



Taking care of compensation



UK Compensation Trends Survey White Paper

February 2012

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EXECUTIVE SUMMARY

Compensation is the cornerstone of every employment relationship. As such, it is one of the basic building blocks of corporate existence. For most companies, it is also one of the biggest single operational overheads.

With this in mind, it would be logical to assume that the approach to compensation management in the UK is well established. In fact, there is little accepted best practice in this area. To discover more about how UK plc approaches compensation and associated issues, Curo Compensation recently announced the first annual UK Compensation Trends Survey. Run jointly with HR recruitment specialist, Digby Morgan, the survey sought to identify the key compensation management issues facing organisations in 2012.

The findings are certainly thought provoking. It was already clear that many companies rely solely on the skills and knowledge of a few individuals to manage compensation. Usually highly competent practitioners, these individuals implement, manage and control salary reviews, bonus payments and other elements of remuneration. They are often constrained by poorly designed policies, data management issues and a lack of investment in technology. This lack of investment can in turn increase the overall cost of salary management and create operational risks that would not be tolerated elsewhere in the business. At the same time the engagement (and therefore productivity) of the impacted workforce might be negatively impacted.

Our survey results confirmed this situation. By seeking to identify reward priorities for the year ahead, we also found a suggestion that priorities are beginning to change. As a more widespread investment in bonus payments and salary reviews (in particular) returns to

the market, companies are focussing on how to best 'leverage' this investment. Top of the wish list is the alignment of performance and reward, followed closely by increased employee engagement. In a lot of cases, this will only be achieved through challenging the status-quo. Only through improving the quality of communication, delivery and system controls, as well as data and process management will the maximum return on this investment be realised.

HEADLINE FINDINGS

Concern about economic turmoil seems likely to continue well into 2012. Yet the focus of the HR Directors and Compensation professionals surveyed is moving away from cost control.

The top priority for the coming year is the alignment of reward (salary increases and bonuses) and individual/business unit performance. Effective engagement of employees, both directly and through line management is a close second. To achieve these goals improving the quality of reward communication, particularly to line management is also a high priority.

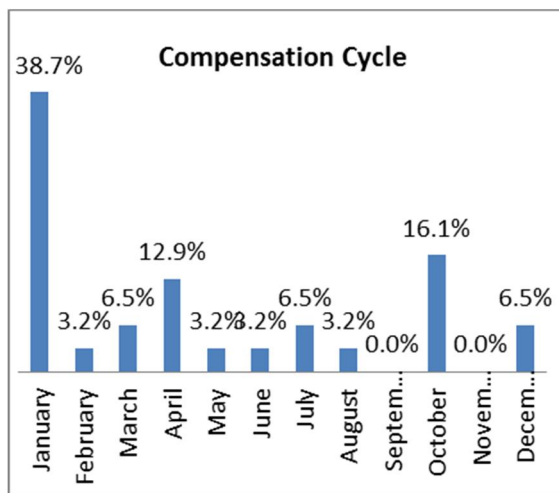
The survey participants identified a number of things which need addressing to enable these changes. The most common problem facing these companies is inflexible technology, constraining how well HR can support the businesses. In many cases, this is compounded by manual and inefficient processes.

Overall, compensation processing is often much too labour intensive for line managers and HR alike. This ultimately means that employee engagement improvements are not commensurate with the investment made in the compensation programmes themselves.

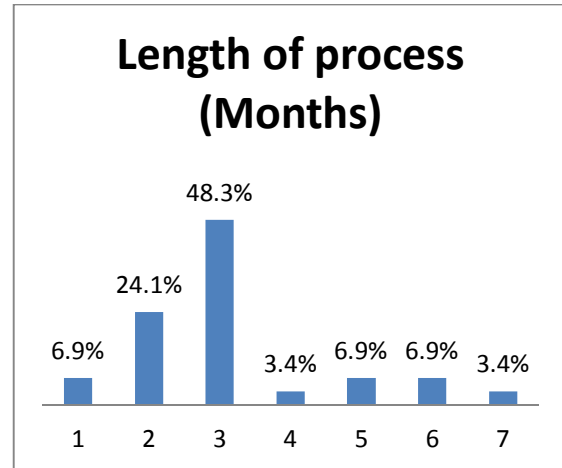
HR is often too busy supporting inadequate systems and processes to focus on line manager or employee communication. Line managers, who would ideally be the primary driver of employee engagement, can be actively disengaged by a labour intensive, often counter-intuitive process.

TIMINGS – MONTH & LENGTH

As we expected, the survey showed a range of salary review dates across the year. There are significant activity peaks in both January and April, reflecting calendar and (UK) tax year pay cycles respectively. The peak in October is likely to be linked to the increase cycle for the UK National Minimum Wage.



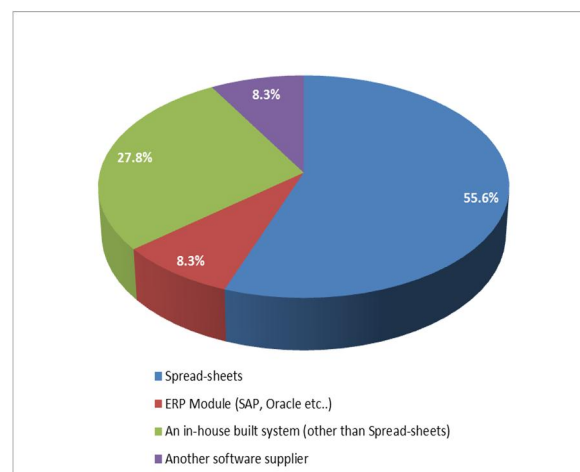
More informative is the length of time it currently takes to complete a review cycle. Whilst the annual pay review is a critical process, with the right information to hand it should be relatively simple for individual decisions to be made. Yet the majority of respondents indicated that the process took around 3 months to complete, with a sizeable minority (over 20%) taking significantly longer.



This is a clear illustration of the complexity of some existing arrangements. Whether this length of time is spent on behind-the-scenes data/process management or on the decisions themselves, it is unlikely to be the most efficient (and therefore value generating) approach for many of the respondents.

PROCESS & RESOURCES

One of the main reasons for the length of the pay review is the technology used to support the process. A striking 55.6% of respondents used an Excel based system to run their annual salary review process:

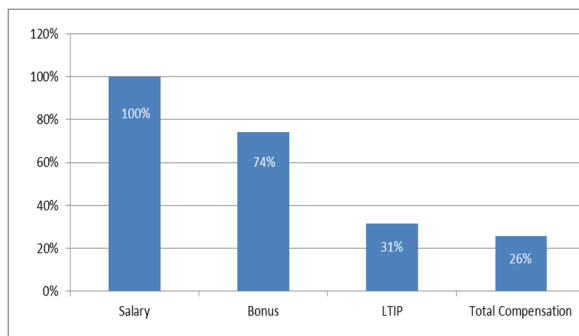


Such a heavy reliance on Excel can be problematic although it does offer a reasonable amount of flexibility. However every process iteration will also require a high

level of manual configuration. The lack of integrated workflow will also mean a huge potential for error and omission, as the inevitable manual aggregation and disaggregation of data takes place. Distribution and consolidation of spread sheets throughout an organisation often lacks an adequate level of data security – a particular issue given the sensitivity of the data.

Given high cost, limited flexibility and long implementation timelines, it is perhaps unsurprising that less than 10% of employers surveyed chose to use an ERP solution. What is surprising, given this investment, is the minimal improvement in flexibility and process. 80% of spreadsheet users expressed concerns about the technology or processes applied in their salary review cycle. This only reduced to 68% for users of an ERP solution.

Whilst the current technology supporting the review processes is often sub-optimal, it has little impact on the ambition of those surveyed. As expected, all of the survey participants had some sort of managed salary review process. 74% of participants also ran a similar bonus decision process. A lesser number facilitated Long Term Incentive Plan (LTIP) or Total Compensation decisions, although still over a quarter of respondents in both cases:



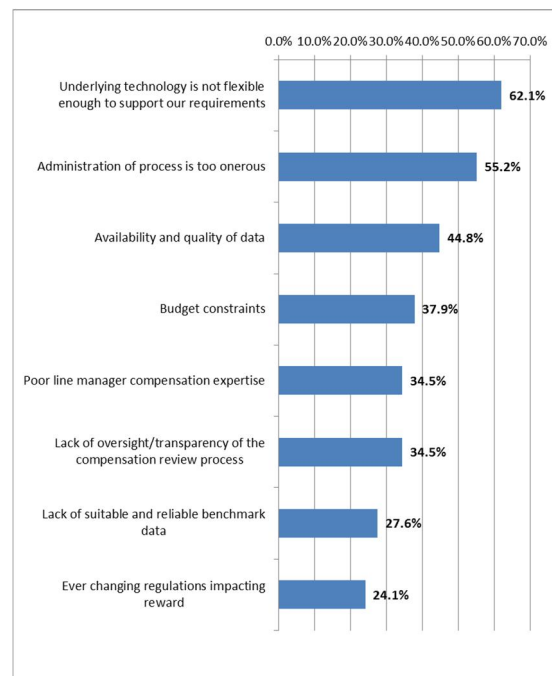
This widespread implementation of multiple processes gives a small insight into the issues facing HR and reward practitioners. It would

appear that in most cases, multiple complex decision making processes are undertaken, and usually taking 3-6 months to complete. The technology utilised is not sufficiently robust, and cannot adequately support processes to the degree required by the users.

It is likely therefore that a lot of highly competent practitioners spend a high proportion of the year frustrated by data and process management. They will therefore have little time available to actively engage line managers and employees, and subsequently maximise the impact of their work on increasing engagement and productivity. Line managers themselves can also suffer similar frustrations, further reducing the overall impact of any process.

CHALLENGES & RISKS

The survey results do highlight some real challenges for employers:

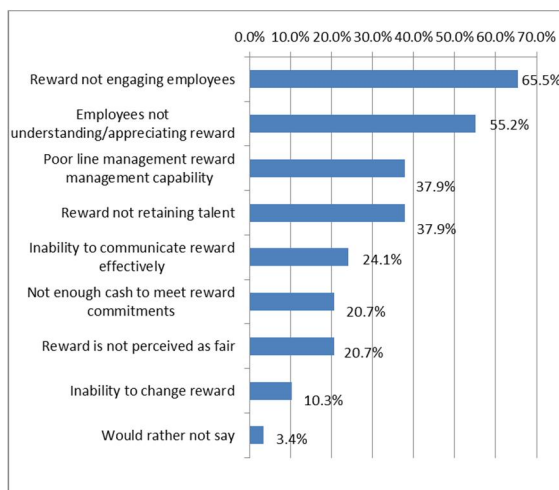


Effective compensation management is critical, yet 62% of survey participants do not believe the technology they currently use is

flexible enough to meet their needs. As outlined in the previous section, this rises further for users of Excel and ERP solutions, with 71% and 68% respectively expressing this concern.

A further 55% of respondents believe the administration of their existing process is too onerous. Without addressing this area, any changes in policy to increase performance alignment will only compound the problem.

Compensation is widely perceived as not sufficiently engaging for employees – most likely a reflection of recent austerity. Survey respondents were right to highlight this as one of the biggest risks facing them in 2012. Poor employee and line manager understanding/appreciation of reward constitute the remainder of the top 3 risks:



Many of the remaining highlighted risks can also be linked to the same top three. It is interesting that while 65.5% of respondents suggested that reward did not engage, only 37.9% suggested that this caused a retention issue.

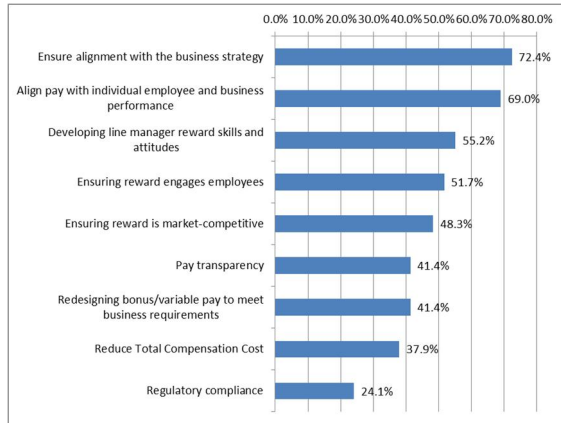
As with all employee engagement issues, line managers will be key to any successful solution. However, the results suggest that many line managers are poorly equipped in this regard. This will be as a result of a

combination of factors. Poor direct communication can result in minimal understanding of the underlying reward philosophy. Difficulty in accessing and processing information, to facilitate informed reward decisions can further disengage. All of these issues will be exacerbated by the inevitable budget challenges. Taken together, the survey suggests that at least some respondents will have some major issues to address over the coming year.

PRIORITIES & CHANGE

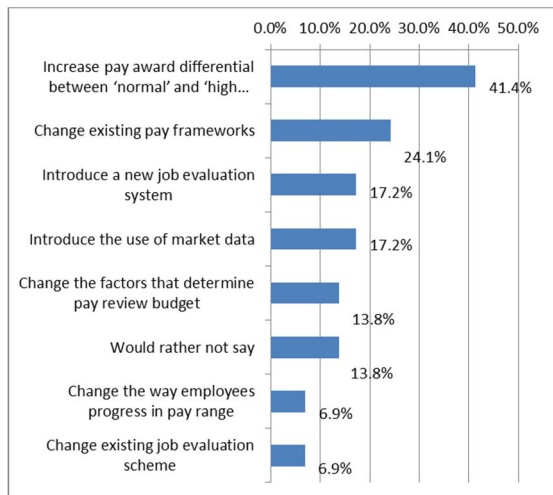
As well as managing the risks around reward, our survey respondents are also planning for the future. They are considering what changes are required as we move slowly into economic recovery. They will also be planning to mitigate their risks, and support their business plans as effectively as possible.

It is this alignment of compensation and reward with the business plans that is the top priority. Closely linked to that for most companies is a need to accurately align employee reward with business unit performance. Encouragingly, only around one-third of respondents are looking to reduce compensation costs this year. This is still more than one would usually expect, but we suspect this would have been significantly higher had we run the survey earlier in this economic cycle:



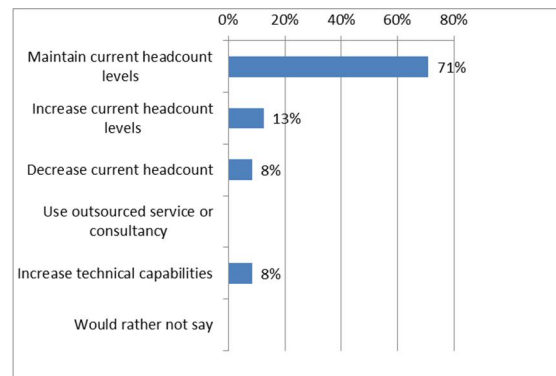
Many respondents accept that some change in their approach to compensation management will be required to achieve these priorities whilst mitigating the risks faced.

The most widespread change identified was a need for greater alignment of salary and bonus awards with individual and business unit performance. Over 40% of the companies surveyed intended to increase the differential in pay awards between top performers and the rest of the organisation:



Taken as a whole, the results suggest a year of change in compensation management for many organisations. Better performance alignment and more effective communication should increase engagement and mitigate some of the risks associated with ineffective compensation processes.

But any change will also bring its own challenges, as compensation management professionals are tasked with delivery of these improvements in an environment of limited investment. This is illustrated by the lack of change most respondents expect in the amount of resource devoted to reward – only 13% expect to increase headcount, and 8% to improve the technical capability underlying these business critical processes:



The overall combination of priorities and expected change suggests that whilst investment in compensation is recognised as necessary, there is much more scrutiny being applied to how this is being allocated. The pressure is therefore on HR and Reward professionals to maximise the impact of this investment, with effective policy development followed by clear and transparent implementation processes resulting in a defensible and fair allocation of budgets.

CONCLUSION

The survey results clearly demonstrate that a window of opportunity exists for HR. As investment in salary and bonus returns to the UK marketplace, updating practices to ensure absolute alignment of compensation decisions with individual and business unit performance will be a critical driver of business success.

By focussing on the way compensation processes are managed and implemented, HR can effectively operate within budget limits, whilst ensuring fairness and equity within and across businesses. Done well, this should result in both talent retention and engagement.

To achieve this, attention must be paid to the supporting processes. Whilst corporate focus will continue to be on value, there will be a temptation to spend as much as possible of the (inevitably scarce) budget directly on employees. However, it is only by simultaneously improving the quality of communication, delivery and system controls, as well as technology, data and process management that the maximum return on any investment be realised.

A NOTE ON CURO COMPENSATION

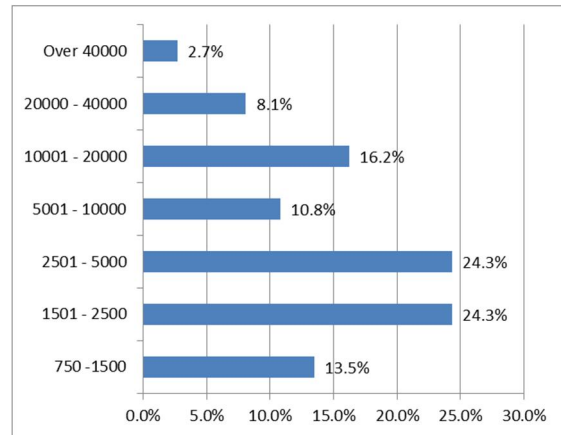
Curo Compensation delivers web-based technology solutions to organisations to more effectively manage their annual compensation review processes. In addition to market-leading technology, Curo offer the full range of services to support compensation management. The Curo system is a highly configurable solution. Our clients benefit from a combination of market leading technology and an exceptional user experience.

A NOTE ON DIGBY MORGAN

Digby Morgan is an international leader in HR recruitment with extensive expertise in the reward and compensation and benefits sector. Established for over 20 years, the company enjoys a reputation for excellence, quality in service and sector knowledge and operates on a truly international basis with offices across the globe from Australia to Dubai.

PARTICIPANT INFORMATION

The survey participants covered a wide range of UK industry. Over 110 companies returned survey results. Participants varied significantly in size, as shown by the graph below.



There was also significant variation in sector and geography. Overall, we believe the respondent group gives a fair representation of the UK wide position.