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Championing better work and working lives

REWARD MANAGEMENT SURVEY

Management of base pay, variable rewards and recognition

Survey report
February 2021

The CIPD is the professional body for HR and people development. The registered charity champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

1 Management of base pay, variable rewards and recognition

About this report

This report is one in a series of six reports based on findings from the CIPD's seventeenth annual *Reward Management* survey. The survey focused on the impact of the COVID-19 pandemic on reward practices in the UK. Each report explores a different aspect of reward management:

- The impact of COVID-19 on finances, pay decisions and forecasts
- **Management of base pay, variable rewards and recognition**
- Employee financial wellbeing
- Employee benefits
- Reward fairness
- The Living Wage

The survey took place in October 2020 and garnered insights from 420 reward professionals spanning the private (67%), public (15%) and voluntary (16%) sectors. Survey responses were complemented by focus group discussions with expert practitioners, to delve into the stories behind the numbers.

The aim of this research is to provide readers with a benchmarking and information resource on current and emerging practice in reward management.

Overview

How employers manage fixed and variable pay hasn't changed significantly in response to the pandemic and the economic crisis. According to our survey, just 14% of employers have altered how they manage base pay, while 44% of those who use variable rewards and recognition (70% of our total sample) have done likewise. Overall, only 25% will have revised how much they have spent on employee pay by March 2021, with 50% reducing the amount and 25% increasing it.

Our research also finds that many of the changes to how employers manage both base pay and variable rewards and recognition are of a temporary nature. Similarly, many of the adaptations only apply to certain employees – depending on such factors as their salary grade, job, location, whether they are covered by the National Minimum Wage, are on furlough, and so on – rather than all staff.

Given the financial impact that the pandemic has had on respondents, with so many saying that it has either had negative (80%) or positive (9%) financial consequences, we might have expected most employers to have made changes to how they manage base and variable pay as well as the amount they spend on employee pay.

One explanation is that the reward strategy (of which pay is such an important part) has a difficult balancing act to play in supporting both an organisation's business strategy, as well as its culture, values, purpose and mission, all of which gives it its resilience and agility.

A change in the reward strategy (to reflect a shift in business strategy) might harm the organisation's intangible value while damaging employee engagement. Therefore, employers might be loath to alter their approach to pay unless there's a real and present reason, such as their business survival.

Similarly, given that so many of these changes are seen as only temporary, it suggests that most employers expect that the impact of the pandemic on the economy and society will be transient. As a result, they see no compelling need to make permanent adjustments to pay management, especially as these will have cost and, potentially, legal implications.

Another explanation is that employers do recognise that the pandemic has changed work, the workforce and the workplace massively in a relatively short space of time. However, as they've been so busy dealing with the day-to-day people consequences, they haven't had time to reflect on what the implications of this new reality mean for how they could – or should – reward, and recognise, employee contributions.

For instance, since the pandemic has coincided with Black Lives Matter, part of the new reality is a focus on *fairness*. In a workplace context, investors, customers and the general public are asking questions about the justness of people management practices. For example, do they support social mobility, employee financial wellbeing or diversity?

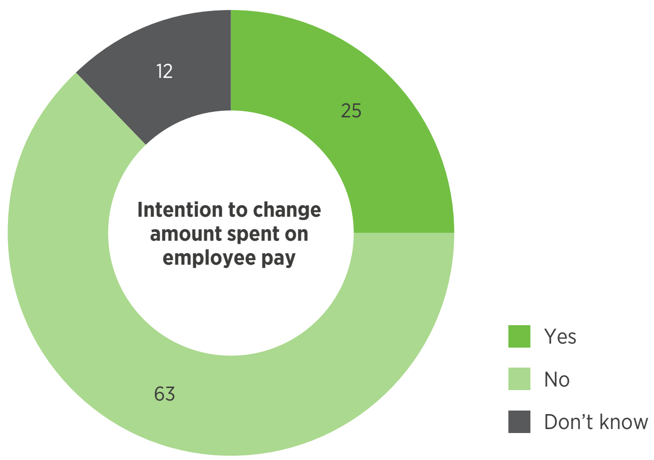
Attention has been placed on the fairness of reward processes and decisions, not only of those who are directly employed, but those employed as contractors and through the supply chain. Reward professionals have been presented with a real and present opportunity to help their employers ensure better work and working lives.

How will spending on base and variable pay change in 2021?
We asked respondents if their employer had changed how much money they spent on employee pay, was in the process of changing this amount or had made plans to do so by the end of March 2021, due to COVID-19 and the economic crisis.

The responses are summarised in Figure 1, which shows that a quarter of organisations are changing – or intend to change – the amount they spend on employee pay (this includes both fixed and variable pay but excludes benefits, which we explore in the employee benefits section).

As Table A1 in the Appendix shows, employers most likely to take such action are in the private services sector (28%) and public sector (27%). Organisations that have suffered very negative effects (38%) or enjoyed very positive benefits (40%) from COVID-19 and the ensuing economic challenges are more likely to change their pay spend than those that have noticed no effects (12%).

Figure 1: What proportion of employers will have changed how much they spend on employee pay by March 2021? (%)



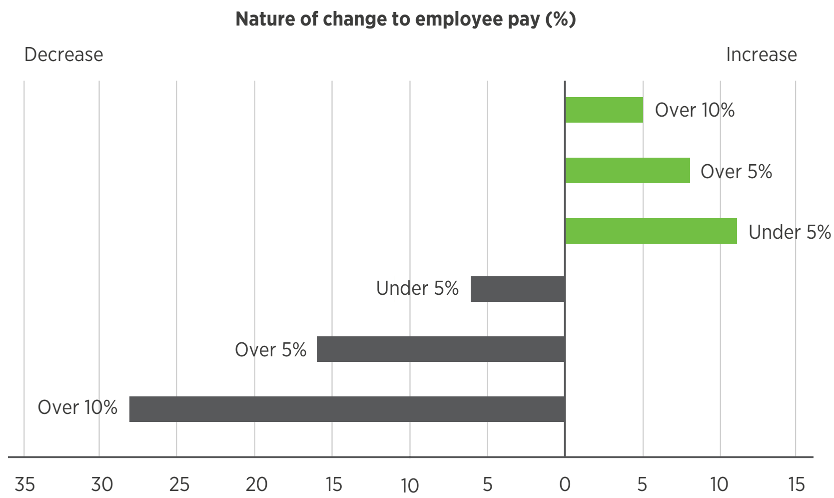
Base: n=420

Figure 2 shows that, of the 25% of respondents changing the amount they spend on employee pay, a greater proportion of employers (50%) expect pay expenditure to have fallen by March 2021 than expect it to have increased (24%). The remainder are unsure as to what the impact will be. As a percentage of our total sample, 10% of all respondents are cutting the amount spent on pay, while 5% are increasing it.

Figure 2 also reveals that the most common responses among those changing pay is to:

- cut it by more than 10%
- reduce it by between 5% and 10%
- increase it by under 5%.

Figure 2: How will the amount spent on employee pay have changed by March 2021? (%)



Base: n=83 (percentage of those changing or planning change to spending on employee pay).

Table A2 in the Appendix provides more detail on how spending is changing. It reveals that those firms that are most likely to:

- increase pay spend are in the voluntary sector
- increase pay spend by over 10% are in the manufacturing and production sector
- decrease pay spend are in the retail, hospitality, catering, leisure and cleaning sub-sector
- decrease pay spend by over 10% are in the retail, hospitality, catering, leisure and cleaning sub-sector.

As Table A2 illustrates, those employers that say that they benefitted financially from the pandemic are most likely to report spending *more* on employee pay, with 50% increasing expenditure by more than 10%, and 33% increasing it by between 5% and 10%. Fifty per cent of those reporting 'slightly beneficial effects' are increasing spending by less than 5%.

As may be expected, those that report negative consequences have been more likely to *cut* spending. Thirty-nine per cent of employers experiencing 'very negative' effects have cut pay spending by more than 10%, while 27% of those experiencing 'slightly negative' effects have done likewise.

Fixed pay management

Just 14% of organisations in our survey said they had made changes to how they managed fixed or base pay, or had plans to do so by the end of March 2021. Most (61%) reported that they had not made any changes nor had plans to do so, while a further 22% said that, although they hadn't made any alterations nor had plans to do so, they were still keeping the issue under review in case they needed to make amendments.

Table A3 in the Appendix shows that those respondents who report the pandemic and the economic crisis has had a 'very negative' impact on their employer's financial situation were most likely to make changes (23%), followed by those organisations reporting a 'very beneficial' impact (13%). Similarly, those employers that had suffered the worst were also most likely to keep their existing arrangements under review (29%).

Among the 14% of employers who've made changes, Table 1 shows which changes are being made to how fixed pay is managed. It also shows whether those modifications are of a permanent or temporary nature, indicating that they are more likely to be permanent.

The most common change is to how jobs are valued and pay rates are decided, with 43% of organisations within this group intending the change to be permanent, and 42% temporary.

This might be a response to the ongoing debate about the value of jobs performed during the crisis by essential and key workers, with many commentators reflecting that they deserve higher pay, such as linking their wages to the voluntary Living Wage.

However, just 11% of all respondents are modifying how jobs are valued and pay rates decided. This is followed by 9% who are altering the factors used to move people along their pay grades/determine the size of their pay increase; and 7% who are amending how pay grade structures are designed, and how jobs and salaries are fitted into these grades.

Table 1: What proportion of employers are making changes to fixed pay? (%)

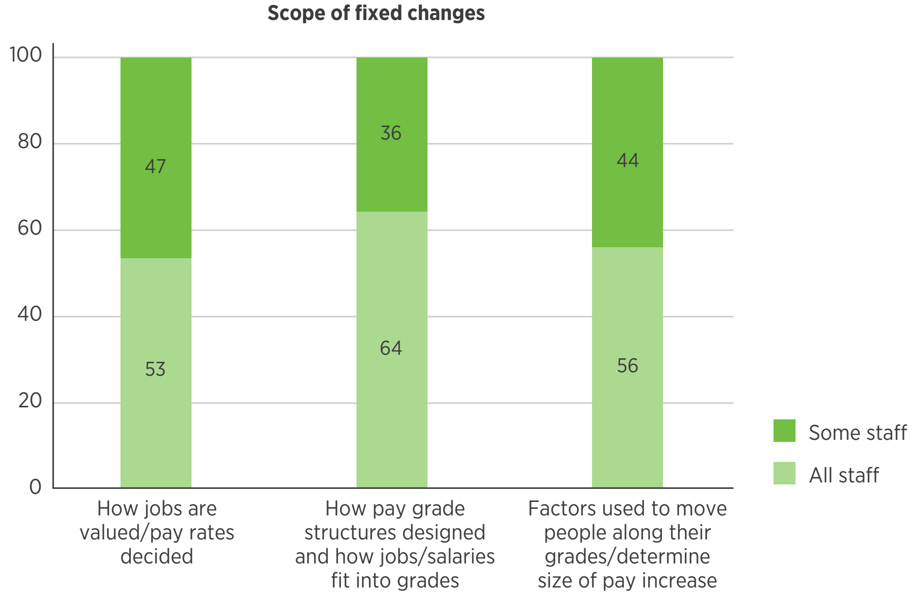
	Permanent	Temporary	Either timescale
How jobs are valued and how pay rates for jobs are decided	43	42	85
How pay grade structures are designed and how jobs and salaries are fitted into these grades	38	21	58
The factors used to move people along their pay grades/determine the size of their pay increase	40	34	74

Base: n=54 (percentage of organisations that plan or have made changes). Figures for 'either timescale' may differ slightly due to rounding.

Figure 3 shows whether these changes to fixed pay will cover all staff or whether it depends on various factors, such as their salary, grade, job, location, and so on. For instance, nearly two-thirds of organisations changing their pay grade structures intend to apply those changes to all staff.

Some of the examples of base pay changes being made in response to the pandemic among our sample include: *'Our entire grading structure is changing and a total review of our reward package alongside it'*; *'Creating generic admin roles and reviewing all supervisory/middle management roles'*; and *'Give a more consistent amount to the majority of staff as everyone has been affected by COVID-19'*.

Figure 3: What proportion of employees will be covered by the changes to fixed pay? (%)



Base: n=54 (percentage of organisations that plan or have made changes).

Will the management of location allowances change?

Location allowances are one aspect of base pay management. In response to COVID-19 and the move to homeworking, we asked respondents if their employer had changed, was changing, or had plans to change, how it set employee pay to reflect the location from where they work. For instance, if an employer is based in London, it might decide that it no longer needs to pay people more to work in the capital if they can now work from anywhere in the country.

Figure 4 shows that most respondents (44%) don't vary pay by location or don't employ staff who work from home (7%).

Among the 49% of our sample that *do* vary pay by geographical location (such as through London weighting), only 7% are changing pay to reflect homeworking or have plans to do so (or 14% of those that use location weighting), though a further 16% are keeping the issue under review.

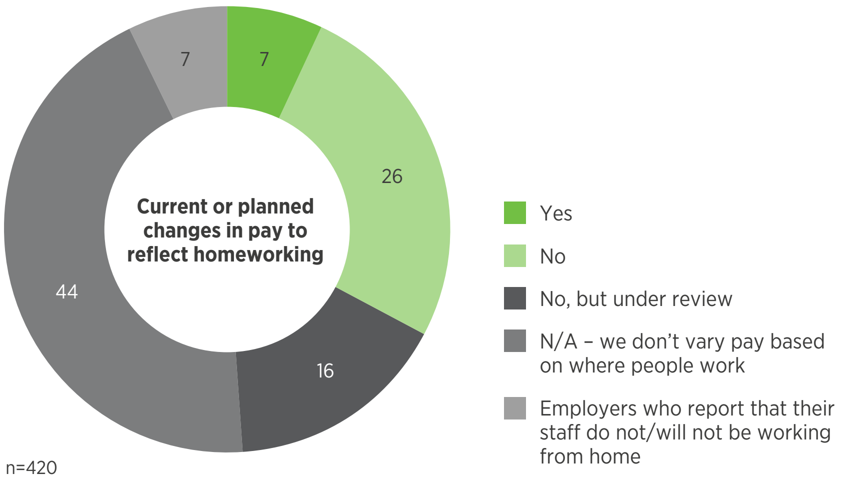
While there is no significant difference by *sector*, there is by *employer size*, with very large organisations being more likely to report such changes (14%), probably because they're more likely to vary pay by location.

It will be interesting to see whether more employers decide to offer a lower salary to those expected to work from home in the future and how employees react to this development. Some might feel that basing pay on where employees work from, rather than on the location of the company office, is fair. They might feel that allowing people to work from home also increases the opportunities for people to apply for jobs irrespective of where they live, which may be seen as being more inclusive.

On the other hand, some potential employees might see this move as unfair, believing that they should get the rate for the job irrespective of where they live. There's also the issue of what happens to existing staff working from home: will they be expected to take a pay cut?

It's unlikely that most employers will be able to manage and develop employee performance effectively if people are solely working from home, and it's unlikely that workers themselves will want to be based at home all of their time. Instead, there's likely to be a new balance between working from home and working from the office. Reward systems, as well as people management practice, will need to evolve in response.

Figure 4: What proportion of employers are changing pay to reflect homeworking? (%)



Base: n=420

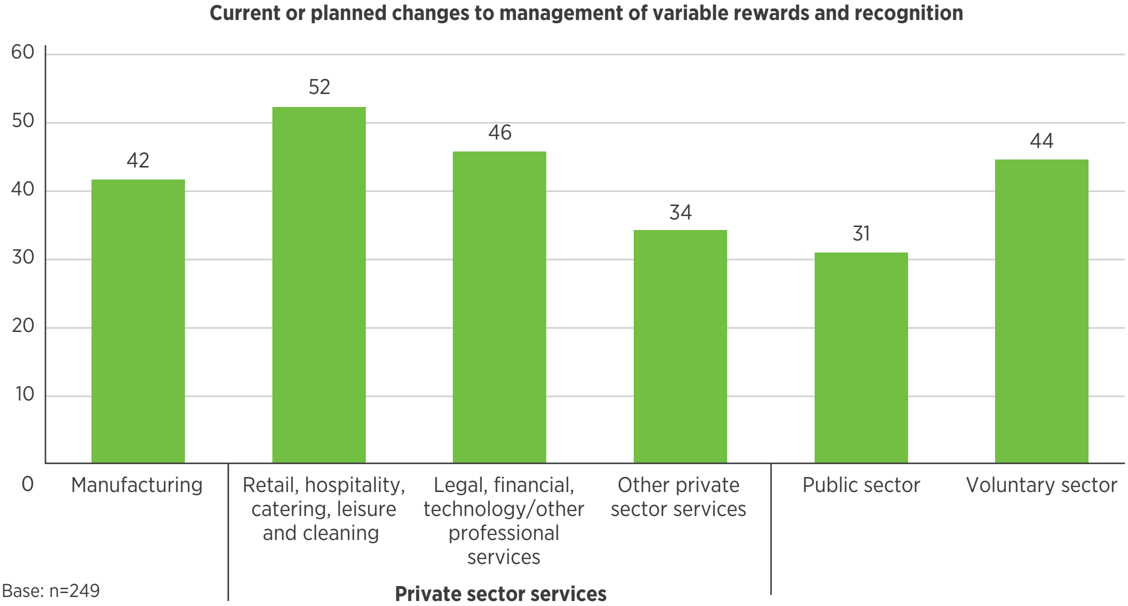
Variable rewards and recognition

Among our sample of 420 employers, 70% use variable rewards and recognition. Of those, 44% said that they had made changes to their existing arrangements or had plans to do so by March 2021.

Figure 5 shows which sectors have seen, or will have seen, most change. The retail, hospitality, catering, leisure and cleaning sub-sector is most likely to report change (53%), with the public sector being least likely to do so (31%).

Those organisations that say that they have seen either a 'very negative' (47%) or 'very beneficial' (46%) financial impact due to COVID-19 and the economic crisis are slightly more likely to have responded to this pressure by making changes.

Figure 5: What proportion of employers are making changes to how they manage variable rewards and recognition? (%)



Base: n=249

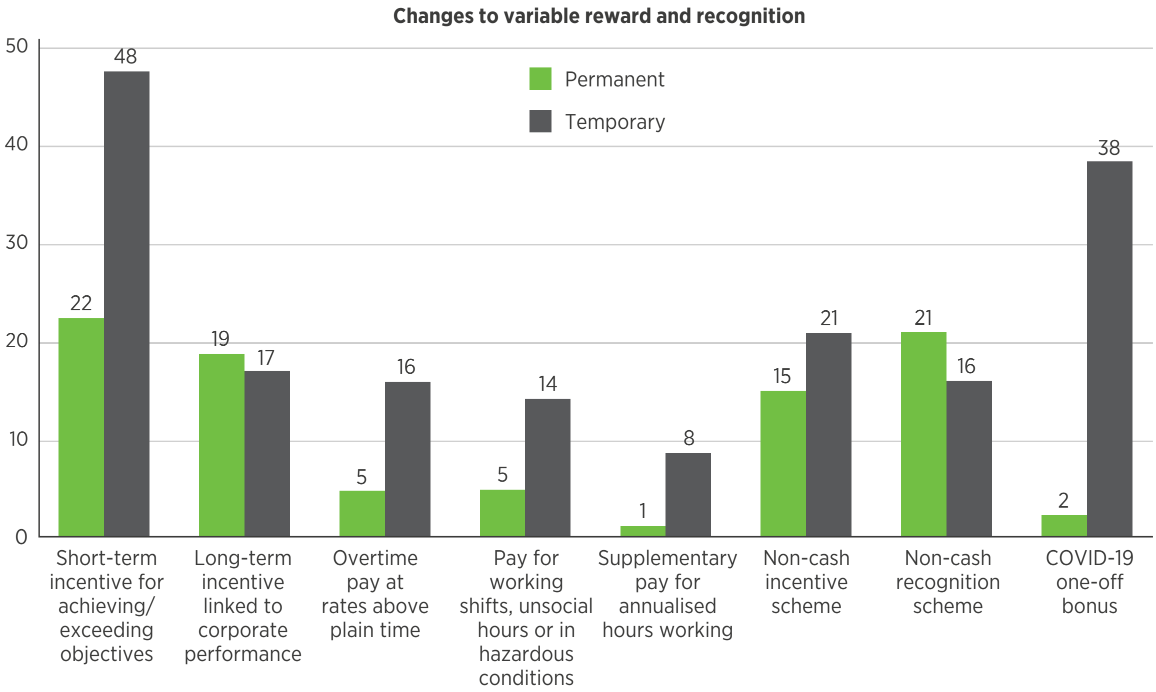
Among those employers that use variable rewards and recognition, the most common amendments that have – or will have – been made are:

- short-term bonuses or incentives for achievement against objectives
- COVID-19 one-off bonus (such as for front-line staff as a recognition
- non-cash recognition schemes
- non-cash incentive schemes.

There is little difference in the types of changes planned by organisations according to the effects they have seen from COVID-19. Short-term bonuses are the most common change amongst those experiencing either beneficial or negative financial effects. Long-term incentives are the second most common modification among those seeing the most negative or the most beneficial effects.

Figure 6 shows which changes are most likely to be permanent, and those which are most likely to be temporary. It indicates that respondents view most of these measures as temporary, with the exceptions being long-term incentives linked to corporate performance and non-cash recognition schemes (where slightly more respondents see these changes as long term than those who regard them as temporary).

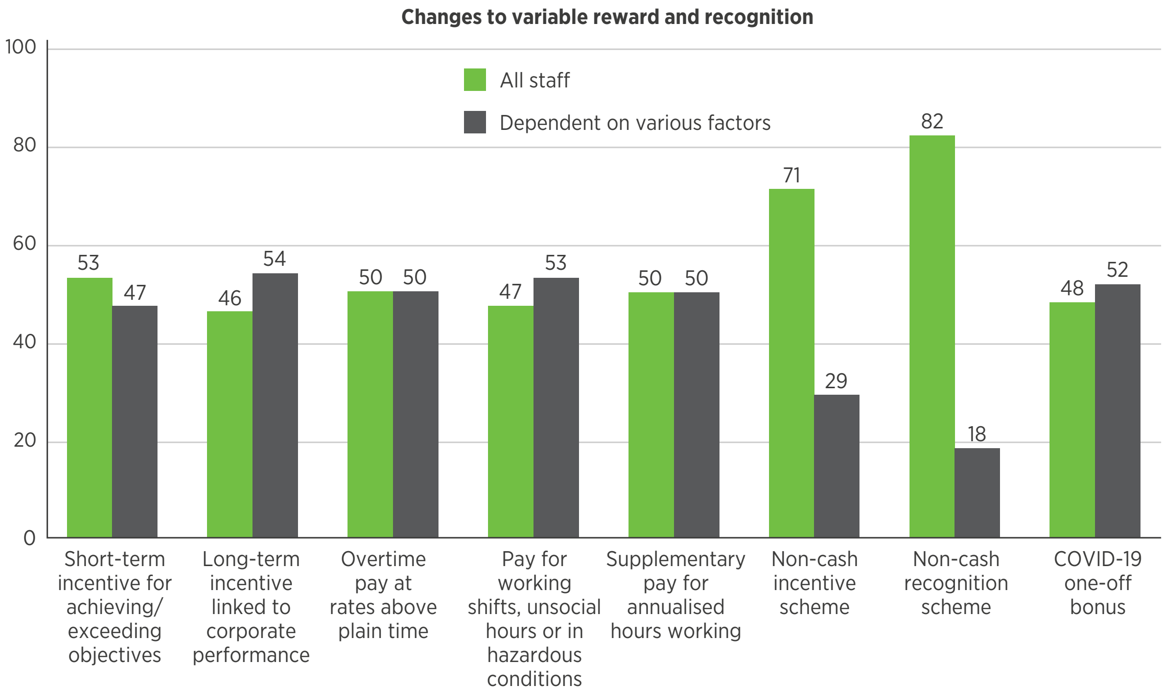
Figure 6: What permanent and temporary changes to variable rewards and recognition are being made? (%)



Base: n=107 (percentage of those changing or planning change to variable rewards or recognition).

Figure 7 shows whether these changes to variable rewards and recognition will cover all employees or apply to some, depending on factors like their location, job, salary, and so on. It indicates that most changes will apply almost equally to all staff or some of them, with the exceptions being non-cash incentives or recognition schemes, where far more employers report it will cover all of their staff.

Figure 7: Will all or some employees be covered by these changes to variable rewards and recognition? (%)



Base: n=107 (percentage of those changing or planning change to variable rewards or recognition).

When exploring these changes by sector we find:

- **Annual or other form of short-term bonus/incentive** – the retail, hospitality, catering, leisure and cleaning sub-sector is most likely to be making changes (82%), followed by manufacturing and production firms (74%). While public and voluntary sector organisations are less likely to be making these changes (55% and 59% respectively), they are most likely to intend such changes to apply to all staff (60% and 83% respectively).
- **COVID-19 one-off bonus** – this is most common in the retail, hospitality, catering, leisure and cleaning sub-sector (55%) and other private sector service companies (70%), though least common in legal, financial, technology and other professional services sub-sector businesses (23%).
- **Non-cash incentive scheme** – employers in the voluntary sector (50%) are most likely to be making alterations to these schemes, such as introducing new plans or amending existing ones, followed by the firms in private sector services (36%), especially legal, financial, technology and other professional services (45%).
- **Non-cash recognition scheme** – again, employers in the voluntary sector (50%) are most likely to be making these changes, followed by public service employers (44%) and private sector service employers (35%). Within the private sector services most activity is happening in the legal, financial, technology and other professional services (41%) sub-sector.

Examples of changes made to variable rewards and recognition by our sample include:

- *'Introduction of a values-based recognition scheme'*
- *'Bonus payment made to those continuing to work in operational roles and not from home'*
- *'We have postponed any cash bonuses (company performance based) for this year, but we have paid cash bonuses to a small number of staff who worked all through lockdown and were not furloughed'*

- *'Senior staff are now entitled to overtime'*
- *'Bonus reference periods and targets have been changed due to lockdown period and also encouraging different behaviours'*
- *'Sales incentives changed and rewarded virtually'*
- *'Incentive plans frozen for 2020, to be reviewed for 2021'*
- *'Lockdown awards completed for the full lockdown period with additional annual leave rewarded'*
- *'Front-line staff who have been required to work in offices and with the public will be rewarded, in addition we have introduced non-cash recognition to all staff where appropriate'*
- *'The Christmas bonus was halved'.*

Conclusion

Given the impact of the pandemic, the subsequent restrictions on business activity, and calls for employers to build back better, we might have expected most employers to have responded by changing how they manage fixed pay and/or variable reward and recognition.

In part, this lack of activity might reflect that, when the survey was conducted in late September/early October 2020, the belief was that the worst was over. Unless it was essential, many employers could have thought changing their approach to base and variable pay wasn't worth the legal, financial and emotional cost, especially if the changes to who does what, why, where and when were only going to be temporary.

Similarly, organisations might not have given much weight to the concerns expressed in the media about how people were being rewarded, such as key workers or minority ethnic staff, regarding these as just transient responses to the pandemic.

Another explanation, as highlighted by one of the practitioner workshops we ran, is that people and reward professionals have been busy dealing with the day-to-day consequences of the pandemic on their organisation and its people. Consequently, they haven't had the opportunity to reflect on what the long-term implications of this new business and work reality may mean for how they could – or should – reward and recognise employee contribution.

Our research finds that, where changes *are* being made to pay management, they are often time-limited and only apply to certain employees. However, at the time of writing, the UK is now in its third national economic lockdown and the challenges and pressures faced by business (as well as the opportunities) haven't vanished – and some may have even increased in intensity. Nor has the focus about such issues as reward fairness or in-work poverty gone away either, driven by ongoing political, customer and investor concerns.

Given this, people and reward professionals should make the case that their organisation review whether the existing pay system is fit for purpose in the new emerging reality. For example:

- Is the pay approach fair?
- Does it encourage the behaviours, attitudes and performance that will be needed from employees?
- Is it financially sustainable, both for the organisation and its people?
- Is linking pay to work location still relevant?

Those that do undertake such an analysis will be able to reap the benefits from having a pay approach that's aligned to the business and social realities of the post-pandemic world.

As our workshop made clear, carrying out such a review in existing conditions is challenging – not least in those organisations where parts of the business are doing well while other parts are doing poorly. In such circumstances, some might consider it appropriate to only reward people in those parts of the business that are doing well.

However, others might consider it only fair that everyone is treated the same, or that the lowest earners should be protected from bonus cuts or freezes. The challenge for people professionals is not only to be able to point out the potential consequences of the various possible pay approaches on offer, but also to foster a consensus within the organisation – so that the eventual decision, which might be seen as harsh, is also regarded as being fair.

2 Appendix

Table A1: Due to COVID-19 and the economic crisis, have employers either changed how much money they spend on pay for employees, begun a change process or made plans to do so by March 2021? (%)

	Yes	No	Don't know
All	25	63	12
By sector			
Manufacturing and production	21	64	15
Private sector services, of which:	28	61	11
Retail, hospitality, catering, leisure and cleaning	28	52	21
Legal, financial, technology and other professional services	26	65	8
Other private sector	31	59	9
Public sector	27	67	7
Voluntary, community and not-for-profit	22	73	4
By size			
SME (<250)	25	65	10
Large (250–9,999)	26	65	9
Very large (10,000+)	32	59	9
Effect of COVID-19 on organisation			
Very negative	38	48	14
Slightly negative	19	68	13
No effect	12	83	5
Slightly beneficial	21	68	11
Very beneficial	40	60	0
Effect of COVID-19 on employees			
Very negative	28	55	17
Slightly negative	29	59	12
No effect	15	77	8
Slightly beneficial	20	73	8
Very beneficial	50	50	0

Base: n=420

Table A2: How do employers think spending will have changed by March 2021? (%)

	Increase by over 10%	Increase by over 5%	Increase by under 5%	Decrease by under 5%	Decrease by over 5%	Decrease by over 10%	Don't know
All	5	8	11	6	16	28	27
By sector							
Manufacturing and production	10	10	0	0	20	40	20
Private sector services, of which:	7	2	11	9	16	27	27
Retail, hospitality, catering, leisure and cleaning	0	13	13	13	0	50	13
Legal, financial, technology and other professional services	11	0	16	0	16	26	32
Other private sector	6	0	6	18	24	18	29
Public sector	0	0	17	0	17	42	25
Voluntary, community and not-for-profit	0	27	18	9	18	9	18
By size							
SME (<250)	3	8	13	5	16	32	24
Large (250–9,999)	6	9	9	9	21	27	18
Very large (10,000+)	14	0	14	0	0	14	57
Effect of COVID-19 on organisation							
Very negative	0	8	5	8	13	39	26
Slightly negative	3	3	17	3	20	27	27
No effect	0	20	0	20	40	0	20
Slightly beneficial	0	0	50	0	0	0	50
Very beneficial	50	33	0	0	0	0	17
Effect of COVID-19 on employees							
Very negative	0	0	0	0	25	50	25
Slightly negative	4	6	14	10	12	26	28
No effect	10	10	0	0	40	10	30
Slightly beneficial	13	0	25	0	0	38	25
Very beneficial	0	100	0	0	0	0	0

Base: n=83 (percentage of those changing or planning change to spending on employee pay).

Table A3: Due to COVID-19 and the economic crisis, have employers changed how they manage fixed pay, begun a change process, or made plans to do so by March 2021? (%)

	Yes	No, but under review	No	Prefer not to say
All	14	22	61	4
By sector				
Manufacturing and production	9	26	64	2
Private sector services, of which:	15	23	61	1
Retail, hospitality, catering, leisure and cleaning	14	28	55	3
Legal, financial, technology and other professional services	14	22	64	0
Other private sector	19	20	61	0
Public sector	11	20	69	0
Voluntary, community and not-for-profit	8	18	69	4
By size				
SME (<250)	11	23	65	1
Large (250–9,999)	11	22	64	3
Very large (10,000+)	23	14	64	0
Effect of COVID-19 on organisation				
Very negative	23	29	46	2
Slightly negative	10	20	67	3
No effect	9	17	74	0
Slightly beneficial	5	10	85	0
Very beneficial	13	20	67	0
Effect of COVID-19 on employees				
Very negative	23	27	48	2
Slightly negative	15	26	55	3
No effect	7	9	81	3
Slightly beneficial	9	16	74	0
Very beneficial	0	17	83	0

Base: n=420

Table A4: Due to COVID-19 and the economic crisis, have employers changed how they manage variable rewards and recognition, begun a change process or made plans to do so by March 2021? (%)

	Yes	No
All	44	56
By sector		
Manufacturing and production	42	58
Private sector services, of which:	43	57
Retail, hospitality, catering, leisure and cleaning	53	47
Legal, financial, technology and other professional services	46	54
Other private sector	34	66
Public sector	31	69
Voluntary, community and not-for-profit	44	56
By size		
SME (<250)	43	57
Large (250–9,999)	40	60
Very large (10,000+)	47	53
Effect of COVID-19 on organisation		
Very negative	47	53
Slightly negative	44	56
No effect	33	67
Slightly beneficial	31	69
Very beneficial	46	54
Effect of COVID-19 on employees		
Very negative	66	34
Slightly negative	41	59
No effect	30	70
Slightly beneficial	53	47
Very beneficial	40	60

Base: n=252 (percentage of those organisations that use variable reward and recognition).

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