The evolving role of the Reward function
Introduction

There is little doubt that the world of work is likely to be different in the future and some of the core features are starting to emerge. Predictions suggest the integration of new technology, changing employee demographic representation and an uncertain economic environment will all impact on how employees are managed and rewarded.

There are pressures from multiple sources on Reward functions to adapt processes and approaches for the future. Legislation like gender pay reporting requires interpretation, analysis, a narrative to explain the results and possible interventions from across HR and beyond to improve any gap. Reward functions are being asked to lead all of these in many organisations.

Reward leaders must also scan the environment to assess whether new trends and approaches can improve their businesses. One example is performance management which has been a prevalent topic in the media recently with some organisations publically removing ratings while others highlight the problems that removal may cause. The Reward function is often at the heart of the performance management process and as a result must take a lead role in reviewing approaches and recommending changes.

Our Future of Reward survey took the pulse on these subjects and other hot topics in reward during July - October 2016. The survey investigated how Reward functions are responding to changing pressures and what impact this is having on the effectiveness of reward programmes. The survey was completed by HR and Reward leaders across 61 organisations from a wide range of sectors with a combined employee base of c850,000 (a breakdown of respondents by sector is provided at the end of the report).

Summary of findings

The results show the traditional tenets of reward management such as controlling costs and delivering return on investment remain a core focus, but new external pressures are broadening the role of the Reward function. Legislation on a range of issues is one of these pressures in addition to others including external commentary on hot topics in HR. These include the need to modernise approaches to performance management or develop an employer brand to compete for talent.

We believe there is an opportunity for Reward functions to play a pivotal role in shaping the future of work – but this may require changes for some teams to position themselves to effectively contribute. Ensuring that reward programmes meet the immediate needs of today as well as being fit for the future must be a top priority alongside ensuring that line managers can deliver programmes effectively. Successful organisations will address these reward challenges in conjunction with current hot topics and legislative drivers.

This report provides detailed findings from the survey along with key considerations for Reward leaders to ensure their functions add maximum value to the business.
The future of reward survey

Our survey focused on four subject areas selected based on prevailing topics of comment and debate with companies we advise plus broader market trends and drivers:

<table>
<thead>
<tr>
<th>Subject Area</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward strategy</td>
<td>Given the range of influences on reward, how are strategies being reviewed and which influences are taking priority?</td>
</tr>
<tr>
<td>Impact of regulation</td>
<td>Reward continues to be subject to new legislation including gender pay reporting, the living wage, the apprenticeship levy and pension allowance cap in 2016/17. Which of these is having the most significant impact and how are organisations responding?</td>
</tr>
<tr>
<td>Employer brand</td>
<td>Communicating the totality of the employment offer has also attracted considerable attention in the media as organisations in competitive talent markets look to leverage and sell the benefits of their particular offer. What are organisations doing in this space, and what do they consider to be their employee brand differentiator?</td>
</tr>
<tr>
<td>Performance management</td>
<td>Performance management has perhaps been the hottest topic in the HR space over recent years. A number of large, well known organisations have publically removed performance ratings. However, studies suggest this may be a negative step. What are organisations doing in this space and do their actions match the commentary?</td>
</tr>
</tbody>
</table>
Detailed findings

Reward strategy influences
Managing cost and driving employee performance remain the core focus of Reward leaders. However, the external environment is generating new demands. Attention is turning to opportunities offered by digitisation and automation in addition to established factors such as the impact of changing workforce demographics. Many of these factors are of course intertwined; for example, the EU referendum result is impacting talent attraction and retention in certain sectors.

Top reward strategy factors with plans in place
- Managing cost/ROI: 83%
- Employee performance: 80%
- Business strategy: 79%
- Attraction, engagement and retention: 75%
- Market/sector trends: 72%
- Influencing employee behaviours: 71%

Top reward strategy factors influencing future plans
- 36% will plan for digitisation
- 56% will plan for EU referendum uncertainty
- 41% will plan for changing workforce demographics

“...We will be reviewing our entire benefit proposition in light of changing demographics, market trends and digitisation...”

Governance and legislation
There is increasing pressure and focus on below board reward governance, and Reward teams will be required to ensure adherence to regulations. Gender pay gap reporting is cited as the regulatory change expected to have the greatest impact on organisations. This is perhaps surprising given that the final regulations had not been published at the time of completing the survey and that other legislation like the living wage and apprenticeship levy are likely to make a more significant financial impact in the near term.

How do the following regulatory developments rank in terms of potential impact upon your organisation over the next 18 months?

<table>
<thead>
<tr>
<th>Answer Options</th>
<th>Most impactful</th>
<th>Least impactful</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apprenticeship levy</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Gender pay gap reporting</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Living wage</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Pension allowance cap</td>
<td>16%</td>
<td>15%</td>
</tr>
</tbody>
</table>

The results indicate the impact of legislation really is a mixed picture and, depending on the organisation, the demands will be different. Given the range of issues targeted by legislation, Reward leaders need to be both prepared and continually horizon-scanning for future developments, especially as more equality and executive remuneration legislation is widely anticipated.

The increased burden of legislation also creates more than just operational demands to ensure compliance. At the same time, the associated work to address the organisational change that the legislation may seek to promote is less clearly defined. Reward leaders are required to lead interventions to effect long-term meaningful change and communicate this in a compelling way. Gender pay gap reporting is a good example of this and represents new territory for some Reward functions.
Performance management and the impact of reward

Performance management
The results reflect the commentary in popular media and trade publications – performance management is a much debated focus area. This apparent need to re-focus employee efforts is perhaps unsurprising as organisations anticipate the need for new ways of working in the future, but is also being influenced by a widespread sense of dissatisfaction with bureaucratic approaches which many commentators believe are not adding value.

The results paint a confused picture. The majority of respondents report that their current approach is suited to their business needs but they plan to review it nonetheless. This may be a reaction to increased interest at board level. For example, respondents cited reviewing performance management in response to their Chief Executive directing them to do so after they read published articles on the subject.

In fact, 45% of respondents are planning to review pay for performance links in the near future. The verbatim comments were split between organisations whose plans were based on an objective to sharpen differentiation of reward based on performance (some form of rating is clearly the easiest way of doing this) and those who were considering moving away from performance ratings entirely. However, only one respondent organisation had removed ratings.

Most strikingly, a clear line management capability theme emerged. Very few respondents reported capability to be consistently great or above average. This is an interesting finding especially for those organisations who are currently considering whether to remove ratings in favour of more regular and timely feedback for employees from line managers. To make this work these organisations will need to do more than simply remove their rating approach. They will need to be sure that their line managers will be proactive in giving feedback and possess the capability to have those conversations – especially the difficult ones - effectively.

Overall, the results indicate that there is not a one size fits all approach and removing ratings may be appropriate for some organisations but not others. Any changes must be suitable for the business in question and the needs of its workforce at the time.

Impact of reward strategy
The question posed by these results is whether reward strategies are being neglected because of competing priorities, or whether they simply need review because of the changing external environment.

In our view, the results suggest that Reward functions have a unique opportunity to make the most of their broadening roles and do more to improve business performance and drive the behaviours that organisations need in a changing environment.

In order to achieve this it may be necessary to think differently about Reward operating models to ensure competing requirements are addressed effectively. A potential risk of Reward’s broadening role is that it becomes reactive to external influences when capacity needs to be focussed on improving underlying reward programmes.
<table>
<thead>
<tr>
<th>Performance management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>59%</strong> were planning to review approaches in the near future</td>
</tr>
<tr>
<td><strong>85%</strong> of respondents rated line management capability on performance management as average, patchy or poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reward strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>45%</strong> could not confirm reward was driving the right behaviours from employees</td>
</tr>
<tr>
<td><strong>74%</strong> stated reward was not perceived as a strategic function capable of driving business performance</td>
</tr>
<tr>
<td><strong>48%</strong> stated their organisation did not have a 3-5 year workforce plan</td>
</tr>
</tbody>
</table>
Almost half of respondents indicated that they have reviewed employer branding activity recently or will do in the near future. The results indicate that the majority of organisations do not have an employer brand which is well understood across all areas of their business. For many, an employer brand may effectively be a recruitment proposition for a part of their business and stops short of maximising its potential benefits as a more broadly based proposition about the benefits of working for that organisation.

This focus on employer branding presents both opportunities and risks. When asked to describe the key differentiators of employer brand, very few respondents provided information on characteristics which were genuinely unique or differentiating, preferring instead to outline features of their reward package such as ‘our total reward offer’ or information about their market position e.g., ‘we are an industry leader’. This suggests that there may be a lack of understanding in some organisations about the opportunity to go both deeper and broader with employer branding to create a true strategic differentiator in talent attraction.

However, many respondents were not satisfied that their underlying reward strategies were driving the correct behaviours or that there was a clear view of the kind of workforce they needed in the next three to five years. Ensuring alignment between the brand that is communicated and the reality of the employee experience is, therefore, a challenge for these organisations, and calls into question whether real return on investment can be realised from developing a brand that is not fully aligned with reward and the wider needs of the business and its employees.

The emergence of social media platforms which gather data about the employee experience could be seen to erode an organisation’s direct control over its brand. This is especially true if, as suggested by our survey results, there is not a clearly defined and widely articulated sense of brand and identity within an organisation.

46% respondents stated they have recently reviewed or plan to review their employer brand in the next 12 months
Conclusions

The onus is growing on Reward functions to take the lead on current challenges and to manage compliance with new regulations and legislation. This is a real opportunity for Reward functions to take the lead on shaping the future of work and perhaps explains why many commentators are suggesting the HR Directors of the future will increasingly have a background in reward. In order for Reward leaders to play a more prominent role, the nature of the function may need to evolve. Reward will increasingly need to lead effectively on broader people strategies in addition to managing its traditional activity base.

Reward leaders will need to be confident in their advice and approach and ensure their functions and approaches are set up effectively to deal with new challenges. Increasingly they will need to play a key role in managing expectations around the business about which initiatives will deliver value and why, in the context of their individual business strategy.

Key considerations from the research

► A refocusing of Reward operating models to ensure roles and capabilities deliver traditional reward activities effectively whilst also leading on broader people issues

► Reward leaders must play an ever more assertive and proactive role, with the ability to manage expectations and influence at all levels, especially on the opportunities and risks of prevailing challenges

► Reward leaders need to lead debate around changes to core processes like performance management to ensure they are appropriate for their organisation; this should be the primary test, not ‘what are others doing’

► Underlying reward strategies are important drivers of business performance. These must be addressed first before moving to far reaching and complex projects such as changing performance management or developing an employer brand

Breakdown of survey respondents by sector
Further information
For further information, please contact one of the following or your usual EY contact:

David Ellis
Partner
T: + 44 20 7980 0163
E: DEllis@uk.ey.com

Rupal Patel
Partner
T: + 44 20 7951 0658
E: rpatel15@uk.ey.com

Stuart Hyland
Director
T: + 44 20 7951 8795
E: shyland@uk.ey.com

Dave Borton
Senior Manager
T: + 44 20 7951 0922
E: dborton@uk.ey.com
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP
The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

© 2016 Ernst & Young LLP. Published in the UK.
All Rights Reserved.
ED None


In line with EY’s commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk