes in the FTSE 350 and SmallCap indices is set out in Box 2.1. As one might expect, it shows a clear pattern between company size and the magnitude of potential scenario levels in FTSE 350 and SmallCap companies.

The box provides a **clear picture of the wide disparities in pay between FTSE 100 and FTSE 250 companies**, as identified in our **FTSE 350 Directors: Remuneration 2014/15 report**, as well as giving comparative data on FTSE SmallCap companies.

For example, at the median, the maximum scenario level for a FTSE 350 principal director (usually the CEO) stands at just over £4.7 million compared to equivalent figures of £2.36 million and £1.5 million for the mid-250 and SmallCap. This pattern is replicated for finance and other directors.

Perhaps surprisingly, the **differentials between pay levels in the three indices also did not vary a great deal**. For example, at the median, for all three board roles – principal director, finance director and other director – the FTSE 100 maximum levels were around twice as large as the mid-250 equivalent values and three times the values found in SmallCap companies.

Box 2.1 illustrates median and average levels. Our analysis also shows **that in some cases directors' potential earnings can be even more substantial**.

- Potential maximum reported remuneration for principal directors in the FTSE 100, for example, range from just over £400,000 to over £20 million.

- Equivalent figures in the FTSE 250 stretch from £112,626 to £6.8 million.
- Similarly, those in SmallCap firms stand between £125,000 and £6.36 million illustrating the importance some UK organisations place on incentive schemes.

Clear relationship with company size

The FTSE 350 includes a broad spread of organisations with those in the upper echelons of the FTSE 100, in particular, overshadowing others in terms of market capitalisation. For this reason, Box 2.2 gives a more detailed analysis of minima, target levels and maxima by FTSE ranking and it illustrates an even clearer relationship between company size and the magnitude of scenario levels. At the minimum level, for instance, amounts range from just over £0.5 million up to £1.5 million in companies ranked between 1 and 25 in the FTSE 100.

Examining the corresponding maxima levels for this group shows that **remuneration strategies in the very largest organisations are more leveraged** with the maximum in the top 25 companies standing at around £8.8 million at the median, a multiple of 5.79 times the corresponding minimum. This compares to a maximum of £1.5 million in SmallCap firms, only around three times the minimum level showing that these smaller companies place less importance on variable pay.

Payouts by broad sector

In addition to company size, sector is another factor that may have an impact on scenario levels and the amount of leverage found in remuneration packages. Sample sizes in the FTSE 100 and SmallCap are small when split in this way so Box 2.3 focuses on companies from the mid-250 index only with a selection of sectors.

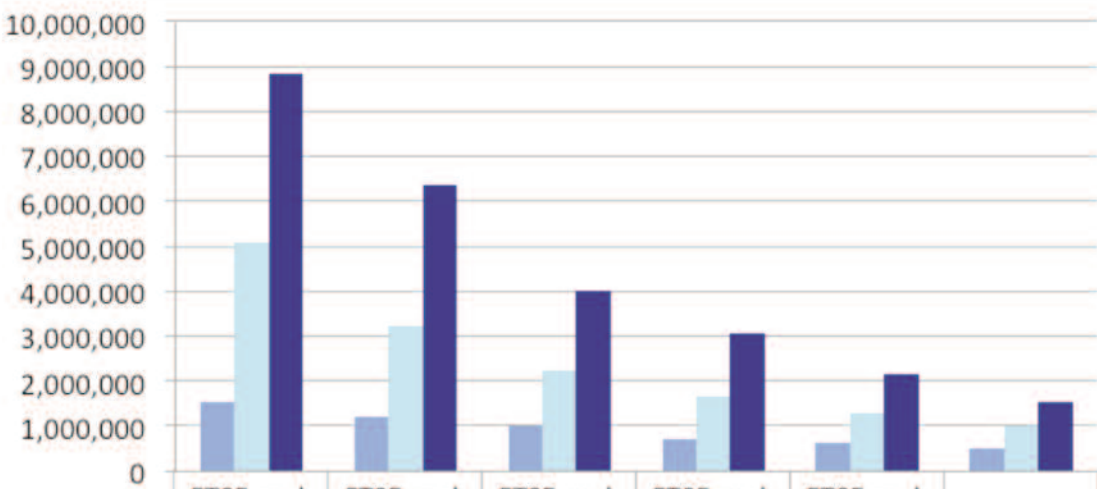
It demonstrates that while variations are not as great as between companies of different size there were differences. For example, it is clear that **amounts paid to directors in mid-250 oil, gas and minerals organisations are largest while those in the property sector are lowest**. In fact, at the median, maximum scenarios in oil, gas and minerals firms stand at around £3.3 million compared to just under £1.4 million in property companies.

Leverage levels

An alternative way of examining scenario data is to consider the leverage of a remuneration package – that is, the percentage difference between the maximum and minimum levels. More specifically, if we consider the minimum scenario to be valued at 100, we can express the target and maximum amounts as multiples of 100 providing a clear idea of the degree to which total remuneration increases with performance.

Box 2.4 gives an overview of leverage levels found in companies of various sizes in terms of market capitalisation. **Market index clearly plays a role in**

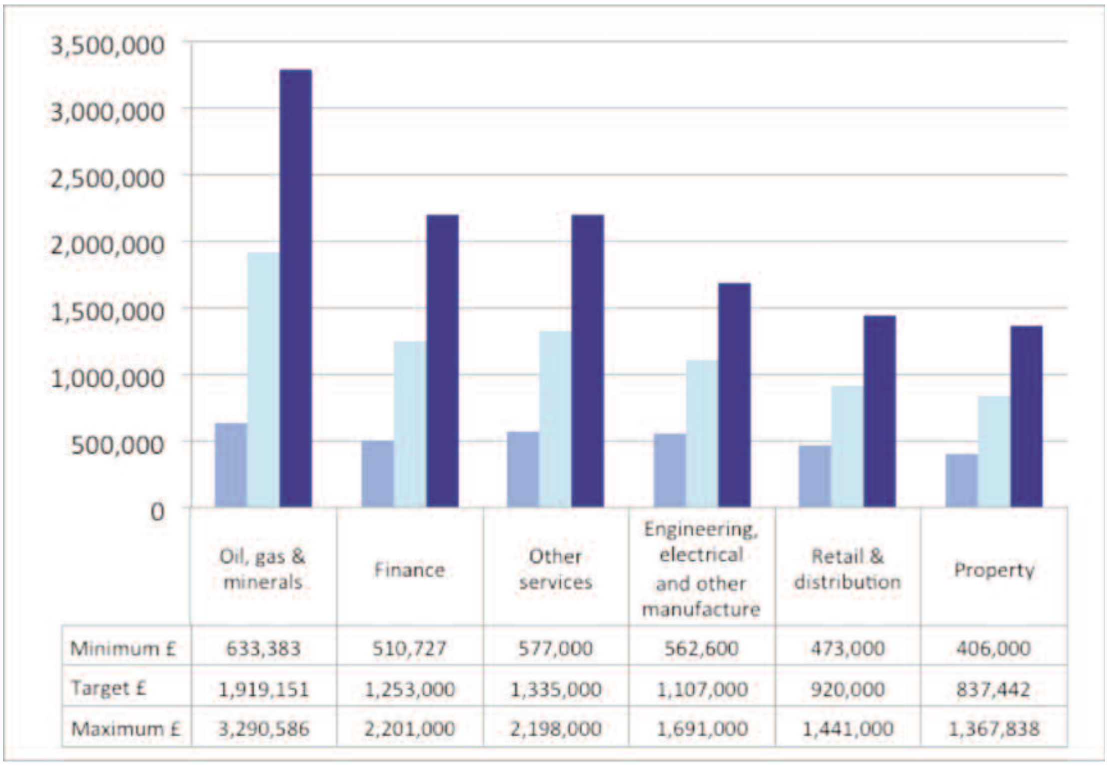
Box 2.2: Median scenario levels for principal directors by FTSE rank 2016/17



	FTSE rank 1-25	FTSE rank 26-50	FTSE rank 51-100	FTSE rank 101-200	FTSE rank 201-350	SmallCap
Minimum £	1,527,505	1,210,416	1,016,125	723,215	612,000	508,200
Target £	5,078,449	3,211,000	2,251,000	1,672,000	1,282,500	1,007,000
Maximum £	8,848,964	6,358,000	4,023,032	3,050,000	2,148,000	1,519,301

Source: E-reward Summit Database, September 2016.

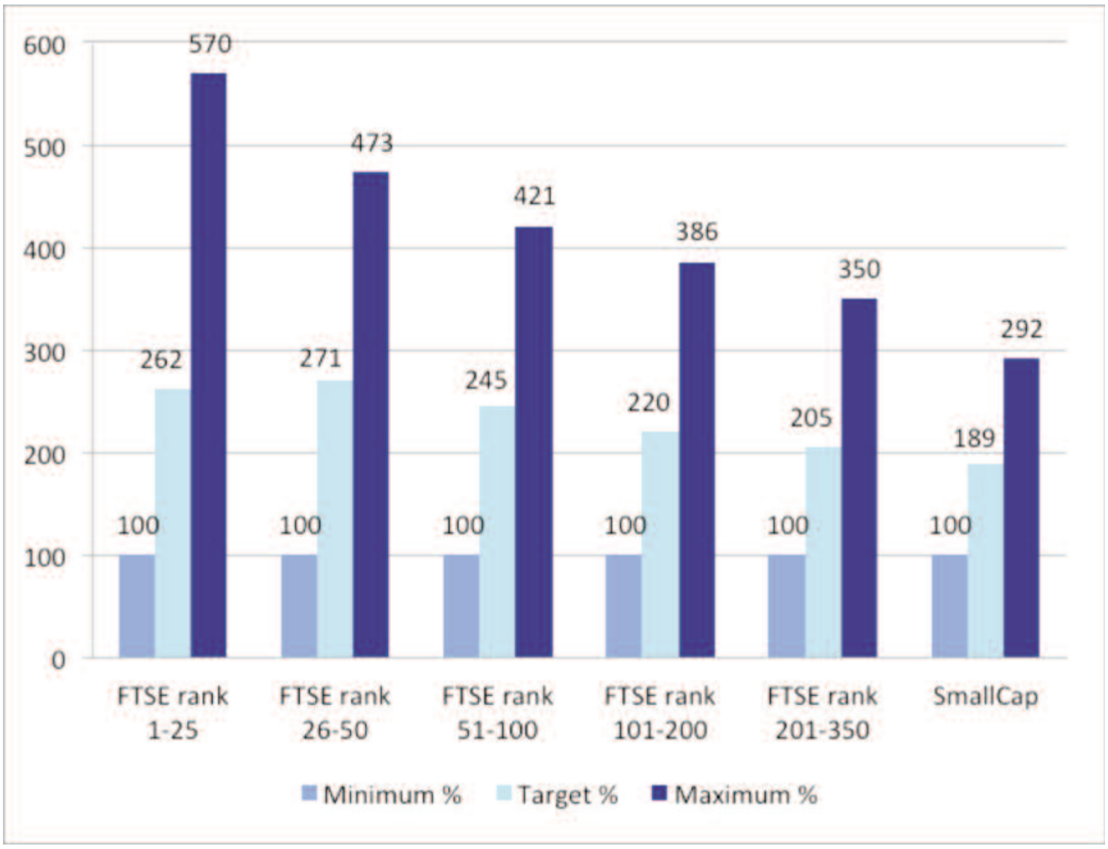
Box 2.3: Median scenario figures for principal directors in the mid-250 by sector 2016/17



	Oil, gas & minerals	Finance	Other services	Engineering, electrical and other manufacture	Retail & distribution	Property
Minimum £	633,383	510,727	577,000	562,600	473,000	406,000
Target £	1,919,151	1,253,000	1,335,000	1,107,000	920,000	837,442
Maximum £	3,290,586	2,201,000	2,198,000	1,691,000	1,441,000	1,367,838

Source: E-reward Summit Database, September 2016.

Box 2.4: Median pay leverage levels for principal directors by FTSE index 2016/17



Source: E-reward Summit Database, September 2016.

determining leverage levels, especially for maximum outcomes. Here, at the median, maximum payouts range from 292% of the minimum in SmallCap firms rising to 570% for those ranked in the top 25. In contrast, for target levels the differences are not so great but there is still a clear pattern upwards as company size increases.

In many cases, **principal directors enjoy higher incentive caps than their board level colleagues** so it is also interesting to determine to what extent this influences leverage levels. This is illustrated in Box 2.5 which gives scenario levels by broad job title.

At the median, the maximum level for principal directors was 375.7% greater than the corresponding minimum value whereas for other directors the proportion was lower at 344.5%. When translated into monetary terms the differentials are even greater because principal directors almost always have higher fixed pay levels to start with.

In fact, as Box 2.1 showed, in the FTSE 100, the median ceiling for principal directors was £4.7 million, substantially more than the £2.5 million corresponding to other directors.

Leverage levels by sector

While Box 2.3 showed sectoral variations in scenario amounts, Box 2.6 looks at leverage percentages in the same companies and sectors. It illustrates that the **order of leverage percentages is quite different from the corresponding ranking of scenario amounts** (Box 2.3).

For example, finance has moved up from second position to first place while property has shifted from last to third place. This is because the leverage percentages are determined not just by the maximum scenarios but also by minimum levels. So while one sector may have a particularly high maximum scenario level, if the minimum fixed pay is also relatively high then the leverage percentage will be proportionally lower explaining the change in order between these two tables.

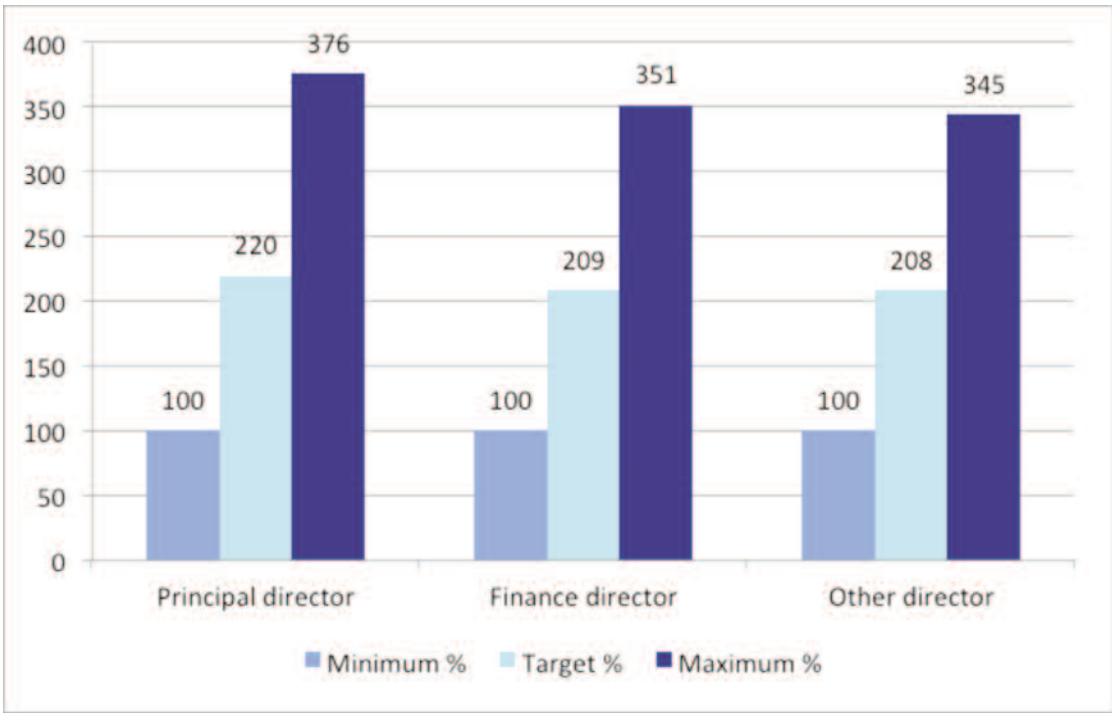
A problem scenario?

Scenario analysis of this type would have been very difficult to conduct prior to the new regulations so it **undoubtedly a major step forward in terms of remuneration disclosure**.

Despite this, the issue is **not without a number of problems** which include:

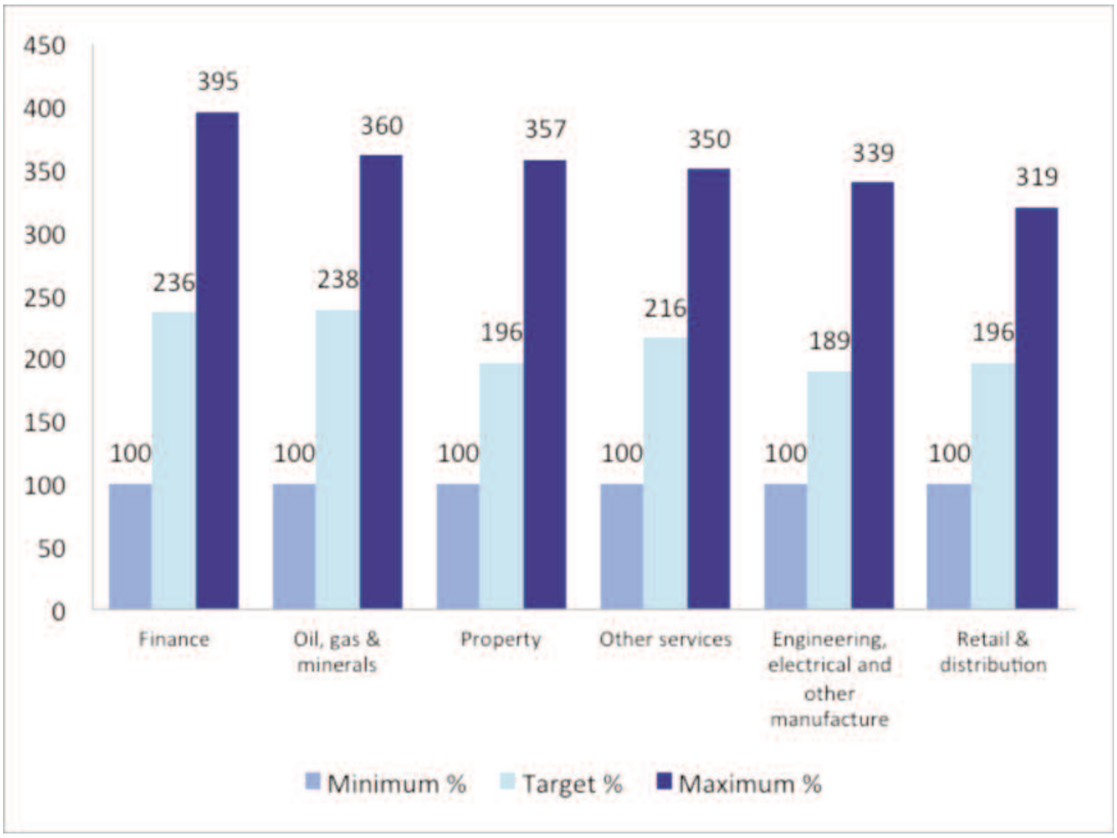
- Some companies just don't provide scenario figures.
- Some companies provide bar charts with no figures attached making it difficult to determine exact scenario figures.
- Some companies do not operate incentive scheme caps so maximum and, in some cases, target scenario levels cannot be disclosed.

Box 2.5: Median pay % leverage levels for FTSE 350 board level positions 2016/17



Source: E-reward Summit Database, September 2016.

Box 2.6: Median pay % leverage levels for all mid-250 principal directors by sector 2016/17



Source: E-reward Summit Database, September 2016.

- Because the disclosure requirements specify that future scenarios exclude share price appreciation, actual amounts received can surpass published scenarios, particularly when maximum performance is achieved, which could lead to shareholder agitation.

The first two problems listed above are simply questions of disclosure which could be easily remedied, whereas the latter two are more challenging. In the case of the third, where there are no incentive caps, some organisations have shown a way forward choosing to publish minimum and historical levels of actual remuneration to at least show they are doing their best to mirror disclosure requirements.

The final point mentioned, however, is more of a challenge. Our analysis highlights, for example, that in a significant number of cases the actual levels of remuneration received fall outside the boundaries of stated scenarios. This of course is a reflection of the fact that actual amounts earned include share price appreciation whereas scenario figures do not, which is potentially a significant issue given the fact that any observer would expect maximum performance to necessarily require a sizeable increase in share price.

One in five directors earn more than scenario maximum

Looking at this in more detail, an analysis of the amounts directors earned last year compared to maximum scenario levels for the same individuals in the coming year showed that **one in five of all directors earned more than their maximum scenario figure** (Box 2.7).

Our research also includes an analysis of just those directors who have been in post for three years. This is because those that have been in their roles for less time than this may not have had a chance to earn the stated maximum amounts because most LTIPs take three years before they vest. As the box also shows, the proportion of directors earning more than the maximum scenarios for this subset is larger, although only marginally.

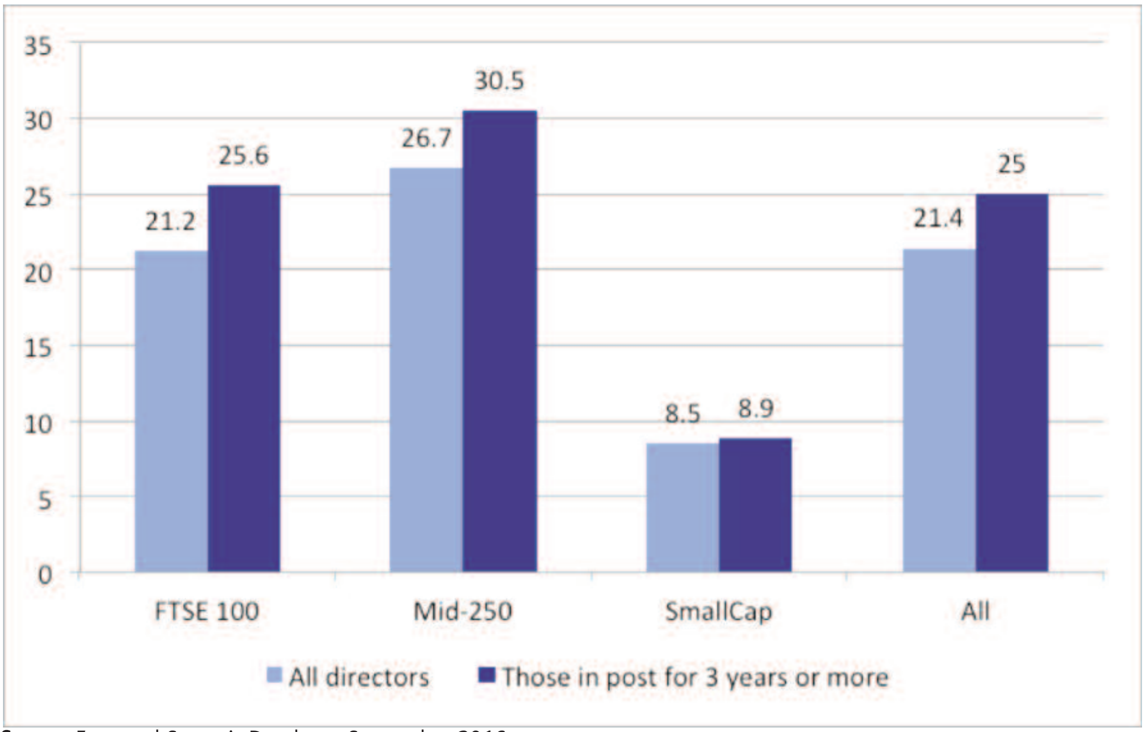
Most directors positioned at mid-level scenario

While one in five directors earned above the maximum level and the remainder below this threshold it is also interesting to examine where amounts earned actually fell relative to scenario ranges. For example, if we consider the minimum scenario level to be zero and the maximum 100, where does the most recent amount earned fall?

Box 2.8 demonstrates that **for directors in the FTSE 100 and mid-250 actual earnings fell into the top half of this range whereas outcomes were not so positive in SmallCap organisations**.

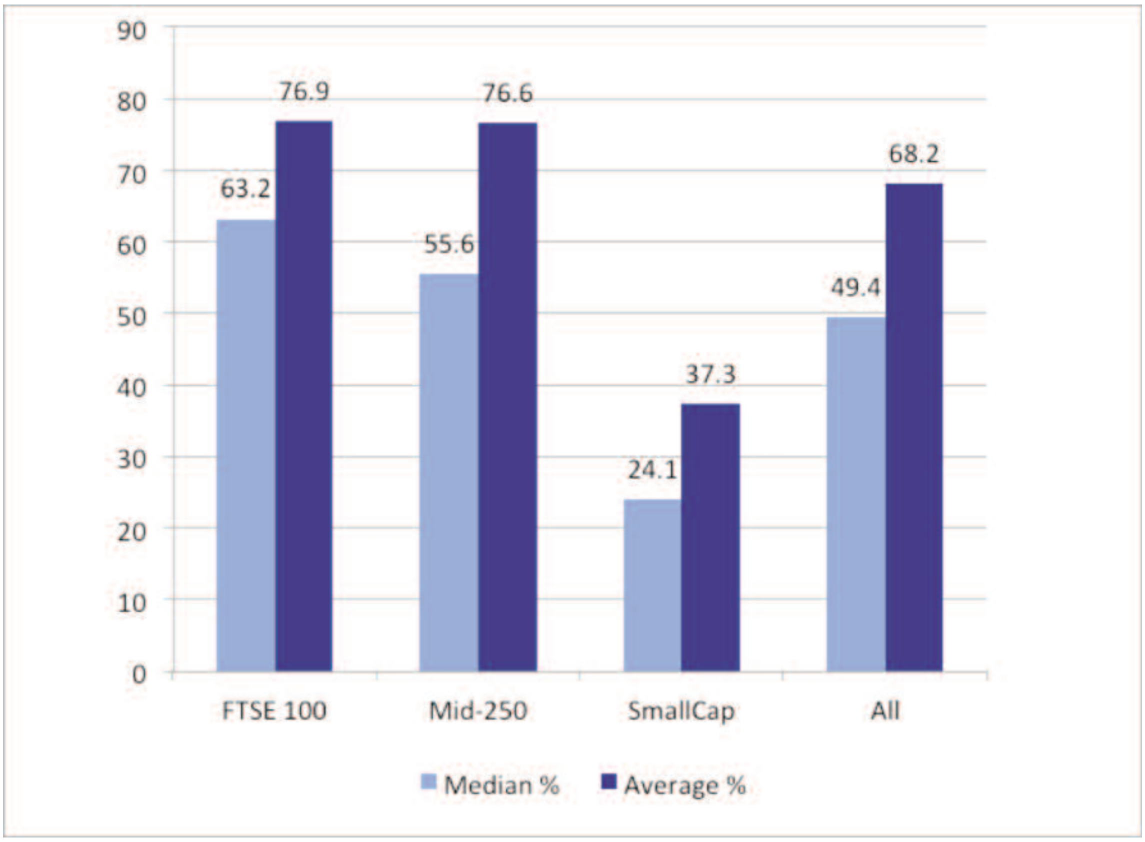
In fact, at the median, actual earnings from last year for FTSE 100 directors were positioned 63.2 percentage points above the minimum level compared to 55.6 percentage points for those in the mid-250.

Box 2.7: Per cent of directors that earned more last year than their scenario maximum for the coming year 2016/17



Source: E-reward Summit Database, September 2016.

Box 2.8: Positioning of most recent actual earnings relative to scenario thresholds by FTSE indices 2016/17



Source: E-reward Summit Database, September 2016.

In contrast, those in SmallCap companies earned amounts that represented a position just 24 percentage points above the minimum level which meant that overall, the median position for directors from all indices was more or less centre between the minima and maxima at 49.4 percentage points above minimum.

Of course, as mentioned above, these actual earned amounts are impacted by share price appreciation so are likely to benefit from an uplift of one degree or another. The findings in Box 2.8 are based on the outcomes in median companies so any share price rise is unlikely to be very large as our own analysis of share price movements illustrates. We took a subset of over 100 companies and examined movements in their year-end share prices, for instance, demonstrating a median rise of 8% in the last year.

High share price growth causes problems

Median outcomes are one thing but some organisations register **share price rises substantially greater than 8% and this is where the scenario methodology encounters problems**. In such cases, we have seen that amounts can exceed scenario maxima and, in some cases, by very large margins.

For example, at the extreme, the maximum scenario of WPP's CEO is just under £20 million whereas his 2015 actual earnings were over 3.5 times this amount at over £70 million. Where outcomes exceed scenario levels to such an extent it is perhaps more understandable when shareholders show resentment even though they were aware of the remuneration policy in advance.

More broadly, around **one in 20 directors we looked at earned over 1.5 times their maximum stated scenarios** illustrating that in many cases it could be argued that scenario maxima are meaningless or at best only really provide a rough guide to future remuneration levels.

A possible solution

A possible solution might be to publish various outcomes based on a range of agreed share price growth scenarios allowing an indication of the impact of share price appreciation at different levels.

Hargreaves Lansdown has already moved in that direction, despite the current disclosure requirements not requiring it. Its scenario charts incorporate a maximum share price growth assumption of 30% over three years for the calculation of the potential value of the LTIP award showing that this is a feasible development.

Scenarios still a useful tool

Despite the problems outlined above, we are hesitant to be overcritical of the current disclosure requirements pertaining to scenario data as they do represent an addition to disclosure levels pre-2013. So while the absence of any factoring in of share price appreciation does cause problems, scenario figures are valuable as they allow a standardised method of comparisons between the amount of remuneration leverage found across different companies which is useful and informative.

What do you think? Send your feedback to us at paul@e-reward.co.uk and we will publish your comments in the next issue of the magazine.

TOP EXCEL TIPS YOU WONDER HOW YOU EVER DID WITHOUT

This issue, **Dianne Auld**, the world's leading Excel for Reward expert, shares her top tips.

Designing Excel Dashboards

Work with "End in Mind"

1 Dashboard are not there to show off your Excel skills.

2 They are there to provide easily accessible information that can be used to improve the quality of decisions.

3 You need to think carefully about what information is valuable and necessary for decision making.

4 With dashboards, "time spent in preparation" is never wasted

Consider the source data

5 Don't design a dashboard for which there is no viable source data.

6 Design the dashboard based on source data that is readily and reliably available in a consistent format.

7 Design so that as little manipulation of the source data as possible is required.

8 If routine manipulation of the data is required, consider writing a macro to do this.

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e-reward news

All that's happening at E-reward

E-reward's 10th annual conference

Our first annual conference took place ten years ago with the irrepressible Michael Armstrong, author of countless bestselling reward books and a source of huge inspiration and good practice within the reward world.

We're delighted to say he's back at this year's event, to be held in Kensington, London on 3 and 4 November 2016. Better than ever before and now an octogenarian, he has something to teach every one of us.

Don't miss it. Call 0161 432 2584 for information on how to secure your seat or visit the "Events" page of our web site.

Arrange a demo of Summit – E-reward's executive remuneration database

E-reward's Summit Database is an unrivalled source of UK executive remuneration information for pay consultants, Remco members and reward/HR specialists. Stretching back to 2002, it includes information ranging from the largest FTSE 100 companies to the smallest Fledgling and AIM firms gathered from company accounts.

Please click on the link to view a very short video (3.5 minutes) of the database, hosted on YouTube:

https://youtu.be/fLrUAF66-Jk

Summit differs from other boardroom pay solutions because it is the first time that information on ALL the significant element of executive remuneration policy can be found in one place.

- Thousands of remuneration reports available at the touch of a button.
- Automated procedures make it easy to access information.
- Developed by experts with an unrivalled knowledge of executive remuneration.
- Comprehensive and accurate information at a competitive price.

Diary dates for 2017

Global Remuneration Professional courses and exams

8-10 Mar	London	Variable Pay (GR6)
14-16 Mar	Dublin	Quantitative Methods (GR2)
5-7 Apr	London	Total Rewards Management (GR1)
5-7 Apr	London	International Financial Reporting Standards for Compensation Professionals (T7)
3-5 May	London	Job Analysis, Documentation and Evaluation (GR3)
16-18 May	Dublin	Base Pay Administration and Pay for Performance (GR4)
7-9 Jun	London	Strategic Communication in Total Rewards (GR9)
7-9 Jun	London	Quantitative Methods (GR2)
12-14 July	London	Business Acumen for Compensation Professionals (C8)
12-14 July	London	International Remuneration (GR7)
5-7 Sept	Dublin	Total Rewards Management (GR1)
13-15 Sept	London	Market Pricing (GR17)
11-13 Oct	London	Variable Pay (GR6)
11-13 Oct	London	Base Pay Administration and Pay for Performance (GR4)
15-17 Nov	London	International Financial Reporting Standards for Compensation Professionals (T7)
15-17 Nov	London	Job Analysis, Documentation and Evaluation (GR3)
28-30 Nov	Dublin	Business Acumen for Compensation Professionals (C8)
6-8 Dec	London	Total Rewards Management (GR1)
6-8 Dec	London	Strategic Communication in Total Rewards (GR9)
Excel for Reward courses		
22-23 May	London	Excel Skills for Reward Professionals: Intermediate Level
25-26 May	London	Excel Skills for Reward Professionals: Advanced Level
Showcase conferences		
26 Apr	London	Compensation Software – 75 guest tickets available (see our web site for details)
11 May	London	Sales Compensation – 75 guest tickets available (see our web site for details

education news

Strengthen your reward skills this month and next with these classroom courses . . .

Fans or residents of the emerald isle step this way . . .

E-reward is bringing GRP (Global Remuneration Professional) classes to Dublin.

The GRP (Global Remuneration Professional) qualification is the world's most recognised reward designation. Our partnership with WorldatWork provides a foundation in all areas of reward in which an employer requires you to be competent. Nothing is left out.

Join us for the following classes in Dublin next year . . .

14-16 March 2017	Quantitative Methods
16-18 May 2017	Base Pay Administration and Pay for Performance
5-7 September 2017	Total Rewards Management
28-30 November 2017	Business Acumen for Compensation Professionals

To find out more, please visit:
www.e-reward.co.uk/education

Match the right methods to your organisation

Job Analysis, Documentation and Evaluation | 19-21 October 2016, London

This course examines the methods and processes that support job analysis, job documentation and job evaluation in order to attract and retain effective talent. You will cover various methods of job evaluation including quantitative and market-based approaches. Exercises help you see how the methods outlined in the course can be put into practice in your own organisation.

- Review strategic concepts associated with job analysis, documentation and evaluation
- Learn how to approach job analysis planning and implementation
- Discuss job documentation and the necessary components and format for job descriptions
- Examine market-based and content-based job evaluations with a focus on quantitative and non-quantitative approaches

To find out more, please visit:
www.e-reward.co.uk/education

Learn how to design a fair and competitive pay programme

Base Pay Administration and Pay for Performance | 19-21 October 2016, London

This course provides an in-depth discussion of the principles, design, implementation and evaluation of an employee base pay programme. Exercises will show how to design a pay programme that is fair, competitive and supportive of your organisation's compensation strategy.

- Identify the relationship between an employee total rewards programme and an organisation's business strategy
- Discuss the design of base pay programmes and necessary considerations
- Discover what it takes to implement and deliver base pay
- Examine pay for performance merit pay systems, including development, utilisation and costing
- Address the effectiveness and efficiency of pay programmes through monitoring and evaluation

To find out more, please visit:
www.e-reward.co.uk/education

Components, definitions and strategy

Total Rewards Management | 9-11 November 2016, London

An ideal starting point, this foundation course will teach you what is required to formulate a rewards programme that has the power to attract, motivate and retain – total rewards. You will be introduced to the total rewards model and each of its components. Emphasis is given to the five elements of total rewards: compensation; benefits; work-life; performance and recognition; and development and career opportunities.

- Gain an understanding of total rewards management
- Delve into the five elements of total rewards
- Understand the critical role of the main drivers – organisational culture, business strategy and human resources strategy
- Learn the process of designing a successful total rewards strategy

To find out more, please visit:
www.e-reward.co.uk/education

Know how your business works and recognise the relationship between the reward plan and the bottom line

Business Acumen for Compensation Professionals | 9-11 November 2016, London

In this competitive, global economy reward professionals are expected to go beyond the technical aspects of the job and think like a businessperson. To gain this understanding, you must embody business acumen skills – knowing what's going on around you and how the business works internally and externally. Having a keen sense of business knowledge is essential for better decision making and driving long-term positive results for your organisation.

This module covers the essential skills, behaviours and actions that support the understanding and development of business acumen – helping you to learn to see "the big picture", understand finance concepts, recognise the important relationship between compensation plans and the bottom line and make wiser decisions.

To find out more, please visit:
www.e-reward.co.uk/education

Are you brave enough to take this quick E-reward test????

It's only short. Try it and see. More people than you would ever guess admit to failing! Don't worry you can find out the answers below.

Q1. What is one of the first steps in designing a base pay structure?

A. Developing a base pay policy line

B. Determining the number of grades

C. Determining the salary increase budget

Q2. Which of the following establishes the foundation of an effective reward communication programme?

A. Awareness

B. Acceptance

C. Commitment

D. Action

Q3. Administering budgets is an example of what key competency for compensation professional?

A. Financial Management

B. HR Management

C. Resource Management

D. Policy Management

Q4. What is typically used to match internal jobs to survey data under a market data job evaluation method?

A. Current salaries

B. Incumbent demographics

C. Anchor points

D. Job descriptions

Q5. At what level in the hierarchy of effective communication does it begin to facilitate change, promote continuous improvement and connect to the business strategy?

A. Foundation

B. Strategic

C. Behavioral

All this knowledge and much, much more is covered in our Global Remuneration Professional (GRP) courses taking place in London every month in association with WorldatWork. Each one taught by a senior professional in the field they are a superb way to gain truly expert reward knowledge.

To find out more: **www.e-reward.co.uk/education/grp-qualification**

Answers:

Q1. A

Q2. A

Q3. A

Q4. D

Q5. C

case studies

In each issue of *The Reward Quarter* we'll look at our recent case-study research. These case histories are printed in full in the monthly research reports, *Reward Blueprints.* Our case studies are written to give you an over the shoulder view and enable you to see how named organisations plan out their own reward practices. We'll show you precisely how leading professionals are putting all the theory into practice and making it work.

Gap Inc. fashions a new approach to performance management

In 2014, Gap Inc. launched a new performance management process – "Grow. Perform. Succeed. (GPS)" for its headquarters' employees worldwide. The company is now in the process of developing a slightly modified version of GPS for its retail store and distribution centre staff.

Gone are the formal reviews and performance ratings of the past – instead, managers and employees are encouraged to have 12 informal, undocumented conversations about performance over the course of the year. Gap Inc. believes that GPS has "repurposed thousands of working hours and millions of dollars from tasks that did not drive performance to discussions that do". What's more, staff surveys suggest employees feel that the new process is providing them with better feedback, offering more opportunities to learn and driving them to higher levels of performance.

This Gap Inc. case study is the first part of a major E-reward project on "new" approaches to performance management. It comprises a batch of in-depth case studies designed to highlight how a wide range of disparate organisations are rethinking their approach to performance management.

GAP Inc, a global fashion business, employs more than 140,000 people worldwide. It generates net sales of $15.8 billion and has a world headquarters in San Francisco. E-reward interviewed San Francisco-based Rob Ollander-Krane, Senior Director of Organisational Performance Effectiveness.

The old style

Gap Inc. used to have what Ollander-Krane refers to as a "traditional" performance management process – with goals setting at the beginning of the year, a single end-of-year review meeting and performance ratings.

The ratings process was directly linked to the Gap Inc. bonus scheme, with higher grades leading to bigger payouts. "The way the process was set up, I think most employees saw the end-of-year performance discussion – which sometimes captured information that was 15 months old – as something they had to suffer through in order to get to their rating and find out how much money they were going to get," says Ollander-Krane.

And not only did the process's structure distract from actually discussing performance, it sometimes led to further difficult conversations when managers' ratings were changed to fit the company's forced distribution curve.

"We used a curve to ensure our total bonus payments stayed within the overall budget, so we would sometimes have to revise our managers' ratings down," says Ollander-Krane.

"So leaders or HR would end up having contentious conversations with managers about changing their grades, and then the managers would have contentious conversations with their employees when they had to go back and say 'I know I said you were an A, but you're really a B'."

Above all else, the process was simply not delivering results in terms of improved business performance.

All of this, combined with a growing consensus among thought leaders in the HR and performance field that "traditional" performance management had had its day, led Gap Inc. to decide the time had come to radically overhaul its approach.

The new trend

Once the decision to make a change had been made in January 2013, senior leaders got together to set some objectives for the new scheme.

It took Ollander-Krane and his colleagues the whole of 2013 to develop the new performance management framework. The first four months were spent doing nothing but fact gathering and carrying out research.

Following the research stage, a team of people from all of the sub functions within HR was assembled to design and develop the new approach.

As well as getting the content and processes of the new scheme right, Ollander-Krane was also keen to ensure it had a name and brand that would engage employees.

The team settled on the name "Grow. Perform. Succeed. (GPS)". As Ollander-Krane told E-reward: "What I really love about the name GPS is that it's an analogy for what we want our managers to do. A GPS system in your car lets you set your destination, and then if you make a wrong turn as you're driving it recalculates in real time and gets you back on the right path. If a GPS in your car waited until you got to your destination to tell you you'd made a wrong turn, you'd never get there. But that's what traditional performance management does: it waits until you get to the destination – the end of the year – before telling you you made a mistake. We wanted managers to be like a real GPS, course correcting their employees performance throughout the year."

The GPS scheme has four main components:

1. Performance Standard

2. Goals

3. Touch bases

4. Rewards

Lessons learnt

While Ollander-Krane is very happy with the impact of GPS and the way it was implemented, he admits it may have been better to separate the changes to performance management and changes to the bonus.

What went well?

"It was a hugely positive change for us. When we told the directors we were scrapping ratings I remember hearing cheers! Nobody had a problem with getting rid of the year-end process or the ratings that went along with them. And I think everyone understood the conceptual changes we made."

Where did you get stuck?

"The only place I think people got stuck was with the change to the bonus. Honestly, we could have introduced GPS without changing the bonus – we just decided to do them at the same time."

What would you do differently next time?

"Part of me wishes we hadn't done them at the same time, because I think we lost some attention on the performance side as people were so concerned about what was happening with the bonus. In a way, it was no different to what used to happen during the year-end conversation – people weren't hearing what we were saying about performance because they just wanted to know how much money they were getting! By combining the changes we almost created the same paradigm."

Interested to read more?

Read the full story and interview in *Reward Blueprints* 110, April 2016. To subscribe and have a constant source of ideas and commentary, please visit:

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REWARD BLUEPRINTS 110

Published: April 2016

Microsoft removes ratings and encourages collaboration

Microsoft has overhauled its previous system of performance management – which used a process known as "stack ranking" to divide employees into five performance categories along a targeted distribution of ratings – and replaced it with a new approach to performance and development that emphasises collaboration, feedback and rewards for impact.

Lisa Dodge, Director – Global Performance Programs, told E-reward that the change – now covering its 112,00-strong workforce worldwide – has brought positive results, with over two-thirds of employees and managers expressing satisfaction with the new approach in staff surveys.

Early in 2013, Microsoft began a journey to transform itself – moving from operating primarily as a software developer to offering a diverse range of devices and services. It required employees to embrace faster development cycles, be more accountable for their results and – most importantly – to collaborate much more closely with colleagues across the business.

To make the transformation a success, it needed employees to work together and to leverage each other's work – a fundamental change from the previous focus on individual accomplishments. A new approach to performance management was required that would motivate people and underpin this collaborative work environment.

The old approach to performance management . . .

Individual performance was rated on a five-point scale in an end-of-year review. A targeted distribution required managers to work toward the specific distribution of ratings at different levels.

Managers and employees did not like the constraints.

There was too much focus on where the employee had been rated on the distribution. It encouraged an unhealthy degree of internal competition and undermined teamwork between employees who knew there were only so many higher-level ratings to go around in an organisation.

Dodge says: "It worked against collaboration, and it also got in the way of innovation and risk-taking."

. . . and the new approach to performance and development

The new approach to performance management is very different. In fact, Microsoft no longer refers to it as "performance management" but rather "performance and development".

As Dodge explains: "The outcome of the old end-of-year review usually felt like a judgement, rather an opportunity for employees to learn and get better. The focus of our current approach is designed to help people deliver great impact by working together, reflecting and getting feedback more often, and more intentionally considering learning and growing – and as a result deliver continually better business results."

The key to the new approach is its simplicity and its deliberately limited application. Dodge believes the previous approach tried to do too many things. In contrast, Microsoft's new approach was explicitly designed to "optimise for just three things":

- To deliver results differently through teamwork.
- To provide feedback that helps employees learn, grow, and deliver results.
- To reward employees' contributions to business impact.

Microsoft adopted the idea of "enterprise contribution" from consultants CEB which suggests that employees can have the biggest impact on a business by combining their own contributions with the work, ideas and efforts of others.

This concept was the cornerstone of Microsoft's overhaul of its approach to performance management, framing how it now thinks about work and performance, how it has conversations about work and performance and how it recognises and rewards people.

Feedback that helps you learn, grow and deliver results

Microsoft's new approach retired performance ratings, the targeted distribution of ratings and end-of-year reviews. Instead, it encourages employees and managers to have several conversations each year that focus on the employee's impact and their learning, growth and development.

The new process is designed to provide faster and more regular feedback, and to enable managers and employees to have discussions more frequently – not just at the end of the year.

"We have removed distractions – like ratings and targeted distributions – that might get in the way of these good conversations. We've eliminated labels in favour of richer dialogue and feedback," says Dodge.

Reward contributions to business impact

The new approach also brought a change by focusing more on business outcomes, and looking at the "impacts employees have had". The goal is to ensure that those making the greatest impact receive the greatest rewards.

Managers are more empowered to make reward recommendations for their employees within the new system – and, without the targeted distribution, they also have more flexibility in how they allocate rewards. The formal calibration process has been replaced with much lighter discussions around impact.

Interested to read more?

Read the full story and interview in *Reward Blueprints* 112, July 2016. To subscribe and have a constant source of ideas and commentary, please visit:

www.e-reward.co.uk/research

Balancing benefits globally at Reward Gateway

Employee engagement technology company, Reward Gateway has expanded rapidly over the past ten years. Founded in the UK in 2006, the company now employs over 300 people across Europe, the United States, and Australia. Its business model has changed from providing employee discounts to offering a wide range of employee engagement technology in a variety of countries.

Debra Corey joined the company as Group Reward Director in late 2015, and one of her first key projects was to conduct a review of its global rewards for the 300-strong workforce. According to Corey, she was tasked with "making sure that we had the right mix and balance of rewards to meet the engagement needs of our growing global workforce."

New parental leave benefit

As part of this brand new benefits package, Reward Gateway has unveiled a new parental leave benefit. The company has ditched the traditional maternity and paternity policies and moved to a gender neutral approach giving all employees, regardless of gender, unlimited paid time off during their child's first year of birth or adoption. This gives employees the choice, flexibility and financial support to decide what's right for them.

In addition, Reward Gateway announced it will be adding other benefits over the next few months, including new benefits it has named "choose your package" and "wellbeing choice". These offer flexibility and choice to employees around the world regarding paid time-off and wellbeing. Employees will get 35 days paid time off (an increase from 30) with the added bonus of being able to increase their salary by reducing the number of days or decrease their salary by increasing the number of days.

These round out a "very competitive and creative benefits package" to include unique ones such as an all employee share programme, staff lottery, a free book benefit, and wedding and new baby bonuses, as well as free healthy breakfasts and drinks to name a few. All these benefits are available to employees company wide, from Australia to Macedonia.

A final word

Corey said:

> "At Reward Gateway, we are committed to providing our employees with benefits which deliver against our new principles, and used the review to make sure that every benefit ticked each and every box. The changes we've made to parental leave is an example of how we changed a benefit to align with these principles, and is something we are incredibly proud of. We want all our employees, regardless of gender, to be able to spend time with their children, safe in the knowledge that their role will be there for them when they're ready. As a parent myself, I'm incredibly proud that Reward Gateway is implementing this. Paid parental leave is an important contributing factor to help reduce the gender pay gap, get more women into C-Suite positions and strike a healthy work life balance.'

Interested to read more?

Read the full story and interview in *Reward Blueprints* 111, June 2016. To subscribe and have a constant source of ideas and commentary, please visit:

www.e-reward.co.uk/research

REWARD BLUEPRINTS 111
Published: June 2016

Recognising Champions at Siemens

A recognition programme called *Champions* at global company Siemens has paid out more than £3.8 million in awards to employees since its launch in May 2009. The programme is designed to align with Siemens' company values, driving employee behaviours that support "responsibility", "innovation", "excellence" and its commitment to "zero harm".

The Champions recognition programme covers just over 14,500 people and is designed to ensure that Siemens in the UK, Ireland, Denmark, Sweden, Finland and Norway delivers its customers the highest quality service and products.

Champions started life in the IT division of Siemens in the UK: "Siemens is a large organisation and operated a number of different schemes, which were harmonised into a single one provided by P&MM in 2009," Amanda Bullough, reward consultant at the company explains.

After its origins in the UK, Champions was rolled out to Siemens operations in Ireland and subsequently the Nordic region, giving it a definite international feel, Bullough adds.

Designing a Champion

The scheme is anchored in peer-to-peer recognition, offering employees the opportunity to nominate colleagues' exemplary behaviour and reward one another through a tiered system, starting with a simple eCard "Thank you" up to high-value gold awards presented at a glitzy annual ceremony.

A points total representing the value of a monetary award is deposited into an individual's P&MM reward account and employees can select how to redeem it.

"Most people opt for a re-loadable gift card – 30% of all points awarded are redeemed through Amazon cards," Bullough says. "Merchandise is less popular."

Recognition not reward

Bullough and her colleagues make it explicit that the Champions programme is about recognising contribution over and above what is expected, in other words, recognition is separate from other aspects of reward or performance management.

Communicating the programme

Communications are vital in any recognition programme and Siemens decided 18 months ago to stop using non-personalised, "broadcast" emails to promote Champions. The strategy is now to use local communications partners in the different operating businesses to promote the programme.

Bullough says: "The communications partners are close to the leadership teams in their own business and know their people and the best way to communicate with them."

All managers are required to "get on board and role model Champions", supported by bite-size online training sessions and sessions on recognition during inductions.

Bullough explains: "The main, and perhaps most effective, type of communications occurs when people get an award and talk about it. We encourage employees to post online about what they've used their points to 'buy', which all works to present the scheme as a business-led one, rather than an HR initiative"

Lessons learnt

Bullough suggests the following "do's" and "don'ts" for those wanting to align recognition with business values and strategy:

Do:

- Make your external provider a strong partner: select a firm that can offer industry best practice.
- Make the scheme as broad as possible, for example, by providing different levels of award so both ends of the spectrum are covered.
- Implement a strong communications plan that reflects the aims and purpose of the programme.

Don't:

- Omit to consider how employees will access any online platform, particularly those who might not have easy online access at work.
- Have a scheme that is out of kilter with your corporate values.
- Operate a scheme that rewards behaviours counter to your business strategy.

Interested to read more?

Read the full story and interview in *Reward Blueprints* 109, March 2016. To subscribe and have a constant source of ideas and commentary, please visit:

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REWARD BLUEPRINTS 109
Published: March 2016

book review

Effective HR Communication: A framework for Communicating HR programmes with impact.

Author: Debra Corey.

Published by: Kogan Page.

Pages: 232.

Date: March 2016.

The always inspiring and enthusiastic Debra Corey could probably inject her passion for HR into just about anything and this book is no exception. Insightful stuff, the book starts with the importance of communication and goes on to guide the reader through each step of how to really achieve it.

But not just any communication. The Corey model is planned, well thought out and appropriate for just about any HR challenge.

One of the books particular strengths is her encouragement to open our minds to new ideas – something that is often easier said than done but Corey shows us the benefits of listening to everyone. After all, we never know where the next great idea will come from.

The chapter on "Content" also attracted the liberal use of our highlighter pen. Plenty of food for thought here and guiding principles we will return to again and again.

The process of "testing" is also covered in detail, hand holding us through what to do and what not to do. I chuckled wryly at her Thomas Edison quote, "I have not failed 10,000 times, I've successfully found 10,000 ways that will not work".

This is a thorough book which cover all aspects of communicating HR programmes. One that has certainly earnt itself a place on the E-reward bookshelf and will no doubt be referred to for many years to come.

Effective HR Communication introduces a six-step 'IMPACT' model to explain and demonstrate the critical steps to be followed when developing a communications campaign:

Understanding the communication needs and requirements of employees

Developing the most robust objectives

Selecting and developing the appropriate medium

Planning a campaign in an effective manner

Leveraging the support of business partners

Developing effective communications content

Measuring the success of the campaign.

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About the author

Debra Corey is an experienced HR professional, with over 30 years of experience as a rewards practitioner. She is currently the group reward director at Reward Gateway, having held similar roles at global organisations such as PageGroup, Merlin Entertainments, Quintiles, Honeywell and Gap. Debra has developed and led a variety of award-winning communication campaigns, and currently teaches compensation & benefits courses through WorldatWork and E-reward.

data

Latest analysis from Summit Executive Remuneration Database, September 2016

Figures are for Principal directors – the leading director on a company board, usually the Chief Executive Officer but in some cases the Executive Chairman, Managing Director or a combination of these roles. Data relates to those in post for the full 12-month period covered by the financial year.

FTSE 100

£pa

	No.	Lower quartile	Median	Average	Upper quartile
Salary	87	663,598	840,000	838,204	982,375
Fixed Allowance	3	950,000	1,000,000	1,200,000	1,350,000
Benefits	86	21,000	41,695	98,576	77,750
Cash Bonus	81	448,000	672,000	847,923	1,057,536
Deferred Bonus	64	349,538	553,333	695,087	697,201
Matched Share	11	634,500	1,339,000	1,483,402	1,856,643
Misc/Other	19	7,500	64,071	202,166	236,938
LTIP Only	69	571,000	1,740,500	3,239,137	2,712,000
Share Options	1	281,000	281,000	281,000	281,000
Total	87	2,365,305	3,724,885	5,388,874	5,454,802
LTIP Award Total	79	1,381,543	2,003,995	3,165,045	3,463,638
Deferred Award Total	49	347,701	469,520	811,029	689,763
Options Award Total	9	1,845,516	2,287,025	4,972,274	3,416,002
Matching Award Total	15	716,631	1,077,890	1,634,264	1,615,569
Salary Rate	73	713,000	844,104	860,295	1,000,000
Scenario Min	63	988,500	1,187,000	1,245,083	1,513,920
Scenario Target	61	2,478,923	2,934,640	3,372,321	3,881,000
Scenario Max	63	4,099,016	4,967,000	6,222,077	7,949,191

Mid-250

£pa

	No.	Lower quartile	Median	Average	Upper quartile
Salary	195	448,000	522,000	545,216	600,000
Fixed Allowance	3	540,500	1,000,000	801,551	1,161,826
Benefits	187	13,452	22,994	29,993	36,000
Cash Bonus	167	197,029	352,000	445,297	573,000
Deferred Bonus	102	116,375	203,750	314,683	354,375
Matched Share	2	264,375	432,750	432,750	601,125
Misc/Other	44	1,989	4,750	162,600	91,018
LTIP Only	108	396,346	928,139	1,886,794	1,643,475
Share Options	0	0	0	0	0
Total	195	970,000	1,591,000	2,311,989	2,593,819
LTIP Award Total	163	661,885	905,814	1,159,272	1,208,458
Deferred Award Total	61	118,536	234,158	314,006	339,473
Options Award Total	2	963,892	1,202,596	1,202,596	1,441,299
Matching Award Total	17	250,522	380,999	499,225	720,000
Salary Rate	163	464,250	550,000	558,989	636,500
Scenario Min	155	557,500	662,250	708,029	784,042
Scenario Target	154	1,087,000	1,420,000	1,601,124	1,918,500
Scenario Max	154	1,809,250	2,363,500	2,646,713	3,158,250

SmallCap

£pa

	No.	Lower quartile	Median	Average	Upper quartile
Salary	53	350,000	415,000	408,866	462,150
Fixed Allowance	0	0	0	0	0
Benefits	51	11,500	19,000	22,666	29,402
Cash Bonus	36	135,862	245,000	323,455	390,250
Deferred Bonus	10	133,262	146,875	140,944	165,875
Matched Share	0	0	0	0	0
Misc/Other	7	6,000	6,000	232,943	28,800
LTIP Only	18	293,387	331,500	554,842	595,176
Share Options	0	0	0	0	0
Total	53	547,000	814,000	968,250	1,063,000
LTIP Award Total	39	384,355	470,470	626,959	684,679
Deferred Award Total	11	64,742	104,202	166,930	173,176
Options Award Total	2	78,885	104,069	104,069	129,254
Matching Award Total	1	14,886	14,886	14,886	14,886
Salary Rate	43	359,000	424,000	424,484	477,375
Scenario Min	37	418,000	498,824	517,871	636,000
Scenario Target	37	679,000	1,007,000	1,034,934	1,271,000
Scenario Max	37	1,082,000	1,499,000	1,715,367	1,748,000

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